

# New Mountain Capital, L.L.C.

## Part 2A of Form ADV

### The Brochure

787 7th Avenue, 49<sup>th</sup> Floor  
New York, NY 10019  
<http://www.newmountaincapital.com>

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This brochure provides information about the qualifications and business practices of New Mountain Capital, L.L.C. (“NMC”). If you have any questions about the contents of this brochure, please contact us at 212-720-0300. 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 securities authority.

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

## 2. Material Changes

In February 2012, NMC filed its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), this is the first Brochure complied by NMC in accordance with the SEC’s new requirements and rules. In the future, this Item will discuss only specific material changes that have been made to the Brochure since the last annual update.

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## 4. Advisory Business

New Mountain Capital, L.L.C. (“NMC”), a Delaware limited liability company formed in 1999, or in the case of NMP I (defined below), its affiliate, New Mountain Capital I, L.L.C., a Delaware limited liability company formed in 2004 (the “Fund I Manager”), provide investment advisory services on a discretionary basis to several private equity funds: New Mountain Partners, L.P. (“NMP I”), New Mountain Partners II, L.P. (“NMP II”), and New Mountain Partners III, L.P. (“NMP III”), each of which is organized to invest in portfolio companies and other financial instruments (together with their parallel funds, each a “Fund,” and collectively, the “Funds”). New Mountain Investments, L.P. (“NMI I GP”), a Delaware limited liability company and an affiliate of NMC, serves as the general partner to NMP I. New Mountain Investments II, L.L.C. (“NMI II GP”), a Delaware limited liability company and an affiliate of NMC, serves as the general partner to NMP II. New Mountain Investments III, L.L.C. (“NMI III GP,” and together with NMI I GP and NMI II GP, the “PE GPs”), a Delaware limited liability company and an affiliate of NMC, serves as the general partner to NMP III.

The sole member of NMC is New Mountain Capital Group, L.L.C. (together with its affiliates, “New Mountain” or the “Firm”), whose sole member is Steven B. Klinsky. NMI I GP, NMI II GP and NMI III GP are owned by Steven B. Klinsky and other principals of the Firm.

In providing advisory services to the Funds, NMC manages the portfolio of companies and other investments belonging to the Funds, including the purchase and disposition thereof, in accordance with each Fund's investment objective and policies as stated in the Fund's offering documents and the investment and other restrictions set forth in the Fund's governing documents ("Governing Documents").

The Fund's portfolios include predominately direct private equity and equity-related investments, including investments in publicly traded companies, leveraged acquisitions, build-ups, recapitalizations, control restructurings, management buyouts, pre-public offering opportunities and growth equity transactions.

As of December 31, 2011, NMC managed \$6,682,291,430 of client assets on a discretionary basis.

## **5. Fees and Compensation**

Compensation received by New Mountain from the Funds is comprised of management fees, carried interest and other fees.

### *Management Fees*

The Fund I Manager's management fees for NMP I and NMC's management fees for NMP II were 2.0% of capital commitments during the investment period, and for NMP II, are currently 1.5% of actively invested capital. The investment and step-down periods for NMP I have terminated; therefore, there are no current management fees for NMP I. NMC's management fees for NMP III are 1.75% of capital commitments during the investment period and 1.0% of actively invested capital thereafter. One limited partner, based on size and amount of commitment, paid a management fee of 1.5% in NMP I (directly) and NMP II (though a parallel fund). Management fees for each Fund are generally charged semi-annually in advance from drawdowns of the limited partners' unfunded capital commitments or out of proceeds from the Funds' investments that would otherwise be distributable to such partners, and are debited from limited partners' capital accounts. The management fee for a Fund is reduced by the amount of excess organizational expenses paid by investors in the funds, as well as by other fees received by NMC (or the Fund I Manager) as described in "Other Fees and Expenses" below. NMC (or the Fund I Manager, as applicable) may waive all or a portion of the management fee.

### *Carried Interest*

As general partner of a Fund, the applicable PE GP is entitled to performance-based compensation in the form of carried interest. A detailed description of the carried interest calculation methodology applicable to a Fund can be found in the Fund's Governing Documents. Generally, carried interest is calculated based on a percentage of the profits generated from the Fund's investments and is subject to the satisfaction of a preferred return, the recoupment of allocated losses fees, if any, and expenses and other criteria set forth in the Governing Documents. The applicable PE GP may waive all or a portion of the carried interest.

Further, certain limited partners who have been instrumental on the organization of NMP I, may participate in the Fund on economic terms different than those of other limited partners. For example, in addition to its limited partner interest in NMP I, and in connection with its status as

the first investor in that Fund, CalPERS owns a small equity interest in NMI I GP through California Emerging Ventures, LLC (“CEV”). At the time of the arrangement, CalPERS had a 98.6% interest in CEV. Relevant disclosures can be found in the Fund’s Governing Documents.

### *Other Fees and Expenses*

In addition to the foregoing, investors in the Funds generally bear expenses relating to the Funds’ operations. These vary by Fund, but typically will include, among other things: the fees and expenses relating to consummated investments, proposed but unconsummated investments and temporary investments, insurance premiums, legal, custodial and accounting expenses, including expenses associated with the preparation of a Fund’s financial statements, tax returns and Schedule K-1s, auditing, banking and consulting expenses, appraisal expenses, expenses of a Fund’s Advisory Committee, extraordinary expenses, taxes and other governmental charges, indemnification expenses, reporting costs, and liquidation expenses.

Investors in the Funds generally also bear expenses (up to a specified cap) relating to formation and the organization of the applicable Fund and the offering and sale of the interests therein, including external legal and accounting expenses, printing costs, travel and certain out-of-pocket expenses incurred by NMC (or the Fund I Manager).

Pursuant to the Governing Documents of a Fund, New Mountain may receive directors’ fees, transaction fees, investment banking fees, break-up fees, advisory fees, monitoring fees or other similar fees. A percentage of these fees, net or related expenses, are applied to reduce the management fees payable by the applicable Fund. To the extent a Fund incurs placement fees for the use of a placement agent, management fees are also reduced on a dollar-for-dollar basis.

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

As discussed under Item 5 – “Fees and Compensation” – above, the PE GPs are entitled to performance-based compensation in the form of carried interest from the applicable Funds.

## **7. Types of Clients**

The only investment advisory service provided by NMC (or the Fund I Manager) is in the capacity of acting as the investment adviser to the Funds. Investment advice is provided directly to the Funds and not individually to each Fund’s investors. Each Fund’s investors are “accredited investors,” as that term is defined by Rule 501 of Regulation D under the Securities Act of 1933 (the “Securities Act”) and in the case of Funds that rely on Section 3(c)(7), “qualified purchasers” under Section 2(a)(51)(A) of the Investment Company Act of 1940 (the “Investment Company Act”).

Details concerning applicable investor suitability criteria are set forth in the applicable Fund’s offering documents and subscription materials. The offering documents of each Fund generally provide for a minimum investment amount (typically \$10 million), although such minimums may be waived.

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

The Funds advised by NMC have the objective of seeking long-term capital appreciation through acquiring, holding and disposing of direct private equity and equity-related investments. The

Funds invest (or have invested) primarily in North American companies. NMP I and NMP II typically targeted companies with an enterprise value of \$100 million to \$500 million, and NMP III typically targets companies with an enterprise value of \$100 million to \$1 billion. Generally, NMP I typically allocated \$100 million to \$500 million per transaction; NMP II typically allocated \$100 million to \$220 million per transaction; and NMP III currently allocates approximately \$100 million to \$500 million per transaction.

NMC's targeted investment strategy is based on four investment principles employed by the Firm since its inception:

- (i) A generalist approach, combined with proactive pursuit of high quality opportunities within carefully selected industries;
- (ii) An intense focus on investor "value-added" and the ability to build businesses after an investment is made;
- (iii) Emphasis on strong downside protection, strict risk controls and active board governance; and
- (iv) Continued insistence on strong risk adjusted returns, combined with timely, intelligent exits and competitive return performance.

Notwithstanding the above, NMC may pursue a wide variety of private equity investment strategies and may modify or depart from the investment strategy and investment process described above if it identifies private equity investment opportunities that it believes are sufficiently attractive for the Funds.

Investing in the Funds involves material risks, including the risk of loss. The following is a list of certain material risks that are generally applicable to investments in the Funds. However, investors should also review the offering documents of the applicable Fund to understand the risks and potential conflicts of interest associated with an investment in such Fund.

#### **No Assurance of Investment Return**

There can be no assurance that any Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of investments in which such Fund participates. An investment in a Fund should only be considered by persons who can afford a loss of their entire investment. There can be no assurance that projected or targeted returns for any Fund will be achieved. **Past performance of investment entities associated with NMC and/or its affiliates is not necessarily indicative of future results. There can be no assurance that projected or targeted returns for a Fund will be achieved.**

#### **General Economic and Market Conditions**

The success of a Fund's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls, and national and international political circumstances. These factors may affect the level and volatility of financial instruments' prices and the liquidity of such Fund's investments. A Fund's financial condition and profitability may be adversely affected by a significant general economic downturn.

## **Portfolio Company Management**

Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although New Mountain will be responsible for monitoring the performance of each portfolio investment and generally intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to successfully operate the portfolio company in accordance with the Fund's plans.

## **Operating and Financial Risks of Portfolio Companies**

Companies in which a Fund invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn. As a result, companies which a Fund expected to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress. In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of a Fund to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that a Fund will be able to successfully identify and implement such restructuring programs and improvements.

## **Use of Leverage**

While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. A Fund's portfolio investments may involve varying degrees of leverage, as a result of which recessions, operating problems and other general business and economic risks may have a more pronounced effect on the profitability or survival of such companies. Moreover, any rise in interest rates may significantly increase portfolio company interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, a Fund may suffer a partial or total loss of capital invested in the portfolio company. Although there is currently ample availability of financing for leveraged transactions by historical standards, a decrease in the availability of financing (or an increase in the interest cost) for leveraged transactions (e.g., due to adverse changes in economic or financial market conditions or a decreased appetite for risk by lenders) would impair a Fund's ability to consummate these transactions.

## **Unspecified Investments**

A Fund may begin operations following closing, and may not have identified any particular portfolio investment. An investor must rely upon the ability of NMC to identify, structure and implement portfolio investments consistent with a Fund's investment objectives and policies. A Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. The success of a Fund will depend on the ability of NMC to identify suitable portfolio investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of portfolio investments.

## **Risk of Limited Number of Investments; Dependence on Performance of Certain Investments**

A Fund may participate in a limited number of portfolio investments and, as a consequence, the aggregate return of a Fund may be substantially adversely affected by the unfavorable

performance of any single portfolio investment. Moreover, since all of a Fund's portfolio investments cannot reasonably be expected to perform well or even return capital, for a Fund to achieve above-average returns it is likely that one or a few of its portfolio investments must perform well. There can be no assurance that this will be the case. In addition, other than as set forth in a Fund's Governing Documents, investors have no assurance as to the degree of diversification of a Fund's portfolio investments, either by geographic region, industry or transaction type. To the extent a Fund concentrates portfolio investments in a particular issuer, industry, security or geographic region, its portfolio investments will become more susceptible to fluctuations in value resulting from adverse economic and business conditions with respect thereto.

### **Financial Market Fluctuations**

General fluctuations in the market prices of securities may affect the value of the portfolio investments held by a Fund. Instability in the securities markets may also increase the risks inherent in a Fund's portfolio investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.

### **Illiquid and Long-Term Investments**

It is likely that no significant return from the disposition of a Fund's portfolio investments will occur until three and possibly ten or more years from the date of closing of such Fund. Often, there will be no readily available market for portfolio investments made by a Fund. In most cases, there will be no public market for the securities held by a Fund at the time of their acquisition. A Fund will generally not be able to sell the securities of portfolio companies publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. To the extent that there is no trading market for a portfolio investment, a Fund may be unable to liquidate that portfolio investment or may be unable to do so at a profit. Moreover, there can be no assurances that private purchasers of a Fund's portfolio investments will be found.

### **Hedging Policies/Risks**

A Fund may employ hedging techniques in connection with the acquisition, holding, or disposition of portfolio investments. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while a Fund may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, currency exchange rates and other factors may result in a poorer overall performance for a Fund than if it had not entered into such hedging transactions.

### **Role of Private Equity Professionals**

The success of a Fund depends in large part upon the skill and expertise of NMC private equity and other professionals. The interests of these professionals in the PE GPs should tend to discourage them from withdrawing from participation in a Fund's investment activities. However, there can be no assurance that any such professional will continue to be associated with the applicable PE GP throughout the life of such Fund. The loss of Mr. Klinsky's services may adversely affect the ability of a Fund to pursue successfully its investment program.

## **Uncertainty of Financial Projections**

The applicable PE GP generally establishes the pricing of transactions and the capital structure of portfolio companies on the basis of financial projections for such portfolio companies and are normally based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

## **Material, Non-Public Information**

By reason of their responsibilities in connection with their other activities, certain NMC personnel (or employees and affiliates thereof) may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. In those instances, the Funds are not free to act upon any such information. Due to these restrictions, a Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a portfolio investment that it otherwise might have sold.

## **Public Company Holdings**

A Fund's investment portfolio may contain securities issued by publicly held companies in privately negotiated transactions. Such portfolio investments may subject a Fund to risks that differ in type or degree from those involved with portfolio investments in privately held companies, including without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such investments and companies, limitations on the ability of a Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members and controlling parties and increased costs associated with each of the aforementioned risks.

## **Potential Conflicts of Interest**

Investors should be aware that there will be occasions when NMC and its affiliates may encounter potential conflicts of interest in connection with the Funds, including with respect to other investment vehicles and relationships and allocations of investment opportunities, allocation of personnel, diverse investor group, conflicts of interest related to carried interest and being in possession of material non-public information which may restrict the ability of NMC to enter into certain transactions. Investors should review the offering documents of the applicable Fund, as well as the disclosures contained herein, to understand the potential conflicts of interest associated with an investment in such Fund.

## **9. Disciplinary Information**

NMC and its management persons have not been involved in any legal or disciplinary events that would be material to a client's or prospective client's evaluation of NMC's advisory business or the integrity of its management.

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

### Relying Advisers



As described in Item 4 – “Advisory Business” above, the PE GPs serve as the general partners to each of the Funds, respectively. In addition, the Fund I Manager serves as an investment adviser to NMP I.

NMC, the Fund I Manager and the PE GPs are together filing a single Form ADV in reliance on the response of the Office of Investment Adviser Regulation Division of Investment Management dated January 18, 2012 to the Subcommittee on Hedge Funds of the Federal Regulation of Securities Committee of the Business Law Section of the American Bar Association.

#### Affiliated Advisers

New Mountain Vantage Advisers, L.L.C. and New Mountain Finance Advisers BDC, L.L.C. (the “Affiliated Advisers”) are advisory affiliates of NMC, and serve as the respective managers to public equity funds and a publicly traded business development company. Each of the Affiliated Advisers is separately registered under the Advisers Act. Although the investment strategies of the Funds managed by NMC are different from the strategies of the vehicles managed by the Affiliated Advisers, NMC expects to rely heavily on the extensive expertise and industry relationships developed by the employees of the Affiliated Advisers to identify and evaluate potential investment opportunities for the Funds.

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

#### Code of Ethics/Personal Trading

NMC has adopted a formal code of ethics and insider trading policies and procedures (the “Code”) to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Investment Advisers Act of 1940, as amended, (“Rule 204A-1”). For purposes of Rule 204A-1, all New Mountain employees are designated as “access persons” (“Access Persons”). Based on relevant risk-based assessments, NMC also designates certain non-employee consultants, including New Mountain Senior Advisors<sup>1</sup>, as Access Persons for purposes of Rule 204A-1. Although certain New Mountain Senior Advisors provide direct consulting services to the Funds, these individuals do not exercise investment discretion over the Funds, nor are they responsible for any of the ultimate investment decisions made in the portfolio.

Rule 204A-1 requires NMC to adopt a code of ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of NMC’s Access Persons. Procedures have been adopted to ensure compliance with the provisions of the Code, including pre-approval of personal securities transactions and a 60-day holding requirement for all positions requiring pre-approval, annual affirmations of compliance and regular reviews of holdings and transactions. NMC and its Access Persons are generally not permitted to trade in securities maintained on the

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<sup>1</sup> Generally, New Mountain Senior Advisors are not employees of New Mountain or its advisory affiliates. Rather, they are consultants that provide general market or industry expertise on specific projects or transactions. Similar to New Mountain employees, New Mountain Senior Advisors may hold senior management or operating positions at portfolio companies advised by one or more of NMC’s affiliated advisers, and may, in connection with activities unrelated to New Mountain, also serve as directors of both affiliated and non-affiliated public companies with the notification or approval of the Chief Compliance Officer (see footnote 2 for additional details).

firm's restricted list or under active consideration for the Funds, except in some very limited circumstances that require pre-approval by the Chief Compliance Officer (or Compliance Representative). NMC has retained Compliance Science, a third-party technology vendor, to assist the Chief Compliance Officer (or Compliance Representative) in the periodic review of all Access Persons' brokerage statements and other related investment reports.

Further, the principals of NMC, its employees and New Mountain Senior Advisors may sit on boards of public companies, including those in which the Funds are invested. Board service is subject to the approval of NMC and the Chief Compliance Officer (or Compliance Representative) will alert of any conflicts.<sup>2</sup> In these instances, non-board Access Persons are restricted from trading in those portfolio companies while the principal, any NMC employee and/or any New Mountain Senior Advisor remains on the board. Such public companies will generally remain on the firm's restricted list for thirty (30) days following the date of termination of the board seat.

Similarly in these instances, the public fund advised by New Mountain Vantage Advisers, L.L.C., one of NMC's affiliated advisers, is generally restricted from trading in those portfolio companies, except during open window periods prescribed by the issuer. The business development company advised by New Mountain Finance Advisers BDC, L.L.C., one of NMC's affiliated advisers, is restricted at all times. Exceptions to this policy may be granted by the Chief Compliance Officer (or Compliance Representative), who will document such exceptions appropriately.

NMC Access Persons receive new hire training on the Code, and all Access Persons are required to attend a mandatory annual training on the Code. A copy of NMC's Code will be provided to any investor or prospective investor upon request.

### Participation or Interest in Client Transactions

#### *Principal Transactions*

At times, NMC may invest Fund assets in investment vehicles in which its principals, employees or Senior Advisors may have a business relationship or may have an investment position, which could be viewed as giving rise to a conflict of interest. However, the Governing Documents of the Funds generally provide that a Fund may not invest in the securities of any company in which an affiliate of NMC holds a pre-existing investment, unless the Advisory Committee or a majority in interest of the Combined Limited Partners of the applicable Fund consents. In addition, as a general matter, no Fund may engage in transactions with affiliates, except for those transactions provided for in the Governing Documents or approved by the Advisory Committee or a majority in interest of the Combined Limited Partners of the applicable Fund.

#### *Financial Interests in Fund Transactions*

As described in Item 5 – “Fees and Compensation,” in addition to management fees and carried interest, NMC and its affiliates may receive directors' fees, transaction fees, investment banking fees, break-up fees, advisory fees, monitoring fees or other similar fees with respect to advisory

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<sup>2</sup> All Employees must pre-clear all outside corporate board memberships with the Chief Compliance Officer. New Mountain Senior Advisors are required to notify the Chief Compliance Officer of all corporate board memberships upon engaging with New Mountain, and prior to accepting such membership if already engaged by New Mountain.

and related services provided in connection with investments by the Funds.

NMC may have a conflict of interest to the extent that it has an opportunity to earn a fee from an acquisition or disposition by a Fund. However, NMC believes that the management fee offset provisions described in Item 5 and the substantial equity commitment by NMC and its affiliates to the Funds substantially mitigates this incentive.

### *Allocation of Investments*

When allocating investment opportunities across Funds, there could be differences in the financial structure of the Funds potentially participating in the opportunity that could introduce an incentive for NMC to favor one Fund over another. However, allocation of investments among parallel and successor Funds are subject to allocation procedures set forth in the Governing Documents of the applicable Funds. In addition, NMC generally does not introduce successor Funds until it meets the requirements set forth in the respective Governing Documents.

In addition to NMC's obligation to invest in investments made by the Funds, the Governing Documents of a Fund may permit NMC to elect to invest an additional amount in investments made by such Fund through an employee co-investment vehicle.

## **12. Brokerage Practices**

The Funds typically invest in private securities and do not ordinarily transact with financial intermediaries such as broker-dealers. To the extent a Fund were to transact in public securities, NMC has authority to determine, without first obtaining specific client consent, the type and amount of securities to be bought or sold, the broker or dealer used and the commission rates paid. In making its decisions regarding the allocation of brokerage transactions, NMC would seek to obtain the best execution, taking into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness and frequency of available research services considered to be of value to NMC and its clients; (v) the value of brokerage services over and above trade execution provided to NMC and its clients; (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying NMC's other selection criteria; and (vii) any other factors NMC considers to be in the best interest of the Funds. Although NMC generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Among other reasons, transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

Additionally, NMC may receive an economic benefit by having fees waived or by not being charged for utilizing specialized services, which may include investment adviser electronic information downloads, access to specialized institutional brokerage trading and customer service teams, and/or specialized batched statements. NMC believes that by utilizing these services, NMC is able to more efficiently manage the Funds and execute its fiduciary duties in connection therewith.

### *Research and Other Soft Dollar Benefits*

NMC has no “soft dollars” arrangement with any broker-dealer at present. In the event that NMC does enter into a “soft dollars” arrangement, the following policy will apply to NMC’s “soft dollars” practices:

As discussed above, in selecting a broker for any transaction or series of transactions, NMC may consider a number of factors. Where best execution may be obtained from more than one broker, NMC may purchase and sell securities through brokers that provide research, statistical and other information, although not all Funds may in every instance be the direct beneficiaries of the research services provided. Research furnished by brokers may include, but is not limited to, information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts.

### *Broker Selection*

In selecting a broker, NMC makes a good faith determination that the amount of such transaction fee charges is reasonable in comparison to the value of the research services provided and that such research benefits (either alone or together with other investment vehicles managed by NMC and its affiliates) the Fund for which securities transactions are placed. NMC’s acceptance of research from brokers is done in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

## **13. Review of Accounts**

Portfolio companies under NMC’s management are monitored on a regular basis by each of the portfolio management deal teams, which are led by one or more NMC Managing Directors and Directors, and are also subject to review by NMC’s entire professional staff during NMC staff meetings that are generally held on a weekly basis. Additionally, certain documents and records relating to the limited partner accounts (i.e. financial, accounting, etc.) are prepared, maintained and reviewed in more detail by the Chief Financial Officer, Controller and Accounting Team, as appropriate. The Chief Compliance Officer (or Compliance Representative) also performs a variety of periodic account reviews as part of the overall Advisers Act Rule 206(4)-7 annual compliance review.

NMC does not provide reports to the Funds. Rather, the Funds to which NMC provides investment advice furnish each investor in such Funds with a quarterly report and annual audited financial statements through Intralinks. (see Item 15-Custody section below).

## **14. Client Referrals and Other Compensation**

NMC does not receive any economic benefit (including commissions, equipment or non-research services) from a non-client for providing investment advice or other advisory services to the client Funds.

NMC has paid placement agent fees to third parties for referring prospective investors to it, and may continue to do so in the future, in accordance with applicable state and local laws, and SEC rules and regulations. In those instances, any placement fees paid by NMC to third parties were offset against the asset-based management fee with respect to such Fund as discussed under Item 5 – “Fees and Compensation” above.

Similarly, NMC and its affiliates do not currently pay cash fees, directly or indirectly, to third party solicitors for referring prospective investors, but reserve the right to do so in the future, in accordance with Rule 206(4)-3 of the Advisers Act.

## **15. Custody**

All Fund assets outside of the actual portfolio company are held in custody by unaffiliated broker-dealers or banks (i.e., JP Morgan Private Bank), however NMC has access to client accounts since it or an affiliate serves as the investment manager or general partner of each Fund. Investors will not receive statements from the custodian. Instead, the Funds are subject to an independent annual audit. The audited financial statements are prepared by NMC, reviewed by an independent auditor (Deloitte & Touche LLP) in accordance with generally accepted accounting principles, are audited in accordance with generally accepted auditing standards and are generally distributed within 90 days of the applicable Fund’s fiscal year end, pursuant to such Fund’s Governing Documents.

## **16. Investment Discretion**

The applicable PE GP has discretionary investment authority for a Fund. Generally, this discretion is subject only to the investment guidelines set forth in the Governing Documents of the applicable Fund.

## **17. Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, NMC is charged with identifying the proxies upon which NMC will vote, voting the proxies in the best interest of clients, and submitting the proxies promptly and properly. All proxies that NMC receives will be treated in accordance with these policies and procedures.

NMC’s policy is to vote client proxies in what it determines to be in the interest of maximizing investor value. To that end, NMC will vote in a way that it believes is consistent with its fiduciary duty, and in a way that NMC believes will cause the issue to increase the most or decline the least in value as a result of the vote. Consideration will be given to both the short-term and long-term implications of the proposal to be voted on when considering the optimal vote. In practice, NMC’s procedures provide for a proxy voting committee (the “Proxy Committee”) to convene and to determine the appropriate vote for each proxy. Decisions of the Proxy Committee must be unanimous. If a unanimous decision cannot be reached by the Proxy Committee, a competent third party will be engaged, at NMC’s expense, who will determine the vote that will maximize shareholder value. As an added protection, the third party’s decision is binding.

NMC has identified one potential conflict of interest between its client interests and its own arising from its proxy voting process. From time to time, NMC may be in a position where it

must vote to approve certain directors' participation on the boards of public companies in which the Funds invest. Since New Mountain's employees and Senior Advisors are permitted to participate on public company boards (upon notification to, or approval by, the Chief Compliance Officer, as applicable) there may be situations where NMC is required to vote in favor of, or against, a public company director that is also compensated as an employee or New Mountain Senior Advisor.

A copy of NMC's proxy voting policies and procedures is memorialized in writing and are available for review upon request. Information on how NMC voted proxies is also available upon request.

## **18. Financial Information**

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