

Madison Capital Partners

500 W. Madison, Suite 3890
Chicago, Illinois 60661

(312) 277-0156

March 27, 2015

This brochure provides information about the qualifications and business practices of Madison Capital Partners. If you have any questions about the content of this brochure, please contact us at (312) 277-0156 or at judelhofen@madisoncapitalpartners.net. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Madison Capital Partners also is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 – MATERIAL CHANGES

Since the last annual update to the Form ADV brochure of Madison Capital Partners was filed with the SEC on March 24, 2014, there have been no material changes to the information provided in this brochure. In the future, when Madison Capital Partners amends its brochure for its annual update and the amended version contains any material changes from the last annual update, Madison Capital Partners will identify and describe those changes either on this page or in a separate document accompanying this brochure.

ITEM 3 – TABLE OF CONTENTS

<u>Item No.</u>	<u>Item Description</u>	<u>Page</u>
2	Material Changes to ADV Brochure Since Last Annual Amendment	2
4	Advisory Business	3
5	Fees and Compensation	4
6	Performance-Based Fees and Side-By-Side Management	5
7	Types of Clients	6
8	Methods of Analysis, Investment Strategies and Risk of Loss.....	6
9	Disciplinary Information.....	16
10	Other Financial Industry Activities or Affiliations	16
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	16
12	Brokerage Practices	18
13	Review of Accounts.....	19
14	Client Referrals and Other Compensation	20
15	Custody	20
16	Investment Discretion	20
17	Voting Client Securities.....	20
18	Financial Information.....	20
19	Requirements for State-Registered Advisers	20

ITEM 4 – ADVISORY BUSINESS

Madison Capital Partners is an Illinois corporation that was founded in September 1997 as a successor to a corporation under the same name which was founded in May 1994, and is principally owned and controlled by Larry W. Gies. Madison Capital Partners is a Chicago-based firm primarily comprised of former CEOs and CFOs.

For a variety of operational, legal and regulatory reasons, Madison Capital Partners conducts its advisory business through a group of related advisers which are generally the managers of the Funds (as defined below). This group of related advisers, although organized as separate legal entities, conducts a single advisory business. Unless otherwise indicated, hereinafter, any references to “Adviser” refer collectively to Madison Capital Partners and the manager of each Fund. Each Fund was organized with the intent that it be advised by the manager of the Fund with services performed by Adviser.

Adviser provides investment advisory services to private pooled investment vehicles. The pooled investment vehicles to which Adviser provides advisory services are referred to herein as the “Funds.” The Funds are typically U.S. limited liability companies and other investment vehicles that are not registered or required to be registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”), or the Securities Act of 1933, as amended (the “Securities Act”). The investors in the Funds may include, among others, individuals, pension and profit sharing plans, trusts, other pooled investment vehicles, corporations and foundations.

A Fund’s manager may, from time to time, create and manage investment vehicles on a transaction-by-transaction basis to allow certain persons to invest alongside the Fund in specific portfolio companies and other assets of the Fund (each such vehicle, a “Co-Investment Fund”). Co-Investment Funds are typically limited to investing in securities relating to the transaction or transactions with respect to which they were organized. As a general matter, any co-investment by a Co-Investment Fund will be on terms and conditions similar to the terms and conditions of the investment by the applicable Fund.

As investment adviser to each Fund, Adviser and/or its affiliates provide services, identify investment opportunities and participate in the acquisition, management, monitoring and disposition of investments for each Fund. Each Fund is managed based on the investment objectives and investment restrictions set forth in the governing documents or the offering materials of the Fund (the “Offering Materials”). Adviser and its affiliates primarily provide investment advisory services related to business acquisitions in a wide variety of industries. Generally, the Funds acquire controlling interests in companies and take an active approach in managing each business to build and grow branded market leaders. Companies with lengthy operating histories in mature or growing industries are generally targeted, but early-stage investments may also be made. Although the primary focus of each Fund is on business acquisitions, other types of investments may also be made that are consistent with the respective Fund’s investment strategy and objectives.

Investment advice is provided directly to the Funds, and not individually to the investors of the Funds. Adviser generally provides investment advisory services to each Fund pursuant to a service agreement with the manager of the Fund and/or the governing documents of the Fund.

The Fund and/or the manager of the Fund may enter into side letters with certain investors of a Fund which impose further restrictions on the investment activities of a Fund.

As of December 31, 2013, Adviser and its affiliates managed \$722,800,000 on a discretionary basis, and \$0 on a non-discretionary basis.

ITEM 5 – FEES AND COMPENSATION

Fees

The manager of each Fund will generally receive an annual management fee with respect to the Fund as follows: (i) until the closing of the Fund's first acquisition, a fixed fee, and (ii) thereafter, subject to a minimum, a percentage of the aggregate earnings before interest, taxes, depreciation and amortization, as defined in the governing documents ("EBITDA"), of the Fund's portfolio companies. The manager of each Fund, in its discretion, may waive or reduce the management fee.

Until the closing of a Fund's first acquisition, the management fee generally will be paid by the Fund monthly in advance and, thereafter, the management fee generally will be paid by the applicable portfolio company quarterly in advance. Management fees are generally paid out of current cash flow. Management fees are fully earned when paid and not refundable.

In addition to management fees, Adviser and/or its affiliates may be entitled to receive certain fees from actual or prospective portfolio companies of the Funds, including transaction and closing fees.

Under each Fund's governing agreement, the manager of the Fund generally will be entitled to receive carried interest distributions. The carried interest distributions will generally be an amount equal to a percentage, generally 20 or 25%, of the distributed profits from each portfolio investment made by such Fund after the return of invested capital with respect to such portfolio investment. Distributed profits earned on a portfolio investment will not be offset by Fund expenses or realized losses on, or permanent write-downs of, other portfolio investments. Adviser and/or its affiliates, in their discretion, may waive or reduce the carried interest distributions as to all or any of the investors in the Fund.

The carried interest distributions for each Fund generally are paid out as distributions of the net cash proceeds attributable to dispositions of portfolio investments of the Fund or from equity distributions from the portfolio investments of the Fund.

The amount of, and the manner and calculation of, the management fees and carried interest distributions for each Fund are set forth in the governing documents and Offering Materials of the Fund.

Adviser and its affiliates will not receive sales commissions in connection with sales of interests in a Fund.

Fees for comparable services may be different from other sources. The expenses of a Fund, including any management fee and carried interest distributions, may constitute a different

percentage of average net assets than would be found in other investment vehicles not managed by Adviser or its affiliates.

Costs and Expenses

Generally, a Fund bears all legal, accounting and other fees, costs and expenses of and incidental to organizing and funding the Fund and the manager of the Fund as set forth in the governing documents and Offering Materials of the Fund. A Fund and/or its portfolio companies will bear the operational costs and expenses of the Fund. Such costs and expenses may be paid directly by a Fund and/or its portfolio companies or paid by Adviser or its affiliates, in which case the Fund and/or its portfolio companies will reimburse Adviser and its affiliates for all or any portion of such expenses. Such costs and expenses may include, but are not limited to: (i) legal, auditing, custodial, consulting, financing and accounting fees and expenses of the Fund; (ii) expenses associated with preparation of the Fund's financial statements, reports to Fund investors and tax returns; (iii) out-of-pocket expenses and other expenses incurred in connection with the operation of the Fund under the laws of the jurisdiction in which it is organized; (iv) out-of-pocket expenses of transactions not consummated; (v) expenses of litigation and indemnification; (vi) insurance premiums; (vii) expenses of advisory board meetings and meetings of the Fund investors; (viii) other expenses associated with the acquisition, holding and disposition of the Fund's portfolio companies including extraordinary expenses; (ix) any taxes, fees or other governmental charges levied against the Fund; and (x) costs of dissolving and winding up the Fund. Fund investors may also bear a portion of any fees or expenses charged by any special purpose vehicles that have been formed to facilitate portfolio investments by the Funds or their investors for operational, tax, regulatory or economic purposes.

Although the services of broker-dealers are generally not used for Fund transactions, in the event a broker-dealer is used, the Fund and/or its portfolio companies will bear brokerage and transaction costs to the extent incurred. For additional information regarding brokerage and transaction costs, see Item 12 below.

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

As discussed in Item 5 above, the manager of each Fund generally will be entitled to receive carried interest distributions from the Fund representing a percentage of the distributed return on equity of the Fund. Any fees based on performance that will be charged to a person who became an investor in a Fund on or after the date Adviser became an SEC-registered investment adviser will only be charged in accordance with the provisions of Rule 205-3 under the Advisers Act.

The carried interest distributions made with respect to a Fund may create an incentive for Adviser or its affiliates to cause the Fund to make investments that are riskier than it would otherwise make. In addition, the terms of the carried interest distributions could give Adviser or its affiliates an incentive to make decisions regarding the timing and structure of a realization transaction that may not be in the best interest of investors. Since profits earned on a portfolio investment will not be offset by realized losses on, or permanent write-downs of, other portfolio investments, Adviser or its affiliates may have an incentive to disproportionately allocate time and resources to portfolio investments that Adviser or its affiliates expects to be more profitable.

Since participation in specific investment opportunities may be appropriate, at times, for more than one Fund, which could create a potential conflict if such Funds are charged different fees, Adviser and its affiliates have established policies and procedures for allocating investment opportunities among the Funds, subject to any requirements of the governing documents of the Funds. Adviser or its affiliates will allocate such opportunities among the Funds on a basis that Adviser or its affiliates determines in good faith to be appropriate, taking into consideration certain factors that may include, but may not be limited to, the Fund's investment strategy, the sourcing of the investment opportunity, the relative amounts of capital available for investment (taking into account applicable reserves), the size of the investment opportunity, existing investments, the potential amount of follow-on investment opportunities that may be required for such investment or other portfolio investments and investment restrictions and guidelines.

ITEM 7 – TYPES OF CLIENTS

Adviser provides investment advisory services to the Funds. Investment advice is provided to the Funds and not individually to the investors in the Funds.

The manager of each Fund generally requires investors in a Fund to make a minimum commitment to the Fund. The manager of each Fund, in its sole discretion, may waive the minimum commitment amount.

Investors in a Fund generally must be “accredited investors” under Regulation D who are eligible to enter into a performance fee arrangement under the Advisers Act. In addition, if a Fund relies on Section 3(c)(7) under the Investment Company Act, investors also generally must be “qualified purchasers” under Section 2(a)(51)(A) of the Investment Company Act. The manager of each Fund generally requires Fund investors to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment in the Fund.

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

Investment Strategies and Methods of Analysis

The following is a summary of the investment strategies and methods of analysis employed by Adviser and its affiliates on behalf of the Funds. Specific descriptions of such strategies and methods are included in the governing documents and Offering Materials of each Fund.

Adviser and its affiliates advise Funds that make business acquisitions in a wide variety of industries. Generally, the Funds acquire controlling interests in companies and take an active approach in managing each business to build and grow branded market leaders. Companies with lengthy operating histories in mature or growth industries are generally targeted, but early-stage investments may also be made.

Adviser and its affiliates generally take an equity-oriented approach toward investing, but will incorporate components of debt financing in structuring transactions. The components of equity and debt will vary over market cycles and from investment to investment depending upon internal deal factors, including target company cash flow, stage of investment and capital structure, as well as by the overall lending environment.

The investment strategy for each Fund is more particularly described in its governing documents and Offering Materials. Prospective investors should carefully read the Fund's governing documents and Offering Materials and consult with their own counsel and advisers as to all matters concerning an investment in the Fund.

Investments for each Fund are identified and selected by Adviser and/or its affiliates. In evaluating a potential portfolio company, Adviser and/or its affiliates conduct due diligence to analyze, among other things, the company's fundamentals (e.g., financial statements, profitability and cash flow), market and competitive position within that market, cost and revenue structures, unique assets, management team and compensation structure, contingent liabilities and potential growth opportunities. The intensity and scope of the due diligence process varies, but generally includes, among other things, a review of the company's financial records, business plans, projections, legal documents, customer agreements and relevant industry data. Information is typically received directly from the potential portfolio company (or its agents and/or representatives), including by speaking with the company's management, key officers and employees, and, from time to time, customers and suppliers. In addition, other sources of information may be utilized such as: newspapers and magazines, inspections of corporate activities, research material prepared by others, corporate rating services, annual reports, prospectuses, filings with the SEC, company press releases, and any other material deemed relevant.

Following an investment by the Fund, Adviser and/or its affiliates will continue to monitor the progress and suitability of portfolio investments as well as market and economic outlook.

Risks

Investment in securities involves risk of loss that investors in a Fund must be prepared to bear. Acquiring interests in a Fund is intended for sophisticated investors who can accept a high degree of risk in their portfolio, do not need regular current income from their investment and can accept a potential loss of their entire investment.

Investment risks specific to the investment strategy of each Fund are described in the Offering Materials of the Fund. Such risks may include (but are not limited to):

- *Prior Investment Performance Not Indicative of Future Results.* The performance of prior investments by Adviser or its affiliates is not necessarily indicative of a Fund's future results. While Adviser and its affiliates intend to make investments that have potential returns commensurate with the risks undertaken, there can be no assurance that the targeted returns will be achieved. On any given investment, total loss of the investment is possible.
- *Illiquid Investments.* Investments by a Fund will generally be illiquid securities acquired through privately negotiated transactions. Such investments require a long term commitment, with no certainty of return.
- *Risks Associated with Investments in Privately Held Companies.* Investing in privately held companies involves risk. For example, privately held companies are not subject to SEC reporting requirements, are not required to maintain their accounting records in accordance with generally accepted accounting principles ("GAAP") and are not required

to maintain effective internal controls over financial reporting. As a result, a Fund may not have timely or accurate information about the business, financial condition and results of operations of the privately held companies in which the Fund invests. In addition, the securities of privately held companies are generally illiquid.

- *Lack of Sufficient Investment Opportunities.* The business of identifying and structuring investments in private companies is highly competitive and involves a high degree of uncertainty. As a result, there can be no guarantee that any suitable investment opportunities for a Fund will be found, that investments on favorable terms can be negotiated, or that a Fund will be able to fully realize the value of the Fund's investments. Competition for investments may also have the effect of increasing a Fund's costs and expenses, thereby reducing investment returns to the Fund.
- *Concentration.* A Fund may participate in only one or a small number of investments. As a consequence, the aggregate return (if any) realized by an investor in the Fund may be materially adversely affected by the unfavorable performance of even a single investment by the Fund. In addition, a Fund's investments may not be subject to any geographical or sector diversification requirements. As a result, the Fund's investments may be concentrated in a single geographical location or investment type.
- *Reliance on Management.* The performance of a Fund depends on the skill of Adviser and its principals to identify and consummate suitable investments, to structure and make prudent credit and investment decisions, and to dispose of investments of the Fund at a profit. Investors in a Fund will not be able to make investment or any other decisions in the management of the Fund.
- *Carried Interest Distributions.* The existence of the carried interest may create an incentive for the applicable affiliate of Adviser to make riskier or more speculative investments on behalf of a Fund than would be the case in the absence of this arrangement. If distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property as determined by Adviser or its affiliates in accordance with procedures set forth in the governing documents.
- *Diverse Investor Group.* Investors in a Fund may have conflicting investment, tax and other interests with respect to their investments in the Fund. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by Adviser or its affiliates, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, Adviser or its affiliates may consider the investment and tax objectives of the Fund and its investors as a whole, not the investment, tax or other objectives of any investor individually.
- *Failure to Make Capital Contributions.* If an investor in a Fund defaults on its obligation to make required capital contributions, and the contributions made by non-defaulting

investors and borrowings by the Fund are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns to the Fund's investors (including non-defaulting investors). Notwithstanding the contractual remedies available to Adviser or its affiliates and a Fund against a defaulting investor pursuant to the Fund's governing documents, any default by one or more of investors could have a material adverse effect on the Fund, its assets and the interests of the other investors.

- *Investors May be Required to Return Distributions.* Adviser or its affiliates may require an investor in a Fund, including any former investor, to return any or all of the distributions made to such investor, subject to certain limitations, if the assets of the Fund are insufficient to satisfy its liabilities, including indemnification obligations.
- *Valuation Risk.* Market prices may not be readily available for many of a Fund's investments, and the value of such investments will ordinarily be determined based on fair valuations determined by Adviser or its affiliates. The sale price of securities that are not readily marketable may be lower or higher than a Fund's most recent determination of the securities' fair value. Additionally, the value of these securities typically requires more reliance on the judgment of Adviser or its affiliates than that required for securities for which there is an active trading market. The fair valuation of securities by Adviser or its affiliates is subject to uncertainty. Due to the difficulty in valuing these securities and the absence of an active trading market for these securities, a Fund may not be able to realize these securities' true value or may have to delay their sale in order to do so. Fair value is defined as the amount for which assets could be sold in an orderly disposition over a reasonable period of time, taking into account the nature of the assets. Fair value pricing, however, involves judgments that are inherently subjective and inexact, since fair valuation procedures are used only when it is not possible to be sure what value should be attributed to a particular asset or when an event will affect the market price of an asset and to what extent. As a result, there can be no assurance that fair value estimates will reflect actual market value and it is possible that the fair value estimated for a security will be materially different from the value that actually could be or is realized upon the sale of that asset.
- *Market Conditions.* The current difficult market conditions, including the continuing deterioration in the credit markets, may adversely affect a Fund in many ways, including by reducing the value or performance and liquidity of the Fund's investments and reducing the ability of the Fund to raise or deploy capital. The general market downturn, or a specific market dislocation, may result in lower investment returns for a Fund. A Fund may be adversely affected by the fact that suitable investments for the Fund to effectively deploy capital may not be able to be found, which could adversely affect the performance of the Fund. In addition, over the past several years, the markets for debt financing have contracted significantly. Large commercial banks, which have traditionally provided such financing, have demanded higher rates, more restrictive covenants and generally more onerous terms (including posting additional collateral) in order to provide such financing. In the event that a Fund is unable to obtain committed debt financing for potential acquisitions or can only obtain debt at increased costs, this

may prevent the Fund from completing otherwise profitable acquisitions or may lower the profit that the Fund would otherwise have achieved from such transactions. A Fund may also be adversely affected by reduced opportunities to exit and realize value from its investments. During periods of difficult market conditions or slowdowns in a particular sector, a Fund's investments may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods of weakness, a Fund's investments may also have difficulty expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, which would negatively impact the value of such investments.

- *Financial Market Fluctuations.* General fluctuations in the market prices of securities may affect the value of the investments held by a Fund. The current and continuing instability in the securities markets may also increase the risks inherent in a Fund's investments. The ability of a Fund's investments to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.
- *Expedited Transactions.* Investment analyses and decisions may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available at the time an investment decision is made may be limited, and Adviser or its affiliates may not have access to detailed information regarding the investment opportunity. Therefore, no assurance can be given that Adviser or its affiliates will have knowledge of all circumstances that may adversely affect an investment. In addition, reliance may be placed upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will have sufficient time to perform such evaluations nor that they will accurately evaluate such investments.
- *Non-Controlling Investments.* A Fund may hold a non-controlling interest in certain investments and, therefore, may have a limited ability to protect its position in such investments, although as a condition of investment in such investments, it is expected that appropriate shareholder rights generally will be sought to protect the Fund's interests.
- *Need for Follow-On Investments.* A Fund may be called upon to provide follow-up funding for its investments, or may have the opportunity to increase its investment in certain investments. There can be no assurance that any follow-on investments will be made or that the Fund will have sufficient funds to do so. Any decision by Adviser or its affiliates or a Fund not to make follow-on investments, or its inability to make them, may have a substantial negative impact on an investment in need of such an investment or may diminish the ability to influence such investment's future development.
- *Inability to Achieve Targeted Rate of Return.* A Fund will make investments based on estimates or projections of internal rates of return and current returns, which in turn are based on, among other considerations, assumptions regarding the performance of investments, the amount and terms of available financing and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return

received on the investments. Moreover, a Fund's ability to achieve its targeted returns may be adversely impacted by increased competition from other investors, which may lead to more competitive pricing for certain types of investments.

- *Leverage.* If available on reasonable terms, a Fund may fund a portion of each portfolio company investment with debt. As a result, relatively minor adverse changes in a portfolio company's operations or financial results could constitute a default under the terms of such debt and could give the lender the right to foreclose on the loan, which could result in the Fund's loss of its entire investment in such portfolio company. Alternatively, the lack of leverage (due to the credit crunch or other factors) in any Fund investment could severely and negatively affect investor returns.
- *Investments in Less Established Companies.* A Fund may invest a significant portion of its assets in smaller, less established companies. Investments in such companies may involve greater risks than are generally associated with investments in more established companies. The securities of such companies, even if and when publicly traded, may be subject to more abrupt and erratic market price movements than larger, more established companies. Less established companies also tend to have a lower capitalization and fewer resources and, therefore, are often more vulnerable to financial failure.
- *Investments with Third Parties.* A Fund may offer to those investors whom Adviser or its affiliates may select in their sole and absolute discretion the right to co-invest in certain investments. Such co-investments may be made under such circumstances and in such amounts as Adviser or its affiliates in their sole and absolute discretion determine. The terms of such co-investments may be different from the terms of the investment by a Fund. Investors will not have any right to determine or influence the terms of such co-investments.
- *Co-Investment Risks.* A Fund may make investments as a co-investor or partner with certain investors, Adviser and their respective affiliates and employees and others. Depending on the structure of these co-investments, Adviser or its affiliates may share major decision making responsibility with its co-investment partners and therefore may not have the ultimate control over material decisions with respect to these investments. As a result of this lack of ultimate control, the co-investments may have a negative impact on a Fund's performance. A Fund may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of a Fund, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.
- *Risk of Non-U.S. Investments.* A Fund may invest a portion of its capital outside the United States. These investments involve special risks not usually associated with investing in the United States. Because non-U.S. entities may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements

comparable with those applicable to U.S. entities, there may be different types of, and lower quality, information available about a non-U.S. investment than a U.S. investment. With respect to certain countries there may be the possibility of expropriation or confiscatory taxation, political, economic or social instability, limitation on the removal of funds or other assets or the repatriation of profits, restrictions on investment opportunities, the imposition of trading controls, withholding or other taxes on interest, capital gain or other income, import duties or other protectionist measures, various laws enacted for the protection of creditors, greater risks of nationalization or diplomatic developments which could adversely affect a Fund's investments in those countries.

- *Currency Exchange Risks.* A portion of a Fund's investments and the income received by a Fund with respect to such investments may be denominated in non-U.S. currencies. The contributions and distributions from a Fund generally will be made, in U.S. dollars or Euros. Accordingly, changes in currency exchange rates may adversely affect the dollar value of investments, interest and dividends received by a Fund, gains and losses realized on the sale of investments and the amount of distributions, if any, to be made by a Fund. In addition, a Fund may incur costs in converting investment proceeds from one currency to another. Although hedging transactions may be entered into from time-to-time to mitigate such currency risks, there can be no assurance that any such hedge will be successful or cost-effective, and such hedge transactions may not be entered into.
- *Lack of Investor Participation in Management.* Investors in a Fund do not have an opportunity to evaluate or approve specific investments, or any particular type or category of investment, prior to the Fund's investing. Decisions with respect to a Fund's management will be made exclusively by Adviser or its affiliates, who will have wide latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for the Fund. Adviser or its affiliates has the exclusive right to manage each Fund. The investors in a Fund have no right or power to take part in the Fund's management, other than by voting on certain matters as provided in the governing documents.
- *Limited Liability and Indemnification.* The governing documents of each Fund limit the circumstances under which Adviser or its affiliates or any partner, shareholder, member, manager, officer, director, employee or agent of Adviser or its affiliates or any officer of a Fund (the "Covered Persons"), can be held liable to the Fund and its investors. As a result, investors may have a more limited right of action in certain cases than they would have in the absence of such a limitation. The Covered Persons will not be liable, responsible or accountable in damages or otherwise to a Fund or a third party or any investor for any action taken or failure to act on behalf of the Fund within the scope of the authority conferred on such Covered Person by the governing documents or by law unless such action or omission was performed or omitted fraudulently. A Fund will indemnify its officers and members, Adviser and its affiliates and their respective partners, shareholders, members, manager, officers, advisory board, directors, employees and agents with respect to any losses or damages incurred by them in connection with their services to the Fund, if the acts, omissions or alleged acts or omissions upon which such actual or threatened action, proceeding or claim is based were for a purpose reasonably believed to be in the

best interest of the Fund and were not performed or omitted fraudulently by such indemnified party.

- *Contingent Liabilities Upon Disposition of Investments.* In connection with the disposition of a portfolio company, a Fund may be required to make representations about such investment. A Fund also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which reserves or escrow accounts may be established. In that regard, investors in a Fund may be required to return amounts distributed to them to fund obligations of the Fund, including indemnity obligations, subject to certain limitations set forth in the governing documents.
- *Reserves.* As is customary in the industry, reserves will be established for follow-on investments by a Fund, operating expenses (including management fees), a Fund's liabilities, and other matters. Estimating the appropriate amount of such reserves is difficult, especially for follow-on investment opportunities, which are directly tied to the success and capital needs of investments. Inadequate or excessive reserves could impair the investment returns to a Fund's investors. If reserves are inadequate, a Fund may be unable to take advantage of attractive follow-on or other investment opportunities or to protect its existing investments from dilutive or other punitive terms associated with so-called "pay-to-play" or similar provisions. If reserves are excessive, a Fund may decline attractive investment opportunities.
- *In Kind Distributions.* The proceeds of certain Fund investments may be distributed in kind. Any such distribution could put downward pressure on the price of the issuer's securities. An investor in a Fund that receives assets other than cash from the Fund may incur costs and delays in converting those assets into cash.
- *Inside Information.* From time to time, Adviser or its affiliates may come into possession of material, non-public information concerning an entity in which a Fund has invested or proposes to invest, and the possession of such information may limit the ability of the Fund to buy or sell securities of such entity or to distribute such securities to the investors in the Fund.
- *Recourse to Fund Assets.* A Fund's assets, including any investment made by the Fund and any funds held by the Fund, are available to satisfy all liabilities and other obligations of the Fund. If a Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and such recourse may not be limited to any particular asset, such as the asset representing the investment giving rise to the liability.
- *Potential Additional Government or Market Regulation.* Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental scrutiny. The SEC, Congress, state legislatures, state securities administrators and governing bodies of non-U.S. jurisdictions could seek to impose greater regulation. It is impossible to predict what, if any, changes in regulation applicable to a Fund or Adviser, the markets in which they invest or the counterparties with which they do business may be instituted in the future. Any such regulation could

have a material adverse effect on the profit potential of a Fund, as well as require increased transparency as to the identity of its investors.

- *Limitations of Due Diligence.* Due diligence may not reveal all of an investment's liabilities and may not reveal other weaknesses in its business. There can be no assurance that due diligence processes will uncover all relevant facts that would be material to an investment decision. There may also be times Adviser or its affiliates must quickly make a decision to capitalize on an investment opportunity. Before making an investment in, or a loan to, a company, Adviser or its affiliates will generally assess the strength and skills of the company's management and other factors that it believes are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, Adviser or its affiliates will rely on the resources available to it and, in some cases, an investigation by third parties. This process is particularly important and highly subjective with respect to newly organized entities because there may be little or no information publicly available about the entities. A Fund may make investments in, or loans to, companies which are not subject to public company reporting requirements including requirements regarding preparation of financial statements and will, therefore, depend upon the compliance by investment companies with their contractual reporting obligations. The financial information appearing in the financial statements of such companies may not reflect their financial position or results of operations in the way that they would be reflected if the financial statements had been prepared in accordance with GAAP or other generally accepted accounting standards and practices. As a result, the evaluation of potential investments and the ability to perform due diligence on and effective monitoring of investments may be impeded and the returns which Adviser or its affiliates expects a Fund to achieve in respect of a particular investment may not be realized. In the event of fraud by any company in which a Fund invests or with respect to which a Fund makes a loan, the Fund may suffer a partial or total loss of the amounts invested in that company.
- *Uncertainty of Financial Projections.* Adviser or its affiliates will generally establish the capital structure of an investment on the basis of financial projections for such investment. Projections are inherently subject to uncertainty and factors beyond the control of Adviser or its affiliates and the investment. The inaccuracy of certain assumptions and general economic conditions, which are unpredictable, can have a materially adverse impact on the reliability of such projections. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from such projections.
- *Investment in Restructurings.* A Fund may make investments in restructurings that involve investments that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such investment to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a Fund to certain additional potential liabilities that may exceed the value of the Fund's original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a Fund and distributions by a Fund to its investors may

be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by local statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims.

Operational Issues

The success of the various investments made by a Fund is contingent on a number of factors including, but are not limited to, the following:

- *Operational Improvements.* A Fund may plan to reduce certain expenses and take advantage of cost savings and cash flow improvement opportunities. There is no assurance that such expense reduction, cost saving, or cash flow improvement efforts will be successful.
- *Dependence on Management.* A Fund will depend upon the services of certain key management personnel and individuals that will comprise each portfolio companies' management team. Loss of any key people could have a material adverse impact on the investments and the operation of the portfolio companies. There is no assurance that adequate replacements could be found.
- *Industry Factors.* A Fund's portfolio companies may compete in hypercompetitive industries which may have suffered from overcapacity for a number of years. There is no assurance that certain economic, technological, competitive, and other industry factors which may have adversely affected specific industries and each of the portfolio companies' operations will cease.
- *Fuel and Commodity Prices.* Prices of fuel and commodities have been extremely volatile with dramatic swings, which may cause customers and/or businesses to forgo the purchase of each portfolio companies' products. Additionally, an increase in the prices of fuel and commodities may cause each portfolio companies' costs to increase.
- *Credit Crunch, Interest Rates & Taxes.* The credit markets may have a significant and unprecedented effect on the purchasing patterns of customers and businesses. In addition, purchasing patterns and future investment may be highly influenced by shifts in interest rates, currencies and taxes. Interest rates, currencies and taxes may change dramatically in the future. This could cause further deterioration in each portfolio companies' revenue base and profitability.
- *Cyclicality.* The industries in which many of the prospective portfolio companies targeted by a Fund compete are generally highly cyclical and influenced greatly by economic conditions in the United States and elsewhere. Over the years, many targeted industries have had several booms and busts that would have a significant effect on each portfolio companies' liquidity and profitability.
- *Interim Financings.* From time to time, a Fund may lend or provide financial guarantees or similar instruments to the Fund's investments on a short-term, unsecured basis in

anticipation of a future issuance of equity or long-term debt securities or other refinancing. Such short-term loans would typically be converted into more permanent, long-term securities; however, for reasons not in a Fund's control, such long-term securities issuance or other refinancing may not occur, and such short-term loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by a Fund, and there is no guarantee that such loans will be repaid to the Fund.

ITEM 9 – DISCIPLINARY INFORMATION

There are no legal or disciplinary events required to be disclosed pursuant to this Item 9.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS

Each Fund was organized with the intent that it be advised by the manager of the Fund with services performed by Adviser. No manager of any Fund intends to cause the Fund to terminate its advisory relationship with Adviser absent Adviser's liquidation or bankruptcy. In addition, Fund investors generally are not permitted to withdraw from a Fund prior to its dissolution. Fund investors have no right to terminate the advisory relationship with Adviser.

The Fund and/or the manager of the Fund may from time to time enter into a side letter agreement with one or more investors in a Fund which may, among other terms, provide for (i) reduced management fees and/or carried interest distributions or (ii) greater or more frequent transparency with respect to the Fund.

In addition, neither Adviser nor its affiliates are obligated to allocate any specific amount of time or investment opportunities to a particular Fund. Adviser and its affiliates intend to devote as much time as they deem necessary for the conduct of each Fund's operation and portfolio management, and will allocate investment opportunities in accordance with Adviser's trade allocation policy described in Item 11 below.

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

Code of Ethics

In order to address conflicts of interest, Adviser has adopted a code of ethics (the "Code") which is applicable to all of Adviser's officers, stockholder, directors, and employees (collectively, "Employees"). Adviser's Code generally sets the standard of ethical and professional business conduct that Adviser requires of its Employees, requires Employees to comply with applicable federal securities laws and regulations, and sets forth provisions regarding personal securities transactions by Employees. In addition, the Code sets forth Adviser's policies and procedures with respect to material, non-public information and other confidential information, and the fiduciary obligations that Adviser and each of its Employees owes to each advisory client. The Code is circulated at least annually to all Employees, and each Employee at least annually must certify in writing that he or she has received and followed the Code and any amendments thereto. Adviser will provide a copy of the Code to any client or prospective client upon request.

Participation or Interest in Client Transactions

Adviser and certain employees, officers and affiliates of Adviser may invest in the Funds, either through their managers, as members or otherwise. A Fund may in its discretion reduce all or a portion of the management fee or carried interest distributions with respect to investments held by such persons.

Adviser or its related persons may engage in securities transactions with certain Fund investors or may recommend investments in portfolio companies in which Adviser or a related person has a beneficial or financial interest. Such transactions may include co-investment opportunities in portfolio companies which are offered to some but not all Fund investors and/or Adviser's advisory personnel or employees. In addition, Adviser may, from time to time at its discretion, suggest that investors in the Fund invest in a co-investment vehicle created by Adviser and/or the manager of the Fund. Adviser generally discloses known material conflicts of interest to Fund investors in the Offering Materials of the Fund. These materials are delivered to investors prior to their investment and such investors are generally given the opportunity to ask questions and seek answers regarding, among other things, potential conflicts involving Adviser, its affiliates, or the executive officers of the foregoing.

Personal Trading

Adviser recognizes that there is a risk that Employees will compete with the Funds or otherwise engage in personal securities transactions at the expense of a Fund's interest. In order to maintain a high code of ethics, Adviser's Code requires that all such transactions be carried out in a way that does not endanger the interest of any Fund. The Code establishes a quarterly securities transaction reporting system that is designed to monitor transactions in Employees' personal accounts and prevent any conflicts that may arise between Employees' personal securities transactions and transactions for the Funds. For purposes of the policy, an Employee's "personal account" generally includes any account (i) in the name of the Employee, his/her spouse, his/her minor children or other dependents residing in the same household; (ii) for which the Employee is a trustee or executor; or (iii) which the Employee controls, including Fund accounts which the Employee controls and in which the Employee or a member of his/her household has a direct or indirect beneficial interest.

Concurrent Trading Activity

Since participation in specific investment opportunities may be appropriate, at times, for more than one Fund, Adviser and its affiliates have established policies and procedures for allocating investment opportunities among the Funds, subject to any requirements of the governing documents of the Funds. Adviser or its affiliates will allocate such opportunities among the Funds on a basis that Adviser or its affiliates determines in good faith to be appropriate, taking into consideration certain factors that may include, but may not be limited to, the Fund's investment strategy, the sourcing of the investment opportunity, the relative amounts of capital available for investment (taking into account applicable reserves), the size of the investment opportunity, existing investments, the potential amount of follow-on investing that may be required for such investment or other portfolio investments and investment restrictions and guidelines.

Certain Funds may invest in different parts of the capital structure of the same portfolio company. For example, one Fund may invest in debt securities issued by a portfolio company in which another Fund has a controlling or other equity interest. The interests of the Funds may not always be aligned, which may give rise to actual or potential conflicts of interest, or the appearance of such conflicts of interest. Actions taken for a Fund may be adverse to another Fund.

Adviser or its affiliates may cause different Funds to invest at different times in a single portfolio company, for example, where a Fund that made an initial investment in a portfolio company does not, when an opportunity to make a follow-on investment in the company subsequently arises, have sufficient capital for such investment. Follow-on investments present conflicts of interest, including determination of the equity component and other terms of the new financing. Adviser and its affiliates expect to resolve all such conflicts using their reasonable judgment.

ITEM 12 – BROKERAGE PRACTICES

Execution Quality

While Adviser and its affiliates primarily make the Funds' initial investments directly with the issuers, there may be situations where it places trades through a broker, particularly if there has been a liquidity event. In such circumstances, Adviser or its affiliates will seek "best execution" in light of the circumstances involved in such transactions. In selecting a broker for any transactions, Adviser may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Adviser or its affiliates will not obligate themselves to obtain the lowest commission or best net price for a Fund on any particular transaction.

Adviser and its affiliates monitor transaction results as orders are executed to evaluate the quality of execution provided by the various brokers and dealers it uses, to determine that compensation rates are competitive and otherwise to evaluate the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above.

Research and Other Soft Dollar Benefits

While Adviser and its affiliates generally acquire securities in direct transactions with the issuers, Adviser and its affiliates may consider the value of various research services or products, beyond execution, that a broker-dealer provides. Any decisions involving soft dollars will be made in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. That is, Adviser or its affiliates will generally determine considering all appropriate factors that commissions and fees paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. Because many of those research products and services could benefit Adviser or its affiliates, they may have a conflict of interest in allocating brokerage business. In other words, Adviser or its affiliates could have an incentive to execute client transactions through a broker-dealer that provides valuable services or products and pay transaction commissions charged by that broker-dealer which may be higher than Adviser or its affiliates might otherwise be able to negotiate. Adviser and its affiliates could also have incentives to cause clients to

engage in more securities transactions than would otherwise be optimal in order to generate soft dollars with which to acquire research products and services. In some cases, the commissions charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge. In allocating brokerage business, Adviser or its affiliates may consider not only the particular transaction, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in Adviser's or its affiliates' performance of its overall responsibilities to all of their clients. During its last fiscal year, Adviser and its affiliates did not direct any client transactions to a particular broker-dealer in return for soft dollar benefits.

Directed Brokerage

Adviser and its affiliates do not recommend, request or require a client to direct Adviser to execute transactions through a specific broker-dealer.

Aggregation of Orders

As Adviser and its affiliates deal primarily with private securities purchased directly from the issuer, Adviser and its affiliates will generally not be able to aggregate securities transactions for Funds. However, where available and appropriate, Adviser or its affiliates may aggregate purchases or sales of any security effected for a Fund with purchases or sales of the same security effected on the same day for other Funds. When transactions are aggregated, the actual prices applicable to the aggregated transaction generally will be averaged, and all participating Funds will be deemed to have purchased or sold their respective shares of the security, instrument or obligation involved at such average price. Further, all transaction costs incurred in effecting the aggregated transaction generally will be shared on a *pro rata* basis among all participating Funds.

ITEM 13 – REVIEW OF ACCOUNTS

Account Review

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 managers of the Funds closely monitor the portfolio companies in which the Funds invest and generally maintain an ongoing oversight position in such companies (including representation on the board of directors, advisory board or equivalent governing body of such companies). Reviews occur on a periodic basis and are conducted by each manager's principals.

Client Reports

Adviser or one of its affiliates will provide written reports not less than quarterly and written annual audited reports to investors in those Funds that are audited. Adviser or its affiliates may at their sole discretion make the reports available in hardcopy or solely via electronic transmission or in electronic form on its website. Adviser or its affiliates, in their sole discretion, may provide more frequent reports and/or more detailed information to all or any of the investors in the Fund.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

Compensation By Non-Clients

As noted in response to Item 5, in addition to management fees, Adviser or its affiliates may be entitled to receive certain fees from actual or prospective portfolio investments of the Funds, including transaction and closing fees.

Compensation for Client Referrals

Neither Adviser nor its affiliates directly or indirectly compensates any person for client referrals.

ITEM 15 – CUSTODY

Adviser and its affiliates will not maintain physical possession of the funds or securities of the Funds. Custody of the assets of the Funds will be maintained with qualified custodians selected by Adviser or its affiliates in its sole discretion, which selection will change from time to time without the consent of investors in the Funds.

ITEM 16 – INVESTMENT DISCRETION

Subject to any investment restrictions set forth in the governing documents or Offering Materials of a Fund and the direction and control of the manager of the Fund, Adviser or its affiliates have discretionary authority to determine the securities that are to be bought or sold and the total amount of the securities to be bought or sold on behalf of a Fund. Adviser or its affiliates assume discretionary authority to manage the Funds through the execution of service agreements or through the governing documents of the Funds (e.g., limited partnership agreements or limited liability company agreements).

ITEM 17 – VOTING CLIENT SECURITIES

Adviser does not exercise voting authority with respect to any portfolio securities held by a Fund; instead, such voting authority is expected to be exercised by the manager of each Fund. In addition, Adviser does not take any action with respect to shareholder actions (including those relating to class actions, bankruptcy or reorganizations) that may be required or solicited with respect to portfolio securities held by a Fund; instead, such actions with respect to shareholder actions are expected to be taken by the manager of each Fund. The manager of each Fund is expected to vote proxies or similar corporate actions in the best interests of the applicable Fund, taking into account such factors as it deems relevant in its sole discretion.

ITEM 18 – FINANCIAL INFORMATION

This Item 18 is not applicable to Adviser.

ITEM 19 – REQUIREMENTS FOR STATE-REGISTERED ADVISERS

This Item 19 is not applicable to Adviser.