

## **Investment Adviser Brochure**

### **ARLINGTON MANAGEMENT EMPLOYEES, LLC**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Arlington Management Employees, LLC, a Delaware limited liability company (“AME”). If you have any questions about the contents of this Brochure, please contact us at 202-337-7500. 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.**

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

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## MATERIAL CHANGES

This brochure has been revised since the version dated March 30, 2015 to update the description of the business practices of Arlington Management Employees, LLC, and its affiliates, to insert additional disclosures relating to expenses, portfolio company fees and co-investments, and to update certain information under “Supplemental Information about Certain Principals of Arlington Management”.

## ADVISORY BUSINESS

Arlington Management Employees, LLC, a Delaware limited liability company (“**AME**”), doing business as Arlington Capital Partners, is a registered investment advisory entity that with other affiliated organizations (AME and, together with such affiliated organizations, collectively, “**Arlington**”), manages approximately \$510.1 million in private fund assets.

AME is a registered investment adviser that commenced operations in December 1998. AME and its affiliated investment advisers, Arlington Capital Group, LLC (“**ACP GP I**”), Arlington Capital Group II, L.L.C. (“**ACP GP II**”), Arlington Capital Group III, L.L.C. (“**ACP GP III**,” and together with ACP GP I and ACP GP II, the “**General Partners**”), and Arlington Capital II, L.P. (“**Manager II**”) and Arlington Capital III, L.P. (“**Manager III**,” and together with Manager II, the “**Managers**,” and the Managers, together with the General Partners and AME, the “**Advisers**”) provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere.

ACP GP I previously served as the general partner of each of Arlington Capital Partners, L.P., a Delaware limited partnership, and Arlington Capital Partners Offshore, L.P., an exempted limited partnership formed under the Exempted Limited Partnership Law of the Cayman Islands, (together with Arlington Capital Partners Employee Co-Investment, LLC (“**ACEC**”), “**Fund I**”). Although Fund I has been liquidated, ACP GP I currently serves as the manager of Arlington TSI Investments, L.L.C. (“**Arlington TSI**”), which holds Fund I’s last remaining asset, a contingent interest in an escrow account relating to a former Fund I asset. The members of ACP GP I will continue to represent the interests of Arlington TSI until the distribution, if any, of the escrow.

In its capacity as the management company of Arlington Capital Partners II, L.P., a Delaware limited partnership (together with SIG HoldCo I, LLC, SIG HoldCo II, LLC, VPG HoldCo I, LP, and VPG HoldCo II, LLC, “**Fund II**”), Manager II has the authority to manage the business and affairs of Fund II. ACP GP II is the general partner and where applicable the manager of each of the Fund II entities.

Fund II was formed on March 4, 2005. In March 2016, the term of Fund II was extended to April 1, 2017, via approval by the Fund II advisory committee, a committee comprised of limited partners that provide advice and counsel regarding certain provisions of the Fund II limited partnership agreement (the limited partnership agreement or other operating agreement or governing document of each Fund, as defined below, a “**Limited Partnership Agreement**”). The extension represented the first of three extensions of Fund II’s term available to ACP GP II.

The term of Fund II will continue until April 2017, unless the term is extended again or Fund II is dissolved sooner in accordance with the Fund II Limited Partnership Agreement. ACP GP II can only call capital to fund follow on investments in Fund II's current portfolio company investments and for Fund II expenses and cannot call capital to make new portfolio company investments.

In its capacity as the management company of Arlington Capital Partners III, L.P., a Delaware limited partnership (together with any of its feeder vehicles, alternative investment vehicles and other special purpose entities, "**Fund III**"), Manager III has the authority to manage the business and affairs of Fund III. ACP GP III is the general partner of Fund III.

Fund III commenced operations on February 6, 2011 and will continue until August 6, 2021, unless the term is extended or Fund III is dissolved sooner in accordance with its Limited Partnership Agreement. ACP GP III is actively pursuing new portfolio company investments for Fund III.

The Advisers manage the business and affairs of Fund II, Fund III and Arlington TSI (each, a "**Fund**," and, together with any future private investment fund managed by the Advisers, the "**Funds**").

The Funds are private equity funds that make primarily control investments through negotiated transactions in operating entities, generally referred to herein as "portfolio companies." The Advisers' investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. Although investments are made predominantly in non-public companies, investments in public companies are permitted subject to certain limitations set forth in the applicable Fund's Limited Partnership Agreement. The employees and/or owners of the Advisers will serve on such portfolio companies' respective boards of directors or otherwise act to influence control over the management of portfolio companies in which the Funds have invested.

The Advisers' advisory services for the Funds are further detailed in the applicable private placement memoranda and the supplements thereto or other offering documents (each, a "**Private Placement Memorandum**" and, collectively, the "**Private Placement Memoranda**") and the Limited Partnership Agreements and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Limited Partnership Agreement. The Funds or the Advisers have entered into side letters, or other similar agreements ("**Side Letters**"), with certain investors that have the effect of establishing rights (including economic or other terms) under, or altering or supplementing the terms of, the relevant Limited Partnership Agreement(s) with respect to such investors.

As of December 31, 2015, the Advisers collectively managed **\$510.1** million in client assets on a discretionary basis. As of the date hereof, AME is controlled by Matthew L. Altman, Jeffrey H. Freed, Michael H. Lustbader and Peter M. Manos (the "**Partners**"). Manager II is controlled by Jeffrey H. Freed, Robert I. Knibb, Peter M. Manos and Perry W. Steiner, all of

whom are owners of this entity; and pursuant to SEC guidelines, Jeffrey H. Freed is a “principal owner” of this entity. Manager III is controlled by Matthew L. Altman, Jeffrey H. Freed, Michael H. Lustbader and Peter M. Manos, all of whom are owners of this entity; and pursuant to SEC guidelines, Jeffrey H. Freed and Peter M. Manos are each a “principal owner” of this entity.

Additionally, from time to time and as permitted by the relevant Limited Partnership Agreement, Arlington expects to provide (or agrees to provide) certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Arlington’s personnel and/or certain other persons associated with Arlington and/or its affiliates, co-investment opportunities (including the opportunity to participate in co-invest vehicles) that will invest in certain portfolio companies alongside a Fund. 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 or co-invest vehicle generally occurs shortly after the Fund’s completion of the investment to avoid any changes in valuation of the investment, and the co-investor or co-invest vehicle may be charged interest on the purchase to compensate the relevant Fund for the holding period, and generally will be required to reimburse the relevant Fund for related costs.

## **FEES AND COMPENSATION**

In general, the Managers receive a management fee (“**Management Fee**”) paid by the Funds in connection with the advisory services they provide. The Advisers or other Arlington entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of the Funds and such additional compensation will offset in whole or in part the Management Fee otherwise payable to the Managers. Limited partners in the Funds also bear certain expenses. As is typical for private equity funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in “Brokerage Practices.”

### **Management Fees**

Fund I was liquidated on December 22, 2014. Fund I’s remaining assets and liabilities were transferred to Arlington TSI.

#### **Fund II**

Fund II pays Manager II a Management Fee calculated each calendar semi-annual period equal to 1.5% per annum, payable quarterly in advance, of capital commitments drawn for investments less any distributions from such investments. Effective on April 1, 2017, the Management Fee will be calculated each semi-annual period as the sum of, with respect to each

investment, 1.5% per annum of the lower of (i) the capital commitments drawn for an investment less any distributions from such investment or (ii) the fair value of such investment.

The Management Fee payable is reduced by an amount (the “**Fund II Waived Fee Amount**”) equal to the lesser of (i) the amount of the Management Fee that Manager II has irrevocably elected to waive and (ii) the amount that would otherwise be payable to Manager II pursuant to the terms of the Fund II Limited Partnership Agreement. Waived Management Fees are not subject to the Management Fee offsets described below, and the amount of such Waived Management Fees has the potential to be significant. Due to any such waiving of Management Fees and/or timing of receipt of compensation subject to offsets (as described below), it is possible that Management Fee offsets will not be fully realized by investors in Fund II until Fund II’s dissolution (or ever, in the case of investors that have irrevocably elected not to receive distributions of excess offset amounts, as described below), resulting in an additional benefit to Manager II during such period.

After giving effect to the Fund II Waived Fee Amount, the Management Fee will be reduced by 100% of any break-up fees and 80% of any transaction or monitoring fees received by ACP GP II, Manager II or any of their respective managers, partners, members, shareholders, officers or employees in their capacities as such from Fund II portfolio companies (the “Fund II Offset Amount”). Prior to any reduction of the Management Fee, any unapplied Fund II Offset Amount must first be used to reduce unconsummated transaction costs otherwise reimbursable by Fund II. In the event that the aggregate amount of fees applied against the Management Fee exceeds the Management Fee for the immediately succeeding semi-annual period, such excess will be carried forward to reduce the Management Fee payable in the following semi-annual periods. To the extent any such excess remains unapplied upon termination of Fund II, each Fund II limited partner will receive from Manager II its *pro rata* share (based on commitments) of such unapplied excess, unless such Fund II limited partner has previously notified ACP GP II of its irrevocable election not to receive its *pro rata* share of such excess.

Fund II will be responsible for all expenses (other than normal overhead expenses of managing Fund II, including compensation for AME employees, rent, utilities and other administrative expenses) incurred by or on behalf of Fund II which are not reimbursed by portfolio companies, including legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with Fund II’s financial statements, tax returns and K-1s, out-of-pocket expenses of transactions not consummated, other expenses associated with the acquisition, holding and disposition of the Fund’s investments, including interest on and fees and costs arising out of any borrowings made by Fund II, insurance, extraordinary expenses (such as litigation, if any), any taxes, fees or other governmental charges levied against Fund II, broken deal expenses (including broken deal expenses relating to transactions that have been offered to co-investors), management fees, fund raising expenses, organizational expenses and expenses of periodic meetings of the limited partners. The limited partners of Fund II will be assessed periodically for such expenses in accordance with their capital commitments. ACP GP II will have the right to reimburse itself for any partnership expenses it incurred prior to making any distributions to limited partners of Fund II.

The Management Fee will be further reduced in the circumstances and by the amounts described in the Limited Partnership Agreement.

### Fund III

Fund III pays Manager III a Management Fee calculated each calendar semi-annual period equal to 2.0% of aggregate Fund III limited partner commitments per annum, payable quarterly in advance and prorated in the event of any partial year. Effective on the first day after the earliest of the following dates: (i) the sixth anniversary of February 6, 2011, (ii) the date ACP GP III receives written notice in connection with early termination of Fund III pursuant to the Fund III Limited Partnership Agreement, (iii) the date on which ACP GP III or its affiliate first receives or begins to accrue management fees with respect to a pooled investment fund, formed after Fund III, with objectives substantially similar to those of Fund III and (iv) the first anniversary of the date after which there ceases to be at least two approved executive officers (*i.e.*, any of Jeffrey H. Freed or Peter M Manos and any other officer selected by ACP GP III and approved by a majority of the limited partners to be an approved executive officer), active in Fund III's affairs, the Management Fee will be reduced to 1.5% per annum of limited partner commitments drawn down for investments less distributions constituting returns of cost (but only to the extent such distributions arise from the sale of a portfolio company security) on such investments.

The Management Fee payable will be reduced by an amount (the “**Fund III Waived Fee Amount**”) equal to the lesser of (i) the amount of the Management Fee that Manager III has irrevocably elected to waive and (ii) the amount that would otherwise be payable to Manager III pursuant to the terms of the Fund III Limited Partnership Agreement. Waived Management Fees are not subject to the Management Fee offsets described below, and the amount of such Waived Management Fees has the potential to be significant. Due to any such waiving of Management Fees and/or timing of receipt of compensation subject to offsets (as described below), it is possible that Management Fee offsets will not be fully realized by investors in Fund III until Fund III's dissolution (or ever, in the case of investors that have irrevocably elected not to receive distributions of excess offset amounts, as described below), resulting in an additional benefit to Manager III during such period.

After giving effect to the Fund III Waived Fee Amount, the Management Fee will be (i) reduced by 100% of any break-up fees and 80% of any transaction or monitoring fees received by ACP GP III, Manager III or any of their respective managers, partners, members, shareholders, officers or employees in their capacities as such from Fund III portfolio companies (the “**Fund III Offset Amount**”) and (ii) Manager III will reduce the Management Fee payable in any semi-annual period by the aggregate amount of all private placement fees paid or reimbursed by Fund III in connection with the organization and funding of Fund III prior to such semi-annual period, but only to the extent that the aggregate Management Fee previously payable to Fund III has not been reduced by such private placement fees. Prior to any reduction of the Management Fee, any unapplied Fund III Offset Amount must first be used to reduce unconsummated transaction costs otherwise reimbursable by Fund III. In the event that the aggregate amount of such fees applied against the Management Fee exceeds the Management Fee for the immediately succeeding semi-annual period, such excess will be carried forward to reduce the Management Fee payable in the following semi-annual periods. To the extent any such excess remains unapplied upon termination of Fund III, each Fund III limited partner will receive from Manager III its *pro rata* share (based on commitments) of such unapplied excess

unless such limited partner has previously notified ACP GP III in writing of its irrevocable election not to receive its pro rata share of such excess.

Fund III will be responsible for all expenses (other than normal overhead expenses of managing Fund III, including compensation for AME employees, rent, utilities and other administrative expenses) incurred by or on behalf of Fund III which are not reimbursed by portfolio companies, including legal, auditing, consulting, financing and accounting fees and expenses, expenses associated with Fund III's financial statements, tax returns and K-1s, out-of-pocket expenses of transactions not consummated, other expenses associated with the acquisition, holding and disposition of the Fund's investments, including interest on and fees and costs arising out of any borrowings made by Fund III, insurance, extraordinary expenses (such as litigation, if any), any taxes, fees or other governmental charges levied against Fund III, broken deal expenses (including broken deal expenses relating to transactions that have been offered to co-investors), management fees, fund raising expenses, organizational expenses and expenses of periodic meetings of the limited partners. The limited partners of Fund III will be assessed periodically for such expenses in accordance with their capital commitments. ACP GP III will have the right to reimburse itself for any partnership expenses it incurred prior to making any distributions to limited partners of Fund III.

The Management Fee will be further reduced in the circumstances and by the amounts described in the Limited Partnership Agreement.

### **Other Information**

The Advisers are permitted to exempt certain investors in the Funds from payment of all or a portion of Management Fees. Any such exemption from fees may be made by a direct exemption, a rebate by the Managers or through Funds which co-invest with a Fund. For example, in instances where an Arlington professional or its affiliate invests in a Fund, such professional or its affiliate generally will be exempt from payment of the Management Fee and Carried Interest (as defined below) with respect to such Fund.

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

Owners or other current or former employees of the Advisers receive a portion of the Management Fee, Carried Interest or other compensation received by the Advisers or their affiliates.

Arlington and/or its affiliates generally have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the rate, timing and/or amount of such compensation. The receipt of such compensation generally will give rise to conflicts of interest between the Funds, on the one hand, and Arlington and/or its affiliates on the other hand.

In certain circumstances, one Fund is expected to pay an expense common to multiple Funds (including without limitation legal expenses for a transaction in which all such Funds



participate, or other fees or expenses in connection with services the benefits of which are received by other Funds over time), and be reimbursed by the other Funds by their share of such expense, without interest. While highly unlikely, it is possible that one of the other Funds could default on its obligation to reimburse the paying Fund. In certain circumstances, Arlington is expected to advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

As described above, in certain circumstances, Arlington is expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to Arlington's related policies and the relevant Limited Partnership Agreement(s) and/or Side Letter(s). Where a co-invest vehicle is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. 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.

### **Operating Executives**

Additionally, as further described herein and in the applicable Private Placement Memorandum and/or Limited Partnership Agreement of each Fund, it is Arlington's practice to retain certain operating executives (each, an "Operating Executive") to provide services to (or with respect to) one or more Funds or certain current or prospective portfolio companies in which one or more Funds invest. Such Operating Executives generally provide services in relation to the identification, acquisition, holding, improvement and disposition of portfolio companies, including operational aspects of such companies. These services may also include serving in management or policy-making positions for portfolio companies. Operating Executives receive compensation, including, but not limited to transaction fees, a profits or equity interest in a portfolio company, or other compensation, which typically is determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such Operating Executives, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. No such compensation will offset the Management Fee. The use of Operating Executives subjects the Advisers to conflicts of interest, as discussed under "Conflicts of Interest," below.

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

AME does not directly receive a carried interest allocation ("**Carried Interest**") for its advisory services to the Funds. Rather, each of ACP GP II and ACP GP III receives a Carried Interest equal to 20% of all aggregate realized profits from each of Fund II and Fund III, respectively, as more fully described in the applicable Fund's Limited Partnership Agreement. Upon dissolution of any of the Funds, any of ACP GP II or ACP GP III shall be obligated to return to the respective Funds the greater of (i) the amount such that each limited partner receives its contributed capital plus a preferred return of 8% per annum, or (ii) the amount (if positive) of distributions that the General Partner received in the aggregate, in excess of 20% of such Fund's

cumulative net profits. Any amount repaid to a Fund cannot exceed the after-tax amount of Carried Interest that is distributed to each Fund's respective General Partner. The Advisers do not advise Funds not subject to a Carried Interest, although the Advisers generally have the authority to waive Carried Interest with respect to certain affiliated partners as described under "Fees and Compensation."

The existence of performance-based compensation has the potential to create an incentive for the Advisers to make more speculative investments on behalf of a Fund than they would otherwise make in the absence of such arrangement, although Arlington generally considers performance-based compensation to better align its interests with those of its investors.

## **TYPES OF CLIENTS**

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

The Funds are closed to new investors. Otherwise, however, Fund II and Fund III each has a stated minimum investment amount of \$5 million for third-party investors though such limits were waived for certain investors. The Funds' interests were offered and sold solely to accredited investors within the meaning of the rules promulgated under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") who are also qualified clients (or qualified knowledgeable employees or owners of the Advisers).

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

### **General**

Arlington intends to make primarily control investments in middle-market companies primarily located in the U.S. Arlington pursues investments in government-regulated and adjacent verticals, including: (i) aerospace & defense; (ii) government services & technology; (iii) healthcare; and (iv) business services & software (collectively, the "**Core Verticals**").

There can be no assurance that the Advisers will achieve the investment objectives of any Fund and a loss of investment is possible.

### **Investment and Operating Strategy**

Arlington's employs a thesis-driven approach to capitalizing on opportunities in the Core Verticals, identifying sub-themes within the Core Verticals that demonstrate strong, sustainable growth characteristics. Specifically, Arlington targets companies operating in fragmented industries serving unwavering bi-partisan priorities. Arlington seeks companies in its Core Verticals that: (i) display historically high returns on invested capital; (ii) operate in fragmented

markets; and (iii) possess identifiable franchise value (“**Franchise Value**”) (*i.e.*, sustainable and differentiating characteristics that create the potential for strategic value and therefore premium valuations upon exit to strategic acquirers). Characteristics emblematic of such Franchise Value typically include: (i) high barriers-to-entry or substitution; (ii) deeply rooted customer relationships; (iii) distribution capabilities that are difficult to replicate; (iv) regulatory protection; (v) defensible or enduring cost structure advantages; and (vi) proprietary technology or unique processes. Arlington seeks to leverage its Washington, D.C. network and contacts when operating in regulated industries that possess stable and defensive characteristics, such as aerospace & defense; government services & technology; healthcare; and business services & software.

Arlington believes that companies with identifiable Franchise Value in the middle market, particularly in its Core Verticals, can significantly enhance their appeal to larger strategic acquirers by implementing well-conceived value-creation initiatives, including operational improvements and complementary acquisitions.

### Investment Approach

Arlington’s investment approach is designed to source quality investment opportunities in its Core Verticals while maintaining strict pricing and leverage discipline. Key elements of Arlington’s approach include but are not limited to the following:

- partnering with industry veterans possessing significant knowledge in a specific industry and who have many years of experience running businesses (an “**Operating Executive**”;
- a highly disciplined approach to pricing and leverage;
- being a preferred partner to founding management;
- creatively structuring investments to bridge valuation gaps and mitigate risk; and
- investing in repeatable themes that Arlington believes present compelling investment opportunities for multiple funds.

### Investment Process

Arlington adheres to a disciplined investment process to source, diligence, manage and monetize its investments.

### *Managing Policy Risk*

Arlington believes its thesis-driven approach to investing enables it to manage market risk at the beginning of the investment process. Arlington focuses on identifying sustainable, long-term trends within the Core Verticals that serve bi-partisan initiatives that transcend administration and congress change. Arlington believes it is able to accurately identify these trends through information provided through its Washington, D.C. network around potential

shifts in policy and priorities, enabling Arlington to shape or adjust its overall view of the direction of the sectors.

### *Sourcing*

Arlington focuses on proactive generation of investment opportunities outside of highly competitive bidding processes. Arlington believes that its visibility and local network in Washington, D.C. provide a competitive advantage in originating opportunities within industries that are government-regulated or adjacent to them.

### *Due Diligence*

Arlington pursues transaction opportunities in which it believes it has a competitive advantage. Before committing significant resources of the Funds to a given opportunity, Arlington will assess: (i) its relevant industry experience, either in-house or through an Operating Executive; (ii) the potential for post-investment value creation; (iii) the pricing expectations and non-economic motivations of the seller; and (iv) transaction timing and structuring considerations.

### *Transaction Structuring*

Arlington's investment professionals have experience investing in the private equity space. The Partners of Arlington have invested across a variety of economic cycles and have specific expertise in the Core Verticals. In addition, Arlington's investment professionals have a particular expertise in structuring transactions with founding management that seeks to optimize the financial and operational benefits for the business. In structuring transactions, Arlington will apply reasonable levels of debt financing and will seek to provide Arlington with sufficient downside protection.

### *Investment Oversight*

Arlington believes that making control investments and taking an active role post-acquisition is critical to generating returns. As such, Arlington is involved post-investment in its portfolio companies and actively works with its portfolio companies to identify and complete add-on and strategic acquisitions, access new government contracts and clients, improve operations, augment and upgrade management teams as needed, introduce outside industry executives and board members, and refine company business models as necessary. Arlington has long believed that the most important driver in superior investment returns is growth in the company's earnings and a fundamental transformation of a company's competitive positioning, and as such does not rely solely upon financial engineering, although each Arlington transaction is specifically structured to be reflective of a company's needs.

Arlington controls the board of directors of all of the Funds' LBO investments, which, it believes, gives Arlington the ability to make any changes at the companies that it deems necessary. The independent board members of Arlington's portfolio companies have included former admirals, generals, presidential cabinet members, ambassadors, and congressmen, as well as prominent industry executives, senior policy/secretarial department officials and former

Arlington portfolio company CEOs that are invited to sit on the boards of existing portfolio companies.

### *Exit Planning*

Arlington's plans for eventual portfolio company liquidity begin prior to the closing of an investment. During the due diligence process, Arlington assesses the attractiveness of the industry segment and the prospect for multiple exit opportunities. Prior to committing capital to a portfolio company, Arlington identifies the likely exit options, including not only sales to strategic buyers, but also sales to financial buyers, public equity offerings and recapitalizations.

Arlington's investment professionals analyze the viability of anticipated exit strategies during the investment decision-making process and potential exit opportunities are continually evaluated throughout Arlington's ownership of the portfolio investment.

### **Risks of Investment**

In addition to the general risks of loss associated with the Funds' investments, prospective investors should carefully consider the following risk factors. As a result of these factors, as well as other risks inherent in any investment, there can be no assurance that any Fund will meet its investment objectives or otherwise be able to successfully carry out its investment program.

#### *Economic and Industry Risk*

Although investments of the type sought by the Funds offer the opportunity for attractive returns, such investments are sensitive to any general downward swing in the economy or in the industrial, government or economic sectors in which the acquired business operates. The Funds' investments consequently involve a high degree of financial risk, and the possibility of partial or total loss of capital exists. Prospective investors should not subscribe unless they can readily bear the consequences of such loss.

#### *Available Investments; Limited Liquidity of Investments*

The leveraged buyout and private equity investment industry in which Arlington and the Funds are engaged is highly competitive. Further, the identification of suitable investments is a difficult task, and there can be no assurance that the Funds will be able to implement their investment objectives. There is no assurance that the General Partners will be able to identify sufficient attractive investment opportunities to enable the full amount of capital committed to the Funds to be invested. However, Fund limited partners will be required to bear annual management fees through the applicable Fund during the commitment period based on the entire amount of the limited partners' commitments to such Fund and other expenses as set forth in the applicable Limited Partnership Agreement. The General Partners also may encounter significant competition for many of the investments selected. Many of Arlington's competitors may have greater financial and other resources and may have better access to suitable investment opportunities. Furthermore, investments made by the Funds, to a large degree, will have limited liquidity. The Funds' exit strategies with respect to one or more investments can be affected adversely by numerous factors, many of which may be unforeseen or unexpected at the time each

investment is made. Moreover, the limited liquidity of investments may adversely affect the Funds' abilities to implement exit strategies in the face of unexpected developments.

*No Assurance of Profit, Cash Distributions, or Appreciation, or Rate of Return*

The Funds may be entirely dependent upon Arlington and the Partners. While the General Partners intend to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurance of success. There can be no assurance that investments by the Funds will achieve returns comparable to those achieved in the transactions undertaken previously by Arlington or will achieve targeted returns, or even that an investment, once made, will be profitable and that an investor's interest in such investment will have economic value. Historical returns achieved by Arlington in the Funds are not predictions of future performance. There can be no assurance that investments will generate cash flow available for distribution to investors or that the General Partners will be able to liquidate investments on favorable terms.

*No Diversification Requirement; Junior Securities; Risk of Loss*

The Limited Partnership Agreements permit the General Partners to invest a certain percentage of total commitments in a single investment, in some cases 25% of total commitments. Although the General Partners expect that the Funds will have a moderate degree of diversification, the General Partners are authorized, at any time, to invest its assets in only a few investments. Thus, the unfavorable performance by investments in one industrial or economic sector could have a substantial adverse impact on the aggregate returns realized by investors. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio companies and thus be less diversified. In addition, the General Partners may also make opportunistic investments in other assets that offer particularly attractive returns. Moreover, the securities in which the Funds may 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.

*Restrictions on Transfer; No Market for Interests in the Funds; Illiquidity of Interests*

There are substantial restrictions upon the transferability of Fund interests under the Limited Partnership Agreements and the interests in Funds are not registered under any Federal or state securities laws or the securities laws of any other jurisdiction and therefore are subject to the restrictions on transfer contained in such laws. Investors will not be able to transfer, sell or otherwise dispose of their interests in any manner that will violate the securities laws of any jurisdiction. The interests in the Funds are not redeemable or transferable except with the consent of the General Partners, which consent the General Partners may withhold in their sole discretion. In addition, withdrawals of Fund interests are not permitted. There is no market for the interests and none is expected to develop. Consequently, investors may not be able to liquidate their interests for a lengthy period of time, which may not be prior to the time any Fund liquidates the investments it makes. In addition, any such liquidation may be in the form of non-cash distributions to the investors.

An investment in any Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will 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 the General Partners) may exceed income, thereby requiring that the difference be paid from such Fund's capital.

### Use of Leverage

The types of transactions that the Funds execute will involve equity investments in businesses undertaking a significant amount of debt. Leverage generally magnifies both the Funds' opportunities for gain and their risks of loss from any particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. The use of borrowed funds increases the sensitivity of such investments to adverse economic and commercial developments, competitive pressures, an adverse economic environment, as well as to risks relating to fluctuations in interest rates (which recently have been at or near historic lows) and could accelerate and magnify declines in the value of any Fund's investments in the leveraged portfolio companies in a down market. Moreover, lenders of borrowed funds will likely insist on the inclusion of affirmative and negative covenants that may affect the operating flexibility of particular investments, in addition to the burden of debt service, and may impair a leveraged portfolio company's ability to operate its business as desired and/or finance future operations and capital needs. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, any Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of such Fund. Furthermore, should the credit markets be tight at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund will 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 Arlington 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 any Fund's investments, and hence, most of such Fund's investments will be difficult to value. Certain investments may be distributed in kind to the limited 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 applicable Limited Partnership Agreement, including the value used to determine the amount of Carried Interest available to Arlington with respect to such investment.

#### Importance of Certain Personnel

Control over the operation of the Funds will be vested entirely with the Advisers, and any Fund's future profitability will depend largely upon the business and investment acumen of the Partners. The loss of service of one or more of the Partners could have an adverse effect on such Fund's ability to realize its investment objectives. Fund limited partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of any Fund will depend entirely on the actions of the Advisers. Although the General Partners will monitor the performance of each Fund investment, it will primarily be the responsibility of management of each portfolio company to operate the portfolio company on a day-to-day basis. There can be no assurance that the existing management team, or any new one, will be able to operate the portfolio company in accordance with Arlington's plans. In addition, certain individuals associated with Arlington have primary responsibility for the management of the Funds' business. If these individuals should cease to participate in such management for any reason, the Funds' business could be adversely affected.

#### Projections

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

#### Conflicting Investor Interests

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



### Need for Follow-On Investments

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

### Lack of Investor Participation

No investor has the right, power or authority to participate in the ordinary and routine management of any Fund's affairs or to exercise any control over the decisions of the General Partners. The General Partners have the exclusive right to manage, control and operate the affairs and business of the Funds and to make all decisions relating thereto. Accordingly, no prospective investor should purchase any interests unless such prospective investor is willing to entrust all aspects of management to the respective General Partner.

Although Arlington actively monitors the status of its investments and the performance of the officers and managers operating portfolio companies, the success of an investment will depend, to a large extent, upon the quality of the officers and managers of each portfolio company. Investors have no right or power to take part in or direct the management of any investment.

### Failure To Satisfy Investment Calls

If investors fail to satisfy capital calls, the ability of the Funds to make investments would be adversely affected. If an investor fails to satisfy a capital call, it is obligated to pay interest on the capital call obligation until satisfied by such investor or any other investor or investors. In addition, non defaulting investors have the right to purchase the defaulting investor's interest in the applicable Fund for its defaulted value (as defined in the Partnership Agreement), provided that such non defaulting investors satisfy the defaulting investor's pending capital call and agree to satisfy the defaulting investor's future capital call obligation. As a result, an investor who fails to satisfy capital calls risks losing a portion of its investment in the applicable Fund.

### Board Participation

The Funds may be represented on the boards of directors (or comparable governing bodies) of certain of their portfolio companies. While such representation is expected to enhance each Fund's ability to manage its investments, it may also impair a Fund's ability to sell the related securities because such Fund may be subject to fiduciary duties and other potential legal claims. The Funds will indemnify the respective fund manager for claims arising from such board representation, respectively. Serving on the board of directors of a portfolio company exposes each Fund's representatives, and ultimately such Fund, to potential liability. Not all

portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

### *Tax Considerations*

An investment in a Fund involves complex tax considerations that will differ for each investor. Under certain circumstances, the investors could be required to recognize taxable income in a taxable year, even if such Fund does not have cash or property available to be distributed to the investors during such taxable year.

### *Investments in Countries Outside the United States*

The Funds may make certain investments in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. The value of such non-U.S. investments could be materially adversely affected by inflation, currency devaluation, interest rate fluctuations, exchange rate fluctuations, the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on such Fund and/or such Fund's limited partners with respect to such Fund's income, and possible non-U.S. tax return filing requirements for such Fund and/or such Fund's limited partners, potentially unsettled points of applicable governing law, capital repatriation regulations (as such regulations may be given effect during the term of such Fund), changes in governmental policies (including foreign investment policy, trade policy and taxation), social instability and other economic or political developments in such countries.

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

### *Significant Adverse Consequences for Default*

The Limited Partnership Agreements provide for significant adverse consequences in the event a Limited Partner defaults on its commitment or other payment obligations. In addition to losing its right to potential distributions from a Fund, a defaulting Limited Partner may be forced to transfer its interest in such Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

### *Dilution*

Limited partners admitted to the Funds at subsequent closings will participate in then-existing investments of a Fund, thereby diluting the interest of existing limited partners in such investments. Although any such new Limited Partner may be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of such Fund's existing investments at the time of such contributions.

### *A General Partner's Carried Interest*

The fact that a General Partner's carried interest is based on a percentage of net profits may create an incentive for such General Partner to cause a Fund to make riskier or more-speculative investments than otherwise would be the case.

### *Public Company Holdings*

A Fund's investment portfolio may contain debt and/or equity securities issued by publicly held companies. Such investments may subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of such Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including any Partners serving in such capacity, and increased costs associated with each of the aforementioned risks.

### *Currency and Foreign Exchange Risks*

Each Fund's books and records will be denominated in United States dollars, and distributions will generally be made in United States dollars. However, each Fund may make investments in other currencies, and changes in the exchange rates between such currencies and the United States dollar could have an adverse effect on each such Fund, including the amounts available for distribution and the value of securities to be distributed in-kind.

### *Absence of Certain Statutory Regulation*

Neither Arlington nor the General Partners are registered as investment companies under the Investment Company Act of 1940. Therefore, investors will not have the rights or protections provided by such act. Neither Arlington nor the General Partners are registered as a broker-dealers under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or with the National Association of Securities Dealers, Inc. (the "NASD"), and consequently are not subject to the record-keeping and specific business practice provisions of the Exchange Act or the rules of the NASD.

### *Regulatory Compliance*

Certain of a Fund's investments may result in reporting and compliance obligations under the Exchange Act and/or the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The cost of compliance will be borne by such Fund.

### *Changes in Applicable Law*

The Adviser must comply, and must cause the Funds to comply with various legal requirements, including, but not limited to, requirements imposed under United States federal tax law and federal and state securities laws. If any of the laws and regulations currently in effect should change or any new laws or regulations should be enacted, the legal requirements to which

the Adviser, the Funds and the investors may be subject to could differ materially from current requirements and may materially and adversely affect the Adviser, the Funds and the investors.

#### *Impact of Government Regulation, Reimbursement and Reform*

Certain industry segments in which a Fund may invest, including various segments of the aerospace/defense, government services, healthcare services, and business/information services industries, are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally and (ii) subject to frequent regulatory change. Certain segments may be highly dependent upon various government (or private) reimbursement programs. While each Fund intends to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries, including in particular the aerospace/defense, government services, healthcare services, and business/information services industries, are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, could have a material adverse effect on the operations and/or financial performance of the companies in which a Fund may invest.

#### *Dynamic Investment Strategy.*

While each General Partner generally intends to seek attractive returns for a Fund through the investment strategy and methods described herein, the relevant General Partner may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process or investment techniques to the extent it determines such modification or departure to be appropriate and consistent with the relevant Limited Partnership Agreement(s). A General Partner may pursue investments outside of the industries and sectors in which Arlington has previously made investments or has internal operational experience.

#### *Limited Liability of Arlington and the Advisers; Indemnification*

The Limited Partnership Agreements provide that the General Partners, the Advisers, their respective directors, partners, members, shareholders, officers, employees, or agents will not be personally liable, responsible or accountable in damages or otherwise to the Funds or to any investor for any breach of fiduciary duty. The foregoing provisions will not be construed so as to provide for the exculpation or indemnification of any such party for any liability (including liability under federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law. The Limited Partnership Agreements also provide that, to the maximum extent permitted by applicable law, the Funds will indemnify their respective General Partners, the Advisers, and their respective affiliates and their respective directors, partners, members, shareholders, officers, employees or agents (each, an “Indemnified Person”) from and against any loss, damage, liability, cost or expense (including attorneys’ fees and expenses) arising out of or in connection with any act or failure to act or alleged act or failure to act arising out of, in connection with or in any way related to each Fund and its affairs (including enforcement of this indemnity obligation). The Limited Partnership Agreements also

provide that attorneys' fees and expenses incurred by an Indemnified Person in connection with any matter for which indemnification may be sought under each Limited Partnership Agreement will be paid by the respective Fund.

### Material Non-Public Information

As a result of the operations of Arlington and its affiliates, Arlington frequently comes into possession of confidential or material non-public information. Therefore, Arlington and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, due to applicable securities laws or Arlington's internal policies, a Fund may be restricted from initiating a transaction or selling an investment under circumstances in which, if such information had not been known to it, it might have done so. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

### Valuation of Investments

Generally, the relevant General Partner will determine the value of all of a Fund's investments for which market quotations are available based on publicly available quotations. However, market quotations will be unavailable 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 of 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 of 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. 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 Arlington or one of its service providers holding its financial or investor data, Arlington, its affiliates or the Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks.

## **Conflicts of Interest**

Arlington 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 other Funds, and providing transaction-related, investment advisory, legal, management and other services to Funds and portfolio companies. Arlington 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 Limited Partnership Agreements, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Arlington conducting its activities, the interests of a Fund may conflict with the interests of Arlington, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein.

As stated earlier, pursuant to its Limited Partnership Agreement, Fund II is unable to make new portfolio company investments. Fund III is the only Fund pursuing new portfolio company investments. As such, there will not be any conflicts of interest between Funds II and III as it relates to new portfolio company investment opportunities. As a general matter, however, Arlington 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 committees of the participating Funds.

Pursuant to the Limited Partnership Agreement of Fund III, the most recent Fund, during the commitment period of Fund III, the Advisers will pursue all appropriate investment opportunities exclusively through Fund III, subject to certain limited exceptions. In the event the Advisers form a subsequent Fund, until such time as ninety percent of Fund III has been invested, committed or allocated to be invested or used to pay expenses or reserved for follow-on investments or reasonably anticipated expenses, Fund III will be given priority with respect to any investment opportunities. The Advisers' investment staff will continue to manage and monitor all Arlington Funds over the life of each of the Funds. Arlington believes that the significant investment of the Partners in the Funds, as well as the Advisers' interest in the Carried Interest, operate to align, to some extent, the interests of the Advisers with the interests of each Fund and its limited partners, although certain principals of Arlington have and expect to make investments outside of Arlington. Such other investment funds and investments may compete with one of the Funds or companies acquired by the Funds. Following the commitment period of Fund III, the Advisers may and likely will focus their investment activities on other opportunities and areas unrelated to Fund III's portfolio company investments, though the Advisers will continue to manage and monitor investments in Fund III as well as the previous Funds.

When raising the next subsequent Fund, employees and owners of the Advisers may be presented with investment opportunities that would be suitable not only for Fund III, but also for

the next subsequent Fund. In determining which Fund should participate in such investment opportunities, each Fund is subject to provisions regarding conflicts of interest within its Limited Partnership Agreement. The Advisers attempt to resolve such conflicts of interest in light of their obligations to investors in each of their Funds, and attempt to allocate investment opportunities among the Funds in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from an advisory board consisting of the limited partners of the applicable Fund(s).

In making allocations among Funds, Arlington must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. Arlington generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Limited Partnership Agreement, investment objectives, strategies, life-cycle and structure. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. Arlington will determine if the amount of an investment opportunity in which a Fund will invest exceeds the amount that would be appropriate for such Fund and any such excess may be offered to one or more potential co-investors, as determined by the Funds' Limited Partnership Agreements, Side Letters and Arlington's procedures regarding allocation. Arlington's procedures permit it to take into consideration a variety of factors in making such determinations, including but not limited to: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory, securities laws and/or other legal considerations (e.g., qualified purchaser or qualified institutional buyer status); Arlington's perception of whether the investment opportunity may subject the prospective co-investor to legal, regulatory, reporting, or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair Arlington's ability to execute the relevant transaction in the desired time or on desired terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; and other factors that Arlington considers important in connection with the specific transaction or investment.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Arlington or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Arlington investors. When and to the extent that employees and related persons of Arlington and its affiliates make capital investments in or alongside certain Funds, Arlington and its affiliates are subject to conflicting interests in connection with these investments.

Arlington's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While Arlington will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would have been if the conflicts of interest to which Arlington may be subject, as discussed herein, did not exist.

Where multiple Funds invest at the same, different or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. 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 work-out or restructuring may raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Funds may or may not provide such additional capital, and if provided, each Fund generally will supply such additional capital in such amounts, if any, as determined by Arlington in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, Arlington may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one Fund versus another Fund (e.g., the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). If a Fund enters into any indebtedness with another Fund on a joint and several basis, each 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, Arlington may be subject to conflicts of interest, for example between a Fund with a reimbursement obligation and a Fund seeking reimbursement. Arlington 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.

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. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Arlington 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 a given 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. Investments by more than one Fund in the same portfolio company also have the potential to raise the risk of using assets of a Fund to support positions taken by other Funds. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Subject to any relevant restrictions or other limitations contained in the Limited Partnership Agreements of the Funds, Arlington 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, but in its sole discretion. In exercising such discretion, Arlington 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 Arlington or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional. 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.

As a result of the Funds' controlling interests in portfolio companies, Arlington and/or its affiliates typically have the right to appoint portfolio company board members, 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 Arlington and/or its affiliates. Such amounts will be in addition to any Management Fees or Carried Interest paid by a Fund to Arlington.

Additionally, a portfolio company typically will reimburse Arlington or service providers retained at Arlington's discretion for expenses (including without limitation travel expenses) incurred by Arlington or such service providers in connection with its performance of services for such portfolio company. This subjects Arlington and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to Arlington or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

Arlington generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contracts for services with (i) Arlington or a related person of Arlington (which may include a portfolio company of such Fund), (ii) an entity with which Arlington or its affiliates or current or former members of their personnel has a relationship or from which Arlington or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, Arlington 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 Arlington to conflicts of interest, because although Arlington 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, Arlington 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 Arlington, 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 Arlington), 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 Arlington 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.

Arlington 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 Arlington and/or its affiliates; conversely, former personnel or executives of Arlington and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Arlington. Similarly, Arlington, 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, Arlington and/or its affiliates, and/or the Funds or other investment vehicles they advise. Arlington 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 Arlington information about markets and industries in which Arlington operates (or is contemplating operations) or will provide other services that are beneficial to Arlington. Arlington may have a conflict of interest in making such recommendations, in that Arlington 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.

Arlington, its affiliates, and equity holders, officers, principals and employees of Arlington and its affiliates may buy or sell securities or other instruments that Arlington has recommended to a Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Fund. Such transactions are subject to the policies and procedures set forth in Arlington's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of Arlington have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, and therefore may have additional conflicting interests in connection with these investments.

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

Because a General Partner's carried interest is based on a percentage of net realized profits, it may create an incentive for such General Partner to cause a Fund to make riskier or more-speculative investments than otherwise would be the case. Also, because there is a fixed investment period after which capital from investors in a Fund may only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of a

Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when the Adviser might not otherwise have done so.

The Advisers have entered into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different information rights, co-investment rights, and liquidity or transfer rights.

In addition, Arlington and its principals and officers may invest for their personal accounts in the same areas of investment opportunity as those in which the Funds may invest and may become aware of, and participate in, business opportunities in which investors may not be given the opportunity to invest as long as such opportunities are not otherwise suitable for the Funds. In addition, due to differing investment objectives or other factors, Arlington and its principals and officers may take investment positions in securities that are different from, or opposite to, the positions taken by a Fund.

Representatives of Arlington may also serve on the boards of directors of and provide management, consulting, and other services to companies that are not Fund portfolio companies. Investors will have no right to any fees derived from these activities.

As described above under “Methods of Analysis, Investment Strategies and Risk of Loss – Investment and Operating Strategy”, one key element of Arlington’s investment approach is partnering with Operating Executives who have experience running businesses. Arlington may partner with an Operating Executive to assist it in identifying one or more target portfolio companies. As a part of that arrangement, Arlington may agree with the Operating Executive that, once a Fund acquires a portfolio company identified by the Operating Executive, Arlington may cause the portfolio company to hire the Operating Executive in an executive-level position. Such arrangements may create a potential conflict of interest, in that such compensation arrangement may incentivize the Operating Executive to recommend an investment in a portfolio company even though the investment may not be in the best interests of the Fund. Arlington believes that it effectively mitigates that risk through its highly disciplined investment process, rigorous pre-investment due diligence and the many years of business and private equity investment experience of its personnel, all of which allow Arlington to form its own conclusions as to the merits of each proposed investment. Furthermore, discretion on whether Arlington does, in fact, invest is never at the discretion of the Operating Executive. In addition, after a portfolio company has hired an Operating Executive, the Operating Executive typically causes the portfolio company to enter into a professional services agreement with Arlington, pursuant to which Arlington agrees to provide certain management and other services to the portfolio company and the portfolio company agrees to pay additional compensation to Arlington (which, as described herein under “Fees and Compensation”, may offset in whole or in part the Management Fee otherwise payable to the Managers). An Operating Executive may have an incentive to cause the portfolio company to enter into such an agreement as a result of his or her prior contractual relationships with Arlington, even though such agreement may not be in the best interests of the portfolio company and therefore the Fund.

In addition, as described above, portfolio companies (and, to a lesser extent, the Funds) may pay certain fees to Operating Executives and other third party consultants (including consultants introduced or arranged by Arlington and/or its affiliates that may regularly provide

services to one or more portfolio companies), and such fees do not offset the Management Fee as described herein. Operating Executives may make use of Arlington resources or otherwise be associated with Arlington. Arlington and/or its affiliates may agree to compensate certain of such persons to the extent portfolio company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation. Operating Executive 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 Executives to invest in such portfolio company and reimburse costs and expenses incurred by Operating Executives. Operating Executives may receive remuneration from Arlington 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 Executive will not offset the Management Fees of any Fund as described herein. Although the use of Operating Executives and the allocation of compensation paid to them by Arlington, its affiliates and/or the portfolio companies may subject Arlington and/or its affiliates to potential conflicts of interest, Arlington 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 cost of the Operating Executive is lower than market rates for the services provided and/or if the quality of the services of the Operating Executive align with Arlington's model for the portfolio company and improve portfolio company performance. Although Arlington seeks to retain Operating Executives with a view to reducing costs to portfolio companies and, ultimately, the Funds, a number of factors may result in limited or no cost savings from such retention. Arlington also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Arlington believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only Operating Executives 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.

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

## **DISCIPLINARY INFORMATION**

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

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

AME is not, but may become in the future, affiliated with other investment advisers registered with the SEC under the Advisers Act. These affiliated investment advisers would serve as managers or general partners of Funds and other pooled vehicles and would share common owners, officers, partners, employees, consultants or persons occupying similar positions.

As discussed above, AME is currently affiliated with ACP GP I, ACP GP II, ACP GP III, Manager II, and Manager III, which may provide advice to AME in connection with its services to certain Funds. While such other Advisers are not required to be registered under the Advisers Act, they operate in compliance with certain related requirements and undertakings as prescribed by the SEC.

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

The Advisers have adopted the Arlington Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Arlington principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Arlington personnel to report their personal securities transactions, prohibits or requires pre-clearance for Arlington personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Arlington personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Arlington Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any limited partner or prospective limited partner of the Fund upon request to Matthew K. Buckley, the Arlington Chief Compliance Officer, at (202) 337-7500. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material non-public or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material non-public or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers’ personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in one or more Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest based on a fixed percentage in one or more of the same portfolio companies as the Funds. Co-invest opportunities may also be presented to certain affiliates of the Advisers, as well as third-party investors and other persons, and such co-investments may be effected through co-invest vehicles or directly in a particular portfolio company.

The Funds may invest together with other Funds advised by an affiliated adviser of AME in the manner set forth in their Limited Partnership Agreements. The Advisers will determine the allocation of investment opportunity in a manner that they believe is fair and equitable to their clients consistent with the Advisers' obligations and may take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's Limited Partnership Agreements, where applicable), investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

In the case of co-invests, Arlington may grant certain third-party investors the opportunity to evaluate specified amounts of prospective co-investments in Fund portfolio companies or otherwise to have priority in co-investment opportunities.

The Advisers and their 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 Arlington (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by Fund limited partners (or their representatives) in such Reference Funds.

## **BROKERAGE PRACTICES**

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

If the Advisers sell publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution

capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of Arlington being considered; and (iv) responsiveness to requests for trade data and other financial information.

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

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research or deal flow furnished by them, although the Advisers generally do not make use of such services at the current time. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of the Advisers’ Funds. However, each and every research service may not be used for the benefit of each and every Fund managed by the Advisers, and brokerage commissions paid by one Fund may apply towards payment for research services that might not be used in the service of such Fund. Research services may be shared among the Advisers and their affiliates.

The Advisers do not employ any agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers may, in their discretion, cause the Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where the Advisers have determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Advisers would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

The Advisers will periodically determine which brokers have provided research or deal flow that has been helpful in the management of the Funds. To the extent consistent with the Advisers’ goal to obtain best execution for the Funds, the Advisers may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that the Adviser allocates brokerage business on the basis of research services or deal flow, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research, deal flow, or other products or services, rather than based on its Funds’ interest in receiving most favorable execution.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engage in any such transactions, any orders will be executed pro rata across the Fund making the investment, and within a reasonable amount of time of order receipt. To the extent that orders for the Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of the Advisers is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs.

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

## **REVIEW OF ACCOUNTS**

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

Each Fund generally will provide to each of its limited partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner’s tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

AME and/or its affiliates are not currently using the services of any third party for marketing purposes.



## **CUSTODY**

The Advisers maintain custody of the Funds' assets held in the name of one or more Funds with the following qualified custodian: Merrill Lynch, Pierce, Fenner & Smith Incorporated.

## **INVESTMENT DISCRETION**

As a general policy, the Advisers do not allow clients to place limitations on the authority to manage investments on behalf of the Funds. Pursuant to the terms of the Limited Partnership Agreements, however, the Advisers have entered into Side Letters with certain limited partners whereby the terms applicable to such limited partners' investment in the Funds are altered or varied, including, in some cases, the right to opt-out of select investments for limited legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of the applicable Limited Partnership Agreements and powers of attorney executed by the limited partners of each Fund.

## **VOTING CLIENT SECURITIES**

The Advisers have adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for each Fund's portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Each of the Advisers generally believes its interests are aligned with those of each Fund's limited partners, for example, through the principals' beneficial ownership interests in such Fund and therefore will not seek Limited Partner approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the Funds' advisory boards on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve the Adviser's vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by Arlington personnel or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of a Fund. If you would like a copy of the Adviser's complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Matthew K. Buckley, the Arlington Chief Compliance Officer, at (202) 337-7500 and it will be provided to you at no charge.

## **FINANCIAL INFORMATION**

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

## SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF ARLINGTON MANAGEMENT

### **Matthew L. Altman**

#### *Educational Background and Business Experience*

Matthew L. Altman, born in 1974, joined Arlington in 2001 and shares overall responsibility for management of the Firm and is a member of the Firm's Investment Committee. He has primary responsibility for Arlington's healthcare investments and shares responsibility for the Firm's aerospace and defense investments. Mr. Altman has closed on leveraged acquisitions, recapitalizations and growth equity investments representing nearly \$2.0 billion in value during his 17 year career in private equity. His private equity experience encompasses a wide range of industries including healthcare services, aerospace, defense, industrial manufacturing, specialty distribution and media. Prior to joining Arlington, Mr. Altman worked for Stonington Partners, a \$1.0 billion private equity firm established in 1994 by the former principals of Merrill Lynch Capital Partners. His responsibilities at Stonington included originating and conducting due diligence of investment opportunities, structuring and negotiating transactions, arranging public and private debt financing, designing management incentive plans and participating in portfolio company management and realizations. Mr. Altman was also directly involved in the monitoring and realization of Merrill Lynch Capital Partners investments.

Mr. Altman earned an M.B.A. from the Stanford Graduate School of Business and received a B.A. degree, summa cum laude, from Duke University in Economics. He is currently a member of the Board of Directors of Advanced Health, Avalign Technologies, Ontario Systems, and United Flexible, and previously served on the Board of Directors of Cambridge Major Laboratories, Inc., Chandler/May, Inc., Consolidated Precision Products, MB Aerospace Holdings, Main Line Broadcasting, Micron Technologies, Inc., Cherry Creek Radio, and New Vision Group.

#### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Mr. Altman.

#### *Other Business Activities*

Mr. Altman, together with certain other individuals not affiliated with Arlington, has invested in, and participated in the investment activities of an entity established to make investments in start-up companies and real estate holdings.

#### *Additional Compensation*

Mr. Altman does not receive any additional compensation that is required to be disclosed.

### *Supervision*

As a Partner of Arlington, Mr. Altman is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Altman is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

## **Jeffrey H. Freed**

### *Educational Background and Business Experience*

Jeffrey H. Freed, born in 1963, joined Arlington in 1999, and shares overall responsibility for management of the Firm and is a member of the Firm's Investment Committee. Mr. Freed has primary responsibility for Arlington's business services investments and shares responsibility for the Firm's software and government services investments. Mr. Freed has 30 years of private equity experience encompassing over 35 transactions in a variety of industries representing over \$4.0 billion in aggregate enterprise value. Prior to Arlington, Mr. Freed was the President and Chief Investment Officer of Westbury Capital Partners, L.P., a direct investment partnership focused on middle-market companies. During his tenure at Westbury, Mr. Freed established the firm's direct investment strategy, created the firm's deal flow, and executed all of the partnership's principal investments. Prior to Westbury, Mr. Freed was a principal at Oak Hill Capital Partners, the management company of Acadia Partners, L.P., a \$1.8 billion investment partnership established by Robert M. Bass and certain institutional investors. Mr. Freed was one of seven dedicated professionals responsible for all aspects of initiating, evaluating, executing and closing leveraged buyout transactions, recapitalizations/build-ups, as well as other direct equity and mezzanine investments. Previously, Mr. Freed was a principal with Adler and Shaykin, a firm with \$300 million of equity capital under management. He began his career in 1985 as one of the original members of Morgan Stanley Capital Partners, the firm's principal investing arm.

Mr. Freed earned an M.B.A. from the Harvard Business School and received a B.S. and B.A. degrees, *magna cum laude*, from the University of Pennsylvania's Wharton School and College of Arts & Sciences dual degree program in Economics and Oriental History. He is currently a member of the Board of Directors of Zemax and previously served on the Board of Directors of AdVenture Interactive, Apogen Technologies, BrightStar Education Group, CompuSearch Software Systems, New Vision Group, Novetta Solutions, SignalTree Solutions, Inc., SECOR International, and Sports Information Group.

### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Mr. Freed.

### *Other Business Activities*

Mr. Freed is not engaged in any investment-related business outside of his roles with AME and its affiliates.

### *Additional Compensation*

Mr. Freed does not receive any additional compensation that is required to be disclosed.

### *Supervision*

As a Partner of Arlington, Mr. Freed is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Freed is subject to the supervision of the

Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

## **Michael H. Lustbader**

### *Educational Background and Business Experience*

Michael H. Lustbader, born in 1975, joined Arlington in 1999 and shares overall responsibility for management of the Firm and is a member of the Firm's Investment Committee. Mr. Lustbader has primary responsibility for the Firm's government services investments and shares responsibility for the Firm's software and business services investments. He has 18 years of private equity and mergers and acquisitions transaction experience having been involved in over 25 acquisitions. Prior to Arlington, Mr. Lustbader worked at Lazard Frères & Co. ("Lazard") in New York in the Telecommunications and Technology practice, where he focused on advising corporate clients on mergers and acquisitions. He has been responsible for all aspects of sourcing, evaluating, structuring and closing buyout transactions. Mr. Lustbader's private equity experience includes outsourced business services, IT services, and aerospace and defense.

Mr. Lustbader earned an A.B. degree, *magna cum laude*, from Harvard College with a major in Social Studies. He is currently a member of the Board of Directors of MicroPact, Inc., Quantum Spatial, and Zemax and previously served on the Board of Directors of Apogen Technologies, CompuSearch Software Systems, Novetta Solutions, SECOR International and SignalTree Solutions, Inc.

### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Mr. Lustbader.

### *Other Business Activities*

Mr. Lustbader is not engaged in any investment-related business outside of his roles with AME and its affiliates.

### *Additional Compensation*

Mr. Lustbader does not receive any additional compensation that is required to be disclosed.

### *Supervision*

As a Partner of Arlington, Mr. Lustbader is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Lustbader is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.

## **Peter M. Manos**

### *Educational Background and Business Experience*

Peter M. Manos, born in 1966, joined Arlington in 2002, and shares overall responsibility for management of the Firm and is a member of the Firm's Investment Committee. Mr. Manos has primary responsibility for Arlington's aerospace and defense investments and shares responsibility for the Firm's healthcare investments. Mr. Manos has over 25 years of private equity, public equity and mergers and acquisitions transactional experience and has completed over 40 transactions in a variety of industries representing over \$4.0 billion in aggregate enterprise value. Prior to Arlington, Mr. Manos co-founded Capitol Partners, a Washington, D.C.-based LBO firm focused exclusively on healthcare investments. Previously, Mr. Manos was a Vice President at The Carlyle Group where he was a member of the defense/aerospace group and a co-founder of the firm's healthcare investment practice. Mr. Manos began his career as an investment banker at DLJ and later at Peers & Co. His private equity and transactional experience is complemented by his operating experience as co-founder and President of iFinance, Inc., a point-of-sale credit infrastructure company.

Mr. Manos earned an M.B.A. from the Harvard Business School and received a B.A. degree from Stanford University with a major in English. He is currently a member of the Board of Directors of Advanced Health, Avalign Technologies, Ontario Systems, Quantum Spatial, Inc., and United Flexible and previously served on the Board of Directors of Cambridge Major Laboratories, Inc., Chandler/May, Inc., Consolidated Precision Products, MB Aerospace, NLX Holdings Corporation, SECOR International and TSI Group, Inc.

### *Disciplinary History*

There are no legal or disciplinary events to disclose with respect to Mr. Manos.

### *Other Business Activities*

Mr. Manos is not engaged in any investment-related business outside of his roles with AME and its affiliates.

### *Additional Compensation*

Mr. Manos does not receive any additional compensation that is required to be disclosed.

### *Supervision*

As a Partner of Arlington, Mr. Manos is responsible for implementing and overseeing the investment strategy of the clients of Arlington. Mr. Manos is subject to the supervision of the Arlington Chief Compliance Officer with respect to compliance matters, but is not otherwise subject to the supervision of any other person.