

FORM ADV – PART 2A

FALCON INVESTMENT ADVISORS, LLC

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March 24, 2016

This brochure provides information about the qualifications and business practices of Falcon Investment Advisors, LLC (“Falcon”). If you have any questions about the contents of this brochure, please contact us at 617-412-2700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Falcon is available on the SEC’s website at www.adviserinfo.sec.gov.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT FALCON OR ANY OF THE PRINCIPALS OR EMPLOYEES OF FALCON POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Material Changes

This Brochure, dated as of March 24, 2016, has been prepared in connection with Falcon's registration with the SEC as an investment adviser. In the future, this Item will set forth a brief summary of any material changes to our disclosure since our last annual update.

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Advisory Business

Falcon Investment Advisors, LLC (“Falcon”) is a Delaware limited liability company formed on June 1, 2000. The principal owners of Falcon are Sandeep D. Alva and William J. Kennedy, Jr.

Falcon provides the services described below to its advisory clients, which are private investment funds (collectively, the “Falcon Funds”). A related person of Falcon generally acts as general partner or manager of each Falcon Fund, and Falcon generally acts as investment advisor to each Falcon Fund. References to Falcon in this brochure include, as the context requires, affiliates through which Falcon provides investment advisory services or that act in any capacity referenced in the previous sentence.

Falcon’s investment advisory business is principally focused on privately placed mezzanine investments consisting primarily of subordinated debt together with equity features such as convertible debt, preferred stock, common stock, warrants or other equity participation rights of companies in a variety of industries, locations, stages and styles. The combined debt and equity investments will often result in a Falcon Fund having board representation and providing significant input into major financial and business decisions of the companies in which it invests. The Falcon Funds primarily seek to achieve a high current return with the potential for longer-term capital appreciation. The Falcon Funds generally invest in privately held portfolio companies, but may also make investments from time to time in companies whose securities are publicly traded.

Falcon tailors its advisory services to the general investment objectives of each Falcon Fund described in such Falcon Fund’s confidential private placement memorandum (its “Offering Memorandum”), subject to specific investment guidelines and restrictions set forth in the limited partnership agreement or other similar governing documents of such Falcon Fund (its “Fund Agreement”). The Falcon Funds generally enter into a management agreement or advisory agreement with Falcon setting forth the management or advisory fees payable by such Falcon Fund to Falcon (its “Advisory Agreement”). Investors and prospective investors of each Falcon Fund should refer to the Fund Agreement of the applicable Falcon Fund for complete information on the investment objectives and investment restrictions with respect to such Falcon Fund. There is no assurance that any of the Falcon Funds’ investment objectives will be achieved.

The interests in the Falcon Funds are beneficially owned by a limited number of investors or solely by “qualified purchasers” as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (as amended, the “Investment Company Act”), and therefore the Falcon Funds are not required to register as investment companies under the Investment Company Act in reliance upon certain exemptions available to private investment funds whose securities are not publicly offered.

In accordance with common industry practice, one or more of the Falcon Funds or their general partners may enter into “side letters” or similar agreements with certain investors pursuant to which the general partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally. Such agreements will be

disclosed only to those actual or potential investors in a Falcon Fund that have separately negotiated with the general partner of such Falcon Fund for the right to review such agreements.

Falcon does not participate in any wrap fee programs.

Falcon manages all assets of the Falcon Funds on a discretionary basis in accordance with the terms and conditions of each Falcon Fund's Fund Agreement. As of December 31, 2015, the amount of assets Falcon manages on a discretionary basis is approximately \$2,624,035,883.

Fees and Compensation

Fee Schedules

Investors should review the Advisory Agreement of the relevant Falcon Fund in conjunction with this brochure for complete information on the fees and compensation payable with respect to a particular Falcon Fund. Prospective investors in a new Falcon Fund should review the Offering Memorandum for such Falcon Fund for proposed fee and compensation information; however the actual fees and compensation will be as set forth in the Fund Agreement and Advisory Agreement. All Falcon Funds are "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act, and therefore Falcon is not required to include fee and compensation information in this brochure.

Negotiable Fees

The advisory fees payable with respect to each Falcon Fund are established through negotiations between Falcon, each respective Falcon Fund and the investors therein.

Investors and prospective investors in the Falcon Funds should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

Deduction of Fees

As general partner or manager of the Falcon Funds, related persons of Falcon are authorized to charge and deduct advisory fees directly from the assets of the Falcon Funds.

Other Fees and Expenses

In addition to the advisory fees payable to Falcon, each Falcon Fund will incur certain charges imposed by third parties, including, but not limited to: fees, costs and expenses of any custodians, attorneys, accountants, auditors, valuation experts or other professionals (including costs and expenses for tax and audit services to the Falcon Fund); out-of-pocket costs and expenses, if any, incurred in developing, negotiating, structuring, monitoring, or, to the extent applicable, disposing of, portfolio investments of the Falcon Fund, including without limitation any financing, legal, accounting, advisory, consulting

or other professional expenses in connection therewith and expenses incurred in connection with attending meetings of portfolio companies or with representatives thereof; the costs and expenses (including travel-related expenses) of holding meetings or conferences with the Falcon Fund's investors; out-of-pocket costs and expenses, if any, incurred by or on behalf of the Falcon Fund in developing, negotiating and structuring prospective or potential portfolio investments which are not ultimately made, including without limitation any legal, accounting, advisory, financing and consulting costs and expenses in connection therewith (to the extent not otherwise reimbursed); brokerage commissions, registration fees and expenses, custodial expenses, other bank service fees and other investment costs, fees and expenses actually incurred in connection with actual portfolio investments; interest on and fees and expenses arising out of all borrowings made by the Falcon Fund, including, but not limited to, the arranging thereof; the costs of any litigation, liability or other insurance and indemnification or extraordinary expenses or liabilities relating to the affairs of the Falcon Fund; the costs of liquidating the Falcon Fund's assets at the end of its term; certain expenses incurred by the Falcon Fund's advisory board members (if any); expenses of AIVs or Falcon Feeder Funds (as defined below); and any taxes, fees or other governmental charges levied against the Falcon Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Falcon Fund.

The section below titled "Brokerage Practices" describes the factors Falcon considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

Timing of Payments

Payment of advisory fees is generally made quarterly in advance and in accordance with negotiated terms between Falcon, each respective Falcon Fund and the investors therein. Please refer to the Advisory Agreements of the relevant Falcon Funds for complete information on the timing of advisory fee payments.

Falcon's services may be terminated by any of the Falcon Funds at any time by prior written notice to Falcon delivered within a reasonable period of time prior to such termination. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Transaction-Based Compensation

Neither Falcon nor its supervised persons will receive any compensation with respect to the purchase or sale of securities or other investment products by any of the Falcon Funds.

Performance-Based Fees and Side-by-Side Management

Performance-Based Fees

A related person of Falcon, as general partner of a Falcon Fund, will typically be entitled to receive a disproportionate share of net income (including interest payments from

portfolio companies) and realized capital gains from the investments of such Falcon Fund relative to its respective capital contribution.

The entitlement to disproportionate distributions described above complies with Rule 205-3 under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Any distribution to a general partner of a Falcon Fund is separate and distinct from the advisory fees charged by Falcon to such Falcon Fund for advisory services.

The entitlement to receive disproportionate distributions may create an incentive for related persons of Falcon to select investments that may be riskier or more speculative than those that would be selected under a different compensation arrangement. Prospective investors in a new Falcon Fund should review the Offering Memorandum for such Falcon Fund for proposed “performance-based fee” information; however the actual fees and compensation will be as set forth in the Fund Agreement and Advisory Agreement.

Side-by-Side Management

Not applicable. All of the Falcon Funds pay a performance fee to a related person of Falcon. Falcon may establish co-investment or other vehicles for which no performance compensation is charged.

Types of Clients

Types of Clients

Falcon provides advice to pooled investment vehicles, including the Falcon Funds. The limited partners of the Falcon Funds may include pension plans, endowments, foundations and trusts, estates or family offices of high net worth individuals. The interests in the Falcon Funds are beneficially owned by a limited number of investors or exclusively by “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act, and therefore the Falcon Funds are not required to register as investment companies under the Investment Company Act in reliance upon certain exemptions available to private investment funds whose securities are not publicly offered.

Falcon or its related persons may form alternative investment vehicles or special purpose vehicles (collectively, “AIVs”) formed for the purpose of facilitating certain investments by one or more Falcon Funds and/or such Falcon Funds’ investors without any additional fees or compensation charges. Please refer to the Fund Agreement of the relevant Falcon Fund for complete details on any Falcon Fund’s ability to utilize AIVs. In addition, Falcon or its related persons may establish Falcon Funds to address certain tax, legal or regulatory requirements (“Feeder Falcon Funds”). Each Feeder Falcon Fund, if formed, would be a limited partner of a Falcon Fund and interests in such Feeder Falcon Fund would be held by the investors who elect to participate in the Falcon Fund through such Feeder Falcon Fund. Please refer to the Fund Agreement of the relevant Feeder Falcon Fund for complete details on any Feeder Falcon Fund established by Falcon.

Minimum Investment Requirements

Falcon and its related persons generally require that each limited partner in each of the Falcon Funds be an “accredited investor” as defined in Regulation D under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or a non-“U.S. Person” as defined in Regulation S under the Securities Act. In addition, Falcon and its related persons generally require that each limited partner in each of the Falcon Funds be a “qualified purchaser” as defined in Section 2(a)(51) of the Investment Company Act.

In general, the minimum investment commitment required of an institutional limited partner to participate in a Falcon Fund is \$5,000,000; however, the general partner of each Falcon Fund has discretion to increase or reduce the minimum investment commitment.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Investments, and potential investments, are analyzed by Falcon based upon (i) the business strategy and focus of the portfolio company, (ii) demonstrated historical financial metrics, (iii) collateral that may be available and (iv) the relevant experience of the portfolio company’s officers and directors.

Falcon’s principal sources of information include referrals from investment banks or other financial advisors, private offering memoranda received by Falcon, quarterly and annual reports of target investments, personal interviews with directors and officers of such entities, visits to the offices and facilities of such entities, SEC filings (if available) and general industry knowledge.

As noted above, Falcon’s primary investment strategy is to seek to achieve a high current return with the potential for longer-term capital appreciation through privately placed mezzanine investments consisting primarily of subordinated debt together with equity features such convertible debt, preferred stock, common stock, warrants or other equity participation rights, of companies in a variety of industries, locations and stages.

Material Risks

The task of identifying investment opportunities and managing such investments is difficult. There can be no assurance that Falcon will be able to choose, and the Falcon Funds will be able to make and/or realize any particular investment or that the Falcon Funds will be able to generate returns for their investors. In addition, there can be no assurance that any investor will receive any distribution from a Falcon Fund. Investing in the Falcon Funds involves a risk of loss that investors should be prepared to bear. Investors in the Falcon Funds should carefully consider, among other factors, the following material risks involved with Falcon’s investment strategies. Please refer to the Offering Memorandum of the relevant Falcon Fund for more complete information on

investment strategies employed by the Falcon Fund and the corresponding risks associated with such investment strategies.

No Assurance of Investment Return. There can be no assurance that a Falcon Fund will be able to successfully make, manage and realize a return on any or all of its investments. There is also no assurance that a Falcon Fund will be able to invest its capital on attractive terms, or that it will generate returns for its investors. Investors may lose all or a portion of the capital they contribute to a Falcon Fund. A Falcon Fund may not achieve returns comparable to those achieved by other Falcon Funds and the returns achieved by a Falcon Fund will be subject to an advisory fee and performance-based fees.

Reliance on Principals. The success of a Falcon Fund will be dependent upon the efforts, experience, contacts and skills of the Falcon senior investment team. The loss of any such individual could have a material, adverse effect on a Falcon Fund, and such loss could occur at any time due to death, disability, resignation or other reasons. Moreover, except as specifically provided in the Fund Agreement of a Falcon Fund, the investment team will not be required to devote their time and attention exclusively to a Falcon Fund. Investment decisions for a Falcon Fund are made solely by its general partner or manager and the investors in a Falcon Fund will not be permitted to evaluate investment opportunities or relevant business, economic, financial or other information that will be used by the general partner of such Falcon Fund in making decisions.

Passive Investment. Investors in a Falcon Fund will not have the power to take part in the management of such Falcon Fund. Accordingly, the investors in a Falcon Fund must rely on the general partner or manager of such Falcon Fund to manage and conduct the affairs of such Falcon Fund. Investors in a Falcon Fund will be dependent upon the judgment and ability of the general partner or manager of such Falcon Fund in investing and managing the capital of such Falcon Fund.

Competitive Market for Investment Opportunities. The Falcon Funds compete with a number of other sources of capital for their investments. As a result, there may be relatively few attractively priced investment opportunities at certain times during the investment period of a Falcon Fund, which could have an adverse impact on the length of time that is required for a Falcon Fund to become fully invested.

Lack of Liquidity of Interests in the Falcon Funds. Interests in the Falcon Funds will not be registered under the Securities Act or any other securities laws, and interests in the Falcon Funds will not be transferable without the consent of the general partner or manager of such Falcon Fund, which (subject to limited exceptions) may be granted or withheld in its sole and absolute discretion. There is no organized trading market for such interests and no such market is expected to develop. Interests in the Falcon Funds are not redeemable, and withdrawals of capital will not be permitted, except in limited circumstances to comply with certain laws or regulations. Consequently, investors in a Falcon Fund will not be able to liquidate their investments prior to the liquidation of such Falcon Fund following the end of its term.

Possible Lack of Business Diversification. The companies in which the Falcon Funds invest are expected to be mostly companies in the lower middle market which often rely upon concentrated business strategies, products or services for their economic viability. A Falcon Fund's investment performance may be adversely affected by the failure of any or all of these potentially concentrated business strategies, products or services.

Possible Lack of Portfolio Diversification. The general partner or manager of each Falcon Fund will endeavor to build and manage a diversified portfolio of investments with representation in various industries and economic sectors, geographic regions, including non-U.S. markets, and deal types which may include growth financings, recapitalizations and buyouts. Despite the foregoing objectives, the portfolio may be concentrated in certain industries and/or economic sectors, geographic regions and/or deal types. The portfolio also may be more concentrated than other funds with similar diversification objectives.

Risks of Certain Investments. A Falcon Fund may acquire securities of companies formed for specific transactions (such as holding companies) or of companies that are highly leveraged, with significant burdens on cash flow resulting from debt service. Such companies' securities and the ability of such companies to pay their debts could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, changes in tax law or specific developments within such companies.

In connection with the disposition of an equity investment in a portfolio company, a Falcon Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business or may be responsible for the contents of disclosure documents under applicable securities laws. It may also be required to indemnify the purchasers of such investment to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in the incurrence of contingent liabilities, which might ultimately have to be funded by investors in a Falcon Fund to the extent of their unpaid capital commitments to such Falcon Fund or through the return by investors of certain prior distributions.

Economic and Market Risk. General economic conditions may affect a Falcon Fund's activities. Interest rates, the availability of financing, the price of securities and participation by other investors in the financial markets may adversely affect the value and number of investments made or considered for prospective investment by a Falcon Fund.

Changes in Environment. The investment program of each Falcon Fund is intended to extend over a period of years, during which the business, economic, political, regulatory, and technology environment within which a Falcon Fund operates may undergo substantial changes, some of which may be adverse to such Falcon Fund. The general partner or manager of a Falcon Fund will have the exclusive right and authority (within limitations set forth in the Fund Agreement of such Falcon Fund) to determine the manner in which a Falcon Fund responds to such changes, and investors in a Falcon Fund will have no right to withdraw or to demand specific modifications to a Falcon Fund's operations except in exceptional circumstances. Investment sourcing, selection, management and liquidation strategies and procedures exercised by the Falcon investment team may not be successful, or even practicable, throughout a Falcon Fund's term. Within the limitations set forth in the Fund Agreement of a Falcon Fund, the general partner or manager of such Falcon Fund will have the right and authority to determine such Falcon Fund's investment sourcing, selection, management and liquidation strategies and procedures.

Active Management. In certain cases, a Falcon Fund may designate directors to serve on the boards of portfolio companies. The designation of directors and other protective provisions negotiated by a Falcon Fund could expose the assets of a Falcon Fund to claims by a portfolio company, its security holders and its creditors that such Falcon Fund is a controlling person and thus is liable for securities laws violations and other actions of the portfolio company. These protective measures also could result in certain liabilities in the event of the bankruptcy or reorganization of the portfolio company; could result in claims against a Falcon Fund if the designated directors violate their fiduciary and other duties to the portfolio company or fail to exercise appropriate levels of care under the federal securities laws, environmental laws and other legal principles; and could expose a Falcon Fund to claims that it has interfered in management to the detriment of the portfolio company.

Lender Liability Considerations. A number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. While believed to be unlikely, because of the nature of certain of the Falcon Fund’s investments, a Falcon Fund could become subject to lender liability claims. Any such claim, if determined adversely to a Falcon Fund, could have a material adverse effect on such Falcon Fund’s returns to investors.

Mezzanine Investments. Mezzanine investments, by the nature of their issuers’ leveraged capital structures, will involve a high degree of financial risk. These investments may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. In addition, these investments may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Mezzanine investments often reflect a greater possibility that adverse changes in the financial condition of the underlying obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the underlying obligor to make payments of principal and interest. Mezzanine investments are often issued in connection with leveraged acquisitions or recapitalizations, in which the issuer incurs a substantially higher amount of indebtedness than the level at which it had previously operated. Some issuers of a Falcon Fund’s investments may be highly leveraged, and their relatively high debt-to-equity ratios increase the risk that their operations might not generate sufficient cash flow to service their debt obligations.

Debt securities in general are also subject to other risks including (among others): (a) limited liquidity and secondary market support, (b) the possibility that earnings of the relevant obligor may be insufficient to meet its debt service, (c) the declining creditworthiness and potential for (or actual) insolvency of the relevant obligor of such debt during periods of economic downturn, (d) that the relevant obligor is often a small or mid-size company serving only local or regional interests, (e) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (f) if subordinated, subordination to the prior claims of other debt or senior lenders. Debt instruments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for debt instruments and adversely affect the value of outstanding debt and the ability of the borrowers thereof to repay principal and interest.

Non- North America Investments. A Falcon Fund may make investments outside North America. Investments outside North America or denominated in non-U.S. currencies pose currency exchange risks (including restrictions on repatriation of proceeds of investments, exchange rate fluctuation, devaluation and non-exchangeability), as well as a range of other potential risks that may include (depending on the country involved)

expropriation, confiscatory taxation, political or social instability, illiquidity, difficulty in taking legal action and market manipulation. A Falcon Fund's exposure to such investments is limited to a certain extent by the Fund Agreement of such Falcon Fund which, by its terms, may limit investments in securities of companies formed in jurisdictions outside North America to not more than a certain percentage of such Falcon Fund's committed capital.

Restricted or Illiquid Securities. It is expected that the investments of the Falcon Funds will be made in illiquid securities, including restricted securities and other securities, which are not readily marketable. There can be no assurance that a Falcon Fund will be able to realize a return on such investments in a timely manner. Consequently, failure to be able to dispose of such investments during the term of a Falcon Fund may result in distributions in-kind to investors in such Falcon Fund. A Falcon Fund may purchase securities that are subject to restrictions on sale because they were acquired from the issuer in a "private placement." A Falcon Fund will not be able to sell these securities publicly unless their sale is registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirement is available. A Falcon Fund may not be able to sell such securities under Rule 144A under the Securities Act, which permits limited sales under specified conditions. A Falcon Fund may not be able to sell its investments when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Furthermore, contractual conditions or practical limitations may preclude, delay or otherwise restrict a Falcon Fund's ability to dispose, by sale or distribution, of its securities in such portfolio investments or reduce the proceeds that might otherwise be realized from any such disposition.

Disciplinary Information

Falcon and its management persons have not been the subject of any material legal or disciplinary proceeding required to be disclosed in response to this item.

Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

Neither Falcon nor any of its management persons are registered as a broker-dealer or a registered representative of a broker-dealer. In addition, neither Falcon nor any of its management persons are affiliated with any broker-dealer, bank or other financial services firm.

Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors

Neither Falcon nor any of its management persons are registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

Relationships with Related Persons

As discussed in the section titled “Participation or Interest in Client Transactions; Personal Trading,” Falcon and its related persons are, directly or indirectly, the general partners, limited partners and/or managing members/general partners of the general partner of each of the Falcon Funds.

Employees of Falcon and its affiliates may serve as directors, board observers or credit committee members for portfolio companies in which the Falcon Funds invest, or provide other services to portfolio companies, and may receive compensation in connection therewith. Employees of Falcon and its affiliates may be given access to confidential information relating to companies in which the Falcon Funds invest. As a result, a Falcon Fund may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or equity securities of such a portfolio company, which prohibition may have an adverse effect on such Falcon Fund.

The above individuals may spend a substantial portion of their time with these related activities.

Selection or Recommendation of Other Advisers

Falcon does not recommend or select other investment advisers for its clients and receive compensation from such advisers in a manner that would create a material conflict of interest. Falcon does not have other business relationships with other advisers that create a material conflict of interest.

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

Code of Ethics

Falcon has adopted a code of ethics under Rule 204A-1 of the Advisers Act (“Code of Ethics”) expressing Falcon’s commitment to ethical conduct. Falcon’s Code of Ethics describes fiduciary duties of Falcon and its supervised persons and their responsibilities to Falcon’s clients. Under Falcon’s Code of Ethics, Falcon has a duty of utmost good faith to act only in the best interests of the Falcon Funds and all Falcon supervised persons are required to promptly report all suspected or apparent violations of the Code of Ethics to Falcon’s Chief Compliance Officer (“CCO”). All supervised persons must acknowledge receipt of the Code of Ethics and any amendments thereto. Falcon will provide a complete copy of its Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions; Personal Trading

As general partners, limited partners or managing members of the general partners or managers of each of the Falcon Funds, Falcon and its related persons have indirect beneficial interests in the securities owned by the Falcon Funds and will share in any profits and losses generated by the Falcon Funds’ investments. Before Falcon makes a

recommendation that a Falcon Fund buy or sell a security, all related persons that have direct ownership of such security at the time of such recommendation are required to disclose such interest to Falcon and if such holding is material to the related person's net worth, as determined by Falcon and the applicable Falcon Fund Advisory Committee, such person will not be permitted to participate in the discussions or authorizations to recommend that a Falcon Fund buy or sell such security. A related person shall not be so restricted if such person's only beneficial interest in a security is (i) held indirectly through one of the general partner or manager entities, the Falcon Funds or otherwise or (ii) related to such person's service as a director or board observer of a portfolio entity to facilitate Falcon's ability to monitor the investment in such portfolio entity.

Falcon and/or certain members, employees or related persons of Falcon may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Falcon Funds in connection with certain "warehousing" transactions, provided that the sale is consistent with Falcon's fiduciary obligations to the Falcon Funds and appropriate consents are obtained. Such transactions will be fully disclosed in writing and the written consent of the appropriate Falcon Fund (which, in certain circumstances, may be provided by the Falcon Fund's advisory committee) will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Advisers Act.

In certain situations, related persons of Falcon may purchase interests in the same portfolio investments held by one or more Falcon Funds. All such transactions are subject to compliance with the Fund Agreements of each Falcon Fund and Falcon's Investment Opportunity, Voting and Valuation Policy. Moreover, Falcon may cause a Falcon Fund to engage in "cross transactions" via the purchase of a portfolio investment from or sale of a portfolio investment to another Falcon Fund, provided that the transfer is consistent with Falcon's fiduciary obligations to each Falcon Fund participating in the cross transaction. Typically this would occur when "rebalancing" to meet each Falcon Fund's investment objectives.

While Falcon endeavors at all times to act in the best interests of the Falcon Funds, investors should be aware that the entitlement to disproportionate distributions from the Falcon Funds creates a potential conflict of interest with respect to such transactions.

Brokerage Practices

With respect to those limited instances in which the Falcon Funds purchase or sell or distribute publicly traded securities through a broker-dealer, Falcon seeks to satisfy its best execution obligation by considering all relevant facts and circumstances, including the price and size of the order, the trading characteristics of the securities involved, which investment bank or banks have a relationship with the issuer of the securities and their knowledge of the market, the value of research provided by each broker, the broker's execution abilities, commission rates, and financial responsibility and responsiveness.

Falcon policy is that the CCO or a designee evaluate, on a periodic basis as deemed appropriate by the Company, broker-dealers that provide services to Falcon (or that are

under consideration by Falcon) to determine whether such broker-dealers continue to provide services that maximize value for Falcon's clients.

Research and Soft Dollar Benefits

Falcon does not generally have any soft dollar arrangements with any brokers whereby Falcon can direct a broker to pay for external research services from a soft dollar account.

Brokerage for Client Referrals

Subject to Falcon's obligation to seek best execution of all transactions for its clients, Falcon may consider referrals of investors in determining its selection of broker-dealers or other third party service providers. Accordingly, Falcon may have an incentive to select or recommend a broker-dealer or other service provider based on its interest in receiving investor referrals, rather than on its clients' interest in receiving the most favorable execution. Any such determinations will be made in accordance with Falcon's fiduciary obligations to the Falcon Funds and Falcon's compliance policies and procedures.

Directed Brokerage

Falcon has discretionary authority to select the brokers or dealers in connection with securities transactions of the Falcon Funds, and investors are not permitted to direct Falcon to use a particular broker or dealer to execute portfolio transactions on behalf of a Falcon Fund.

Trade Aggregation

It is Falcon's policy that all investment opportunities shall, to the extent practicable, be allocated among the Falcon Funds on a basis that over a period of time is fair and equitable to each Falcon Fund relative to other Falcon Funds, taking into account all relevant facts and circumstances, including (without limitation): (i) the investment objectives, strategies, guidelines and restrictions of each Falcon Fund; (ii) the relevant allocation of investment opportunity provisions in a Falcon Fund; (iii) differences with respect to available capital (e.g., current or anticipated capital available for investment, including anticipated follow-on investments, if applicable), size, and remaining life of the Falcon Fund; (iv) potential conflicts of interest, including whether a Falcon Fund has an existing investment in the opportunity in question; (v) the nature of the investment opportunity, including the size, minimum investment amounts and source of the opportunity; (vi) current and anticipated market conditions; (vii) portfolio diversification; and (viii) any restrictions or limitations in the Fund Agreement of a Falcon Fund or other agreement with a Falcon Fund and any tax, legal or regulatory considerations.

To the extent that multiple clients (e.g., more than one Falcon Fund) hold an interest in the same issuer, it is Falcon's policy that disposition opportunities with respect to that investment shall, to the extent practicable, be allocated among such Falcon Funds on a basis that is fair and equitable to each Falcon Fund relative to other Falcon Funds, taking into account all relevant facts and circumstances, including (without limitation): (i) the

strategies, guidelines and restrictions of each Falcon Fund; (ii) relevant provisions in the Fund Agreement of a Falcon Fund or in other agreements related to the Falcon Funds' investment in such issuer; (iii) liquidity needs for each Falcon Fund and the investment cycle of a particular Falcon Fund; (iv) respective holding periods for the investment; (v) the nature of the disposition opportunity, including the size and source of the opportunity; (vi) current and anticipated market conditions; and (vii) tax, legal or regulatory considerations.

Review of Accounts

Review of Client Accounts

Falcon policy is that all investment decisions made or recommended for any Falcon Fund and all transactions entered into on behalf of any Falcon Fund must be appropriate for such client as a whole based upon such Falcon Fund's financial situation and that all investment decisions and recommendations for a Falcon Fund must be consistent with any investment policies, objectives or restrictions in the Fund Agreement of such Falcon Fund and any applicable regulatory requirements. Falcon policy is that all client accounts be reviewed regularly by the CCO.

Reports to Clients

The general partner or manager of each Falcon Fund distributes quarterly and annual written reports to the limited partners of such Falcon Fund. Annual reports generally contain a listing of investments held by the Falcon Fund at the end of the fiscal year and the audited financial statements of the Falcon Fund and are accompanied by an individual capital account statement as of the end of such fiscal year. The quarterly reports generally contain unaudited financial statements of the Falcon Fund for the fiscal quarter.

Please refer to the Fund Agreement of the relevant Falcon Fund for further information on the reports provided by a particular Falcon Fund to its investors.

Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

Falcon does not receive any economic benefits from third parties in connection with its advisory services.

Third Party Compensation for Client Referrals

Falcon and related persons of Falcon may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to a Falcon Fund. Any sales charge associated therewith will ultimately be payable by Falcon and/or its related persons, either directly or through an offset of the advisory or management fee payable by the relevant Falcon Fund to Falcon. An investor will not be charged any additional amount or bear any additional charges as a result of an introduction through a placement agent or other unaffiliated third party.

Custody

Falcon will not have physical custody of any client assets (other than certain privately offered uncertificated securities to the extent permitted by the Advisers Act). Nevertheless, Falcon will generally be deemed to have custody of the assets of the Falcon Funds as a result of its position as an affiliate of the general partner or manager of each Falcon Fund.

It is Falcon's general policy to (i) cause each Falcon Fund with assets over which Falcon is deemed to have "custody" to distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and audited by an accountant subject to regular inspection by the Public Company Accounting Oversight Board, to investors annually and no later than 120 days after the end of each fiscal year and (ii) upon the final liquidation of any such Falcon Fund, obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Falcon Fund to all investors promptly after completion of the audit. Exceptions to this general policy require the approval of the Company's Chief Financial Officer.

Investment Discretion

Subject to the investment objectives, policies and restrictions of each Falcon Fund as set forth in the Fund Agreement of such Falcon Fund, Falcon has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Falcon Fund, including the selection of, and commissions paid to, broker-dealers.

Voting Client Securities

Because Falcon has, or will accept, authority to vote securities held by a Falcon Fund, Falcon has adopted policies and procedures (the "Proxy Voting Policies and Procedures") which have been designed to ensure that Falcon complies with the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act, and reflect Falcon's commitment to vote all client securities for which it exercises voting authority in a manner consistent with the best interest of its clients (including the Falcon Funds).

Falcon's clients are not permitted to direct Falcon's vote in any particular solicitation.

Prior to exercising its voting authority, Falcon, in consultation with Falcon's Investment Committee, the CCO and outside counsel, as appropriate, reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Falcon or its supervised persons, with persons having an interest in the outcome of the vote. If a material conflict exists, Falcon takes steps to ensure that its voting decision is based on the best interests of the client and is not a product of the conflict.

Falcon will deliver to each limited partner of a Falcon Fund, upon written request, a complete copy of its Proxy Voting Policies and Procedures and/or information on how it voted proxies for the applicable Falcon Fund.

Financial Information

Registered investment advisers are required to provide you with certain financial information or disclosures about their financial condition. Falcon has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.