

**INVESTMENT ADVISER BROCHURE**

**SERENT CAPITAL MANAGEMENT COMPANY, L.L.C.**

**Serent Capital Management Company, L.L.C.  
1 Embarcadero Center, Suite 1680  
San Francisco, CA 94111  
<http://www.serentcapital.com/>**

**March 31, 2015**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Serent Capital Management Company, L.L.C. (“SCMC”). If you have any questions about the contents of this Brochure, please contact us at (415) 343-1050. 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.**

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

## **MATERIAL CHANGES**

Serent Capital Management Company, L.L.C. (“**SCMC**”) filed its most recent Form ADV Part 2A on March 28, 2014. This annual amendment updates the description of the business practices of SCMC and its affiliates. All other changes are either clarifying changes or updates of previously disclosed information.

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Material Changes .....</b>	<b>ii</b>
<b>Advisory Business .....</b>	<b>2</b>
<b>Fees and Compensation.....</b>	<b>3</b>
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>5</b>
<b>Types of Clients.....</b>	<b>5</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
<b>Disciplinary Information.....</b>	<b>15</b>
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>15</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>15</b>
<b>Brokerage Practices .....</b>	<b>17</b>
<b>Review of Accounts .....</b>	<b>17</b>
<b>Client Referrals and Other Compensation.....</b>	<b>18</b>
<b>Custody .....</b>	<b>18</b>
<b>Investment Discretion.....</b>	<b>18</b>
<b>Voting Client Securities.....</b>	<b>19</b>
<b>Financial Information.....</b>	<b>19</b>

## ADVISORY BUSINESS

Serent Capital Management Company, L.L.C., a Delaware limited liability company and a registered investment adviser (“**SCMC**”), and its affiliated investment advisers provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. SCMC commenced operations in March 2008.

SCMC clients include Serent Capital, L.P. and Serent Capital II, L.P., each a Delaware limited partnership (together with any parallel and alternative investment vehicles, the “**Serent Capital Funds**,” and each, a “**Serent Capital Fund**”). The term “**Private Investment Funds**” refers to the Serent Capital Funds together with any current and future private investment fund managed by SCMC.

Serent Capital Partners, LLC and Serent Capital Partners II, LLC, each a Delaware limited liability company (each, a “**General Partner**” and together with SCMC and their affiliated entities “**Serent Capital**”), are investment advisers affiliated with SCMC. Each General Partner is registered under the Investment Advisers Act pursuant to SCMC’s registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with SCMC.

The Serent Capital Funds and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities, generally referred to herein as “portfolio companies.” SCMC’s investment advisory services to the Serent Capital 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. Where such investments consist of portfolio companies, the senior principals or other personnel of SCMC or its affiliates generally may serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Serent Capital Funds.

SCMC’s advisory services for the Private Investment Funds are detailed in the applicable private placement memoranda or other offering documents (each, a “**Memorandum**”) and partnership or other operating agreements (each, a “**Partnership Agreement**”) and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the applicable Partnership Agreement. The Serent Capital Funds have entered into side letters or similar agreements with certain investors that have the effect of establishing rights under, altering or supplementing the terms of the Partnership Agreements of the Serent Capital Funds.

Additionally, Serent Capital provides co-investment vehicles for certain business partners, other strategic associates, certain affiliates and qualified Serent Capital personnel (“**Associates Funds**”). Associates Funds invest in certain portfolio companies alongside a Private Investment Fund. Associates Funds typically invest and dispose of their investments in

the applicable portfolio company at the same time and on the same terms as the Private Investment Fund making the investment.

As of December 31, 2014, SCMC managed approximately \$662.9 million in client assets on a discretionary basis. SCMC is controlled by Kevin Frick and David Kennedy.

## **FEES AND COMPENSATION**

In general, SCMC receives a management fee and one of its affiliates, such as the General Partner, typically receives carried interest in connection with advisory services. SCMC or other Serent Capital affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and 100% of such additional compensation will offset the management fees otherwise payable to SCMC. Investors in the Serent Capital Funds also bear certain fund expenses.

### **Management Fees**

Each of the Serent Capital Funds pay SCMC a management fee (the “**Management Fee**”) based upon a percentage of such Serent Capital Fund’s investor capital commitments (“**Commitments**”), subject to certain reductions, as more fully described in the Partnership Agreement of the Serent Capital Fund.

As permitted under each Serent Capital Fund’s Partnership Agreement, Management Fees are reduced by an amount equal to one half of the capital contributions the General Partners would otherwise be required to contribute to the respective Serent Capital Fund, either in its capacity as general partner of the partnership or in its capacity as the holder of limited partner interests in the Serent Capital Fund, if any. The limited partners of the Serent Capital Funds may be required to make a pro rata contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver or reduction as described above and, as a result, may result in an acceleration of investor capital contributions.

### **Carried Interest**

An affiliate of SCMC, such as the respective General Partner, will generally receive a carried interest with respect to the Serent Capital Funds equal to 20% of all realized profits, subject to an increasing amount once a specified return has been achieved (as more fully described in the Partnership Agreement of each Serent Capital Fund). The carried interest distributed to the General Partner is subject to a potential giveback at the end of life of a Serent Capital Fund if the General Partner has received excess cumulative distributions.

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

### **Other Information**

SCMC exempts certain investors in Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest, including SCMC and any other person

designated by SCMC, such as affiliated personnel. The Associates Funds have reduced management fees of a maximum of 1.25% and reduced carried interest.

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

Principals or other current or former employees of Serent Capital may receive a portion of the Management Fee, carried interest or other compensation received by SCMC or its affiliates.

In addition to the Management Fee and carried interest payable to SCMC and its affiliates, the Serent Capital Funds bear certain expenses. As set forth in each Serent Capital Fund's Partnership Agreement and/or Memorandum, a Serent Capital Fund bears all expenses relating to the Serent Capital Fund's activities, investments and business to the extent not reimbursed by a portfolio company, including costs and expenses attributable to structuring, organizing, acquiring, managing, operating, holding, valuing, winding up, liquidating, dissolving and disposing of such Serent Capital Fund's investments, reasonable private placement and finder's fees, real property or personal property taxes on investments, travel expenses, brokerage fees, taxes applicable to the Serent Capital Fund on account of its operations, fees incurred in connection with the maintenance of bank or custodian accounts, legal, audit and other expenses incurred in connection with the registration of the Serent Capital Fund's portfolio securities under the Securities Act, legal and accounting fees and expenses incurred in connection with the purchase, sale, exchange or other disposition of securities (whether or not such purchase, sale, exchange or other disposition is ultimately consummated), fees and expenses of investment advisers and independent consultants, independent certified public accountant fees incurred in connection with the annual audit of the Serent Capital Fund's books and the preparation of the Serent Capital Fund's annual tax return, costs of independent appraisers, legal expenses of the Serent Capital Fund, premiums associated with insurance, preparation and other expenses associated with annual and other reports, costs associated with any Serent Capital Fund information meetings, expenses of the advisory board meetings and reimbursement of reasonable out-of-pocket costs for the advisory board members and the General Partner to attend such meetings, and all expenses that are not normal administrative and overhead expenses (such as compensation of employees, rent and expenditures for equipment used by SCMC and its affiliates), including all legal fees and expenses incurred in prosecuting or defending administrative or legal proceedings relating to the Serent Capital Fund brought by or against the Serent Capital Fund, SCMC, the General Partner, or their current or former members, partners, employees or agents. As is typical for private equity funds, the Serent Capital Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

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

As described under “Fees and Compensation,” affiliates of SCMC typically receive a carried interest allocation on certain realized profits in each Serent Capital Fund. SCMC and its affiliates do not advise Private Investment Funds not subject to a carried interest, although they may waive carried interest with respect to certain affiliated partners as described under “Fees and Compensation.”

## **TYPES OF CLIENTS**

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

Each Serent Capital Fund generally has a minimum investment amount of \$10,000 for third-party investors, and the Serent Capital Fund interests are generally offered and sold solely to qualified purchasers. Interests in the parallel funds of the Serent Capital Funds are offered to accredited investors who are also qualified clients (or qualified knowledgeable Serent Capital personnel). Such minimum investment amount may be waived by SCMC.

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

### **General**

Serent Capital is a private equity firm focused on making control investments in profitable and rapidly expanding services companies. SCMC investment advisory services consist of identifying investment opportunities, negotiating the terms of investments, managing and monitoring investments, and achieving dispositions for investments. Although investments are predominantly in non-public companies, investments in public companies are permitted.

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

### **Investment Strategy**

SCMC’s strategy is principally to make control investments in growing, profitable services companies and to help those companies drive EBITDA growth primarily by driving revenue growth. SCMC believes that often entrepreneurs who have founded companies and grown them to sizable ventures need assistance to realize the full value of their companies. SCMC targets companies at this stage, where it believes augmentation of business building capabilities offers the greatest potential for returns.

SCMC usually invests in businesses operating in growing markets and in businesses with scalable business models. While SCMC has a series of verticals in which it focuses (*e.g.*, healthcare services, financial services, media, education, public sector, and professional services), the specific sub-vertical focus will change over time as market trends evolve. In all cases, SCMC is looking for growing sectors with a fair degree of dislocation, creating opportunities for new businesses to emerge. SCMC considers investments that meet its criteria anywhere in North America.

SCMC takes control positions in investments with some or all of the following financial characteristics:

- annual revenue of \$5 million to \$100 million;
- returns on invested capital of 20% or more; and
- growth potential of 10% or more.

### **Operating Strategy**

SCMC's operating model encompasses business building, sourcing, deal execution and liquidity.

*Business Building.* SCMC assists portfolio companies in developing their businesses in several ways, including (a) seeking to grow revenue by designing, refining, and implementing improved sales and marketing plans; (b) providing operational planning and support to address business growth and challenges; (c) building management teams by assisting CEOs in assessing personnel needs, interviewing key candidates and sourcing qualified candidates in seeking to achieve the growth potential of the businesses; and (d) providing financing to permit the businesses to grow.

*Sourcing.* SCMC sources from what it believes are the less efficient parts of the market, including:

- *Balancing top-down analysis with opportunism.* SCMC conducts top-down analysis to identify attractive spaces marked by high growth and high dislocation. SCMC also believes, however, that investing in superior business models is more important than artificial sector limitations. Hence, SCMC occasionally strays from its target verticals to invest in business models that it finds compelling.
- *Primary sourcing.* SCMC seeks to leverage in-house and other resources to identify and generate investment opportunities.
- *Intermediaries.* SCMC works to build strong professional relationships with intermediaries. This approach requires SCMC to be rapid and transparent in its interactions and to work with intermediaries to help entrepreneurs understand how professional investors can help their business. SCMC actively works to develop relationships with large, national intermediaries, as well as regional intermediaries who have privileged relationships with entrepreneurs interested in seeking to exit or seeking a credible value proposition.

*Deal execution.* SCMC seeks to apply the analytical rigor of large scale buyouts to the small buyout market. In addition to this thorough diligence, SCMC has deal structuring expertise to ensure an alignment of interests with the sellers and to ensure properly leveraged equity capital.

*Liquidity.* The hold periods for SCMC's investments are longer than for the typical buyout firm on account of SCMC's focus on growth.

## **Risks of Investment**

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

*Competition for investments.* The Serent Capital Funds compete with other entities for the acquisition of investments. Such competition may come from groups such as institutional investors, investment managers, operating companies, and merchant banks that have greater resources than the Serent Capital Funds and are owned by large and well-capitalized investors. There may be intense competition for investments of the type in which the Serent Capital Funds intend to invest, and such competition may result in less favorable investment terms than would otherwise be the case. The Serent Capital Funds may be unable to find a sufficient number of attractive opportunities to meet their investment objectives. There can, therefore, be no assurance that investments of the Serent Capital Funds will meet all the Serent Capital Funds' investment objectives, or that the Serent Capital Funds will be able to invest all of their available capital.

*Long-term and illiquid investment within the Serent Capital Funds.* An investment in the Serent Capital Funds is a long-term commitment. Interests in the Serent Capital Funds are highly illiquid and have no public market value. No secondary market for the interests exists, and no such market will be established or supported by SCMC. Furthermore, the sale or transfer of interests is subject to approval of the General Partner and other restrictions contained in each Serent Capital Fund's Partnership Agreement. Consequently, limited partners may not be able to liquidate an investment in the event of an emergency or for any other reason. An investment in the Serent Capital Funds is suitable only for persons and entities that have no need for liquidity with respect to their investment. The interests in the Serent Capital Funds have not been registered under the Securities Act of 1933, nor is any such registration contemplated.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of the Serent Capital Funds and their portfolio companies to execute

their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by the Serent Capital Funds and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon the Serent Capital Funds' portfolio companies.

*Market conditions.* Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the portfolio companies. The Serent Capital Funds' performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and the Serent Capital Funds' performance. The value of publicly traded securities may be volatile and difficult to sell as a block, even following a realization through listing. The impact of market and other economic events may also affect the Serent Capital Funds' ability to raise funding to support their investment objectives and also the level of profitability achieved on realizations of investments.

*Deterioration of credit markets may affect ability to finance and consummate investments.* A deterioration of the global credit markets could make it more difficult for investment funds such as the Serent Capital Funds to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, could dramatically reduce investor demand for high yield debt and senior bank debt, which in turn could lead some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. The Serent Capital Funds' ability to generate attractive investment returns may be adversely affected to the extent the Serent Capital Funds are unable to obtain favorable financing terms for their investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of the Serent Capital Funds to realize their investments at favorable times or for favorable prices.

*Investments in unseasoned companies.* The Serent Capital Funds may invest a portion of their assets in privately-held companies with limited histories of profit and stability. These companies may require considerable additional capital to develop technologies and markets, acquire customers and achieve or maintain a competitive position. This capital may not be available at all, or on acceptable terms. Such companies may face intense competition, including competition from established companies with much greater financial and technical resources, more extensive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Typically, although the Serent Capital Funds will generally seek to be represented by at least one member of SCMC on a portfolio company's board of directors, each portfolio company will be managed on a day-to-day basis by its own officers (who generally will not be affiliated with the Serent Capital Funds or SCMC). Portfolio companies may have substantial variations in operating results from period to period and experience failures or substantial declines in value at any stage.

*Buyouts, spinouts, divestitures, take-privates investments.* The Serent Capital Funds may invest a significant portion of their assets in buyouts, spinouts, divestitures, take-privates, turnarounds and corporate restructurings. Such investments are usually made in distressed companies with troubled operations, organization, management, products or services. Such portfolio companies are generally mature and may have had a history of substantial negative operating results. As a result, the Serent Capital Funds are generally required to invest substantial amounts of capital and time in such entities. The Serent Capital Funds would make such investments under the assumption that Serent Capital will be able to assist with the turnaround of such companies. There is no guarantee that the Serent Capital Funds will have sufficient capital to support such portfolio companies or that SCMC will possess, or properly use, the skills or resources necessary to achieve a positive result. In addition, if SCMC is unable to effectively assist such distressed companies, there is significant risk that the applicable Serent Capital Fund will not be able to recoup any of its investment in such entity. Furthermore, such investments generally require a considerable amount of SCMC's time and human capital. As such, the period within which a gain, if any, would be realized from such investments may be considerably longer than other investments.

*Lack of diversification.* The Serent Capital Funds are not subject to any diversification requirements and may invest in a limited number of companies, sectors, countries or regions. To the extent the Serent Capital Funds concentrate their investments in a particular company, sector, country or region, their investments will become more susceptible to fluctuations in value resulting from adverse business or economic conditions affecting that particular company, country or region. As a consequence, the aggregate return of the Serent Capital Funds may be adversely affected by the unfavorable performance of one or a small number of companies, sectors, countries or regions in which the Serent Capital Funds have invested. In certain cases, the Serent Capital Funds may acquire majority or 100% interests in a limited number of portfolio companies, which could further increase the vulnerability of the Serent Capital Funds' portfolio. Currently, the Serent Capital Funds intend to focus its investments primarily in services companies, and any downward trends in related sectors could have a material adverse effect on the Serent Capital Funds' performance.

*Dynamic Investment Strategy.* While the General Partners generally intend to seek attractive returns for the Serent Capital Funds through the investment strategy and methods described herein, the General Partners may pursue additional investment strategies and may modify or depart from their initial investment strategy, investment process or investment techniques to the extent they determine such modification or departure to be appropriate and consistent with the Partnership Agreement. The General Partners may pursue investments outside of the industries and sectors in which SCMC has previously made investments or has internal operational experience.

*Growth Equity Transactions.* The Serent Capital Funds may make growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments may involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to

achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Availability of investment capital.* Investments in both growing and distressed companies can often require a large initial investment with a commitment of continued financial support. If an investor does not have funds available to participate in subsequent rounds of financing, that shortfall may have a significant negative impact on both the portfolio company and the value of such investor's original investment. Although it will be the Serent Capital Funds' policy to maintain some liquidity to allow it to participate in follow-on rounds of financings, the Serent Capital Funds may not intend to provide all necessary follow-on financing. In such cases, third-party sources of financing will be required. There is no assurance that such additional sources of financing will be available, or, if available, will be on terms beneficial to the Serent Capital Funds.

*Lack of liquidity within investment portfolio.* The marketability and value of each of the Serent Capital Fund's investments depends upon many factors beyond SCMC's control. Generally, the investments made by the Serent Capital Funds are illiquid and difficult to value, and there is little or no collateral to protect an investment once made. At the time of the Serent Capital Funds' investment, a portfolio company may lack one or more key attributes (*e.g.*, operational stability, consistent growth or complete management team) necessary for success. There may be no readily available market for the Serent Capital Funds' investments, and the disposal of a portfolio investment by the Serent Capital Funds may be prohibited or delayed many years from the date of initial investment for legal, contractual and/or regulatory reasons. Volatility in the debt and equity markets and overall business environment may adversely affect the development of portfolio companies, the ability of the Serent Capital Funds to dispose of investments, and the value of investment securities on the date of sale or distribution by the Serent Capital Funds.

*Risks of certain dispositions.* In connection with the disposition of an investment in a portfolio company or otherwise, the Serent Capital Funds may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in contingent liabilities, which might ultimately need to be funded by the Serent Capital Funds.

*Projections.* Projected operating results of the companies in which the Serent Capital Funds invest normally will be based primarily on financial projections prepared by each company's management, with adjustments to such projections made by SCMC 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 impact on the reliability of projections.

*Need for Add On Investments.* Following their initial investment in portfolio companies, the Serent Capital Funds may decide to provide additional funds to certain portfolio companies or may have the opportunity to increase their investment in portfolio companies, whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or other reasons. There is no assurance that the Serent Capital Funds will make add on investments or that the Serent Capital Funds will have sufficient funds to make all or any of such investments. Any decision by the Serent Capital Funds not to make add on investments or their inability to make such investments may have a substantial negative impact 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 the Serent Capital Funds to increase their participation in a successful operation.

*Controlling investments.* The Serent Capital Funds may own a majority of a portfolio company and be able to elect one or more of its directors. With respect to an investment in a distressed company, the Serent Capital Funds may elect to insert certain of their employees or affiliates into key management positions within such company to assist in the entity's daily operations. As a result, the Serent Capital Funds may be viewed as controlling such a portfolio company, or being a controlling shareholder. To the extent the valuation of such a portfolio company decreases, the Serent Capital Funds may be exposed to lawsuits by discontented minority shareholders. Even if such lawsuits prove to be without merit, the Serent Capital Funds may be required to expend significant resources defending themselves and their affiliates.

*Indemnification.* The Serent Capital Funds will be required to indemnify SCMC and its affiliates, and their respective officers, employees, directors, agents, stockholders, members and partners and members of the advisory board (and those limited partners affiliated with advisory board members), and to the extent determined by SCMC and its affiliates, Serent Capital Fund employees and agents, for liabilities incurred in connection with the affairs of the Serent Capital Funds. Such liabilities may be material and have an adverse effect on the returns to the limited partners. For example, in their capacity as directors of portfolio companies, the members, managers, partners, agents or affiliates of SCMC may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligations of the Serent Capital Funds would be payable from the assets of the applicable Serent Capital Fund, including the unfunded commitments of the limited partners. If the assets of the Serent Capital Funds are insufficient, the General Partners may recall distributions previously made to the limited partners, subject to certain limitations in the Serent Capital Funds' Partnership Agreements.

*Tax risk.* The Serent Capital Funds may invest in portfolio companies in countries where tax laws are difficult to understand, subject to different interpretations and inconsistently enforced. Any portfolio company in which the Serent Capital Funds invest could therefore have significantly higher tax liabilities than anticipated, causing a material adverse effect on its financial condition and results of operations.

*Economic and political risks.* To the extent the Serent Capital Funds make investments in

companies with headquarters, or substantial assets, outside of the United States, such investments may be subject to additional economic and political risks. Governments of many foreign countries have exercised and continue to exercise substantial influence over many aspects of the private sector. Accordingly, future government actions could have a significant effect on the economic environment in such countries, which could affect the availability, purchase price and returns of portfolio investments of companies affected by such governments.

*Foreign currency and exchange rate risks.* Serent Capital Funds' assets and income of investments made outside the United States may be denominated in various currencies. Contributions and distributions, however, will be denominated in U.S. dollars. As a result, the return of the Serent Capital Funds on any non-US investment may be adversely affected by fluctuations in currency exchange rates, any future imposed devaluations of local currencies, inflationary pressures and the success of the investment itself. As a general policy, the Serent Capital Funds do not intend to engage in hedging against currency risk. In addition, the Serent Capital Funds may incur costs in connection with conversions between various currencies.

*Material Non-Public Information.* As a result of the operations of SCMC and its affiliates, SCMC frequently comes into possession of confidential or material non-public information. Therefore, SCMC and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by the Serent Capital Funds. Consequently, the Serent Capital Funds may be restricted from initiating a transaction or selling an investment which, if such information had not been known to such Serent Capital Fund, may have been undertaken on account of applicable securities laws or SCMC's internal policies. Due to these restrictions, the Serent Capital Funds may not be able to make an investment that they otherwise might have made or sell an investment that they otherwise might have sold.

## **Conflicts of Interest**

SCMC 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 Private Investment Funds, and providing transaction-related, investment advisory, legal, management and other services to Private Investment Funds and portfolio companies. In the ordinary course of SCMC conducting its activities, the interests of the Serent Capital Fund may conflict with the interests of SCMC, one or more other Private Investment Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein.

During the commitment period of a Serent Capital Fund, all appropriate investment opportunities will be pursued by SCMC's principals through the Serent Capital Fund, subject to certain limited exceptions. With the prior approval of such Serent Capital Fund's advisory board, each SCMC principal may enter into investments for his own account that might reasonably be viewed as an investment opportunity of the Serent Capital Fund, but in which the Serent Capital Fund has determined not to participate. SCMC principals need not secure the approval of the Serent Capital Fund's advisory board with respect to investments in which the Serent Capital Fund is not afforded the opportunity to invest a specified minimum amount (as further described in the Partnership Agreement of the Serent Capital Fund) since the Serent Capital Funds do not expect to make investments in amounts below this threshold. Any such

investment is subject to preclearance under the SCMC Code of Ethics and Securities Trading Policy (as further described below).

Without limitation, SCMC principals currently manage several other investments similar to those in which the Serent Capital Funds invest. SCMC principals will continue to manage and monitor such investments until their realization. Such other investments that SCMC principals control or may control in the future may potentially compete with companies acquired by the Serent Capital Funds. Following the commitment period of a Serent Capital Fund, SCMC principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Serent Capital Fund's investments.

From time to time, SCMC or its affiliates will be presented with investment opportunities that would be suitable not only for the Serent Capital Funds, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of SCMC. In determining which investment vehicles should participate in such investment opportunities, SCMC and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Investments by more than one client of SCMC in a portfolio company may also raise the risk of using assets of a client of SCMC to support positions taken by other clients of SCMC. When and to the extent that employees and related persons of SCMC and its affiliates make capital investments in or alongside certain Private Investment Funds, SCMC and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Private Investment Fund's return from a transaction would be equal to and not less than another Private Investment Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

As a result of the Private Investment Funds' controlling interests in portfolio companies, Serent Capital typically has the right to appoint portfolio company board members, or to influence their appointment. From time to time, portfolio company board members approve amounts reimbursable to Serent Capital. Such amounts will be in addition to any Management Fees or carried interest paid by a Private Investment Fund to SCMC.

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

SCMC generally exercises its discretion to recommend to a Private Investment Fund or to a portfolio company thereof that it contract for services with (i) SCMC or a related person of SCMC (which may include a portfolio company of such Private Investment Fund) or (ii) an entity with which SCMC or its affiliates or current or former members of their personnel has a relationship or from which SCMC or its affiliates or their personnel otherwise derives financial or other benefit. This subjects SCMC to conflicts of interest, because although SCMC selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Private Investment Fund, SCMC may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that SCMC, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not SCMC 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.

Serent Capital may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Private Investment Funds or other investment vehicles advised by SCMC and/or its affiliates; conversely, former personnel or executives of SCMC and/or its affiliates may serve in significant management roles at portfolio companies or services providers recommended by Serent Capital. Similarly, SCMC, 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, SCMC and/or its affiliates, and/or the Private Investment Funds or other investment vehicles they advise. SCMC may have a conflict of interest with a Private Investment Fund in recommending the retention or continuation of a third-party service provider to such Private Investment 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 Private Investment Funds, will provide SCMC information about markets and industries in which SCMC operates (or is contemplating operations) or will provide other services that are beneficial to SCMC. SCMC may have a conflict of interest in making such recommendations, in that SCMC has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Private Investment Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Private Investment Fund.

SCMC, its affiliates, and equityholders, officers, principals and employees of SCMC and its affiliates may buy or sell securities or other instruments that SCMC has recommended to a Private Investment Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Private Investment Fund. Such transactions are subject to the policies and procedures set forth in SCMC's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of any Private Investment Fund.

Because certain expenses are paid for by a Private Investment Fund and/or its portfolio companies or, if incurred by SCMC, are reimbursed by a Private Investment Fund and/or its

portfolio companies, SCMC may not necessarily seek out the lowest cost options when incurring (or causing a Private Investment Fund or its portfolio companies to incur) such expenses.

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

SCMC may enter into side letter arrangements with certain investors in a Private Investment Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

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

#### **DISCIPLINARY INFORMATION**

SCMC 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**

SCMC is affiliated with the General Partners, investment advisers registered with the SEC under the Advisers Act pursuant to SCMC's registration in accordance with SEC guidance. SCMC and the General Partners operate as a single advisory business and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

SCMC has adopted the Code of Ethics and Securities Trading Policy (the "**Code**"), which sets forth standards of conduct that are expected of Serent Capital principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Serent Capital

personnel to report their personal securities transactions, prohibits or requires pre-clearance for Serent Capital personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Serent Capital personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Serent Capital 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 investor or prospective investor upon request to Mark Shang, the Serent Capital Chief Compliance Officer, at (415) 343-1050. 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.

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

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

Principals and employees of SCMC and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Serent Capital Funds, Associates Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Serent Capital Funds.

The Serent Capital Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of SCMC in the manner set forth in the applicable Partnership Agreement. SCMC will determine the allocation of investment opportunities among its clients in a fair and equitable manner, consistent with SCMC's fiduciary obligations and consistent with the applicable Private Investment Funds' underlying documents.

SCMC and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Serent Capital Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Serent Capital Funds, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Serent Capital (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 investors (or their representatives) in such Reference Funds.

### **BROKERAGE PRACTICES**

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

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

SCMC has 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 SCMC generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

SCMC does not currently anticipate allocating brokerage business on the basis of research services.

In SCMC’s private company securities transactions on behalf of the Private Investment Funds, SCMC may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Private Investment Fund and/or its portfolio companies. In determining to retain such parties, SCMC 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 SCMC generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Private Investment Funds may not pay the lowest commission or fee for such services.

### **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term

decision to dispose of securities. However, SCMC closely monitors companies in which the Private Investment Funds invest, and the Serent Capital Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Serent Capital Funds will provide to 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) annual reports providing a narrative summary of the status of each portfolio company investment. With respect to (i) above, limited partners in certain parallel funds do not receive quarterly unaudited financial statements.

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

SCMC and/or its affiliates may provide certain business or consulting services to companies in each Serent Capital Fund's portfolio and may receive compensation from these companies in connection with such services. As described in each Serent Capital Fund's Partnership Agreement, this compensation may, in many cases, offset all or a portion of the Management Fees paid by the Serent Capital Fund. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Fees and Compensation."

From time to time, SCMC may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Private Investment Fund. Any fees and expenses payable to any such placement agents will be borne by SCMC indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Private Investment Fund(s).

#### **CUSTODY**

SCMC maintains custody of each Serent Capital Fund's assets held in the Serent Capital Fund's name with Merrill Lynch, Pierce, Fenner & Smith, Inc. located at 101 California Street, San Francisco, CA 94111.

#### **INVESTMENT DISCRETION**

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

## **VOTING CLIENT SECURITIES**

SCMC has adopted the Serent Capital Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for each Serent Capital Fund’s (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that SCMC votes proxies (or similar instruments) in the best interest of the Serent Capital Fund, including where there may be material conflicts of interest in voting proxies. SCMC generally believes its interests are aligned with those of the Serent Capital Fund’s investors through the principals’ beneficial ownership interests in the Serent Capital Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that SCMC may address the conflict using several alternatives, including by seeking the approval or concurrence of the Serent Capital Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, each Serent Capital Fund’s advisory board may approve SCMC’s vote in a particular solicitation. SCMC does not consider service on portfolio company boards by SCMC’s personnel or SCMC’s receipt of management or other fees from portfolio companies, if any, 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 SCMC when voting proxies on behalf of the Serent Capital Fund. If you would like a copy of SCMC’s complete Proxy Policy or information regarding how SCMC voted proxies for particular portfolio companies, please contact Mark Shang, the Serent Capital Chief Compliance Officer, at (415) 343-1050, and it will be provided to you at no charge.

## **FINANCIAL INFORMATION**

SCMC 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.