



**Form ADV Part 2A Brochure  
March 27, 2018**

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This Brochure provides information about the qualifications and business practices of LFM Capital, LLC ("LFM Capital"). If you have any questions about the contents of this Brochure, please contact us at the above telephone number or send an email to Jessica Ginsberg, Chief Compliance Officer, at [jessica@lfmcapital.com](mailto:jessica@lfmcapital.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

LFM Capital is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Additional information about LFM Capital also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 2 – Material Changes

The Brochure will be updated on an annual basis or when material changes occur since the previous release of the LFM Capital Brochure and any material changes to it will be identified in this Item.

This item discusses the material changes to the original version of the Brochure prepared by LFM Capital dated March 31, 2017.

In this regard, it should be noted that since our original ADV Part 2A filing, Mr. Myron J. Reising has stepped into the role of Chief Financial Officer of LFM Capital.

In addition, non-material updates and edits have been included such as updated regulatory assets under management.

Pursuant to SEC Rules, LFM Capital will ensure that clients receive a summary of any material changes to this Brochure, along with an offer to provide a full copy of this Brochure upon request within 120 days of the close of our fiscal year. Additionally, as we may potentially experience certain specific material changes in the future, we will send you a summary of our “Material Changes” under separate cover, along with the same offer. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

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#### **Item 4 – Advisory Business**

Headquartered in Nashville TN, LFM Capital was founded in May 2014 by Stephen C. Cook, Frederic (“Rick”) W. Reisner and Daniel A. Shockley who are the principal owners of LFM Capital (the “Principals”). LFM Capital is organized as a Delaware limited liability company and has been providing advisory services since October 2014.

LFM Capital provides advisory services to LFM Capital Partners, L.P. a Delaware limited partnership (the “Fund”). The Fund seeks to make privately negotiated lead or control investments in undervalued private North American based lower middle market niche manufacturing and industrial services businesses with enterprise values of \$15-\$75 million. LFM Capital also provides advisory services to LFM Longhorn Opportunity Partners, L.P., a Delaware limited partnership (the “Longhorn Fund”). The Longhorn Fund co-invests in select Portfolio Companies in which the Fund also has invested or is currently investing. The Fund and the Longhorn Fund are collectively referred to herein as the “Funds.”

LFM Capital GP, LLC, a Delaware limited liability company (the “General Partner”), serves as the general partner of the Funds. LFM Capital serves as the Funds’ management company. The General Partner and LFM Capital are related parties under common control.

LFM Capital provides discretionary advisory services to the Fund and non-discretionary advisory services to the Longhorn Fund, generally seeking to generate long-term capital appreciation for the Funds by advising them as to their investments in lower middle market North American manufacturing and industrial services companies with outstanding growth prospects, in LFM Capital’s view. LFM Capital’s investment advisory services consist of investigating, identifying, and evaluating investment opportunities, structuring, negotiating, and making investments on behalf of the Funds, managing and monitoring the performance of such investments, and disposing of such investments.

The Funds invest in private company securities (“Portfolio Companies”). LFM Capital seeks to generate consistent and attractive financial returns for the Funds’ investors by managing the Funds’ investments in what LFM Capital believes are promising Portfolio Companies with talented management teams. LFM Capital seeks to accelerate such Portfolio Companies’ business growth and value by applying a combination of manufacturing and operational excellence, world class executive leadership and targeted growth expansion strategies.

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The Fund's objective is to generate superior returns through the long-term capital appreciation of lead or control equity and equity-related investments primarily in established small and medium-sized private niche manufacturing and industrial services companies that are doing business primarily in the United States and Canada. The Longhorn Fund's objective is to co-invest in select portfolio companies in which the Fund also has invested or is currently investing.

Generally, with respect to the Funds, LFM Capital does not tailor its advisory services to the individual needs of investors in the Funds. LFM Capital's investment advice with respect to each Fund is subject to such Fund's investment objectives and guidelines. LFM Capital has broad and flexible investment authority with respect to the Fund. The terms, investment objectives and strategies applicable to each Fund are set forth in such Fund's limited partnership agreement and subscription agreement (with respect to each Fund, the "Governing Documents"), which each investor in the applicable fund is required to receive and execute prior to being accepted as an investor in such Fund ("Limited Partner").

The General Partner 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.

LFM Capital does not participate in any wrap fee programs.

As of December 31, 2017, LFM Capital managed \$129,867,961 on a discretionary basis and \$ 51,746,377 on a nondiscretionary basis.

## **Item 5 – Fees and Compensation**

As a general matter, compensation is negotiable and varies, but typically the Fund pays to the General Partner or an affiliate thereof an annual management fee and a performance based fee. The Longhorn Fund does not pay a management fee or performance based fee to its General Partner or any affiliate thereof.

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## **Management Fee**

During the investment period, the Fund pays to the General Partner or an affiliate thereof an annual management fee equal to 2.50% per annum of the aggregate capital commitments of the Limited Partners that are not affiliated with LFM Capital (the “Investor Limited Partners”), payable quarterly in advance. After the expiration of the investment period, management fee declines by 10% per year but in no event is it reduced below 1.5% per annum of the aggregate capital commitments of the Investor Limited Partners. The Longhorn Fund does not pay any management fees to the General Partner or any affiliate thereof.

## **Portfolio Company Fees and Management Fee Offsets**

The Fund has adopted a management fee reduction equal to 100% of the Investor Limited Partners’ portion of any transaction, monitoring, break-up, success or directors’ fees paid by Fund portfolio companies during any calendar year (“Portfolio Company Remuneration”) after aggregate management fee and Portfolio Company Remuneration to the General Partner and its affiliates, net of expenses, exceeds a threshold amount described in the Fund’s current Governing Documents, provided, however, that the Management Fee will not be reduced below zero. Further, the Management Fee shall not be reduced by any arms-length service fees received by the General Partner, its partners or its affiliates from any portfolio company of the Fund in connection with consulting or management services provided to such portfolio companies.

## **Performance-Based Fees**

In addition, an affiliate of the Fund’s General Partner receives a percentage of net profits distributed to the partners in the Fund as its “carried interest.” LFM Capital believes that its compensation is competitive with compensation received by other similar investment advisers for comparable services. The Longhorn Fund does not pay performance based fees. See Item 6. “Performance-Based Fees and Side-by-Side Management” below for further discussion.

The specific manner in which fees are paid is established in the Fund’s Governing Documents. The Fund generally pays management fees in advance on a quarterly basis. Management fees shall not be prorated for each capital contribution and withdrawal made during the applicable calendar quarter.

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## Other Fees and Expenses

The Funds are responsible for and do incur other expenses separate and apart from the applicable management fee and performance based fee. The Governing Documents for each Fund set forth the expenses that such Fund will bear. The Funds pay the organizational costs and limited partner offering expenses including the professional fees of its attorneys and accountants, out of pocket costs incurred by the General Partner (or an affiliate thereof) including travel, meeting, printing and other fees and expenses incident thereto ("Organizational Expenses") not to exceed a certain amount. The Management Fee, if any, will be reduced by the amount of any Organizational Expenses paid by the Funds in excess of such amount and by any placement fees paid by the Fund with respect to the sale of limited partner interests in the Fund, if applicable. If there are no management fees available for such reduction, such amounts shall be borne by the General Partner

The Longhorn Fund pays expenses incidental to its operation as well as its pro-rata share of any costs and expenses incurred in the sourcing, investigation, holding, purchase, monitoring, sale or exchange of securities with respect to investments in which it participates.

Item 12 further describes the factors that LFM Capital considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Neither LFM Capital nor any of its supervised persons accepts additional compensation for the sale of securities or other investment services or products.

**It is critical that investors refer to the relevant Governing Documents for a complete understanding of fees and compensation. The information contained in this Item 5 is a summary only and is qualified in its entirety by the relevant Governing Documents.**

## Item 6 – Performance-Based Fees and Side-By-Side Management

As described in Item 5 above, the General Partner or an affiliate thereof accepts performance-based compensation from the Fund.

The performance-based fee is charged in compliance with Rule 205-3 under the Investment Advisers Act of 1940 ("Advisers Act"). In measuring clients' assets for the calculation of performance-based fees, LFM Capital shall include realized and unrealized capital gains and losses. The performance based fee is based on 20% of net profits to the General

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Partner or an affiliate thereof following a return of capital to the Limited Partners and achievement of certain performance thresholds as forth in the Fund's Governing Documents.

Performance-based fee arrangements may create an incentive for LFM Capital to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. In addition, conflicts may arise in the allocation of investment opportunities between the Funds. While certain assurances are provided in each Fund's Governing Documents to address these potential conflicts, certain risks may remain.

LFM Capital, the General Partner or its personnel may have other pecuniary interests in the Fund. As the General Partner of the Longhorn Fund, it may make direct co-investments with the Fund and have a material financial interest in the investment which could create a potential conflict in that it could cause the General Partner or LFM Capital to make different investment decisions than if such parties did not have such financial ownership interests. LFM Capital recognizes that it is a fiduciary and as such must act in the best interests of its clients. LFM Capital has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. Such potential conflicts are also addressed by LFM Capital's Code of Ethics as described in Item 11- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading herein.

**It is critical that investors refer to the relevant Governing Documents for a complete understanding of the calculation of the Fund's performance based fees and related expenses. The information contained in this Item 6 is a summary only and is qualified in its entirety by the relevant Governing Documents.**

## **Item 7 – Types of Clients**

LFM Capital provides discretionary and non-discretionary investment advisory services to private investment funds organized and sponsored by the firm. Fund investors doing business with LFM Capital include endowments, other institutions and high net worth individuals.

LFM Capital provides portfolio management services to the Funds. The Funds are organized as limited partnerships. The Funds are not considered to be an "investment company" as defined under the Investment Company Act of 1940, as amended (the



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“Investment Company Act”), pursuant to exemptions under Section 3(c)(1) or 3(c)(7) of the Investment Company Act.

Each Investor in the Funds must meet certain eligibility provisions. Interests in the Funds are only available to qualified investors as defined in Rule 205-3 under the Advisers Act (“Qualified Clients”).

In general, the minimum investment in the Fund is \$5,000,000, with the General Partner reserving the right to accept capital commitments of lesser amounts at its discretion. The Longhorn Fund does not have a minimum investment amount. The General Partner may, in its discretion, reject any subscription that is tendered.

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

LFM Capital’s founding vision and investment philosophy are grounded in an operationally-focused, value-investing approach that emphasizes accelerated business growth and expansion through operational excellence over traditional private equity financial engineering as practiced by many private equity firms. Consistent with its value investing approach, LFM Capital’s investment strategy is to accelerate company growth and expansion by contributing value-creating operating strategies and capabilities that are typically inaccessible to smaller manufacturing and industrial services businesses.

LFM Capital utilizes a structured investment approach to source and originate investments. The Firm relies on direct outreach to business owners and relationships with investment bankers and business brokers to identify attractive investment ideas. LFM Capital proactively targets Portfolio Companies by focusing on North American manufacturing and industrial services business that LFM capital believes have developed sustainable competitive advantages, engineering expertise, and proprietary technology with steady cash flow.

LFM Capital believes that the current climate represents an ideal time to invest in small U.S. industrial companies. A combination of increased manufacturing costs overseas together with a shift in domestic political and corporate mind-set, has stimulated a manufacturing renaissance in the U.S. and a dramatic resurgence of U.S.-based companies moving manufacturing operations back to the U.S. In addition, LFM Capital believes that considerable opportunity exists to build successful global manufacturing and industrial services businesses in the U.S. lower middle market through a combination of

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manufacturing and operations excellence, world-class executive management and targeted growth and expansion strategies.

LFM Capital's philosophy is to purchase lower middle market manufacturing and industrial services companies with enterprise values, at the time of investment, of \$15-\$75 million at attractive EDITDA purchase price multiples. LFM Capital seeks to create value by improving the overall manufacturing and operations of such companies by closely supporting them with LFM Capital's strategic resources. These manufacturing and industrial services companies typically have leading market positions, demonstrate consistent profitability, offer sustainable competitive advantages and present untapped opportunities for value creation through supply chain optimization, lean manufacturing, information system upgrades, market expansion and add-on acquisitions.

The Fund targets lower middle-market businesses while applying a signature investment approach that emphasizes value-creating operating strategies, global executive leadership capabilities and true transparency, collaboration and alignment of interests among investors, business owners, management teams and LFM Capital and its personnel.

LFM Capital utilizes a "buy and build" strategy where it acquires Portfolio Companies that can benefit from the firm's operational and strategic support. LFM Capital seeks to enable these Portfolio Companies to reach their growth potential by upgrading management capability, making operational improvements, and developing targeted growth and expansion strategies.

After discovering a potential target Portfolio Company that fits LFM Capital's investment criteria or is otherwise compelling, LFM Capital begins its diligence process to further screen the company. Included in that process, among other things, are extensive financial modeling, detailed market research, industry expert calls, identifying and analyzing potential business risks, and evaluating ways in which LFM Capital can add value.

As a part of the diligence process, LFM Capital meets with management and develops a business valuation of the target company. Once a valuation is reached and agreed upon by LFM Capital, the Firm will determine whether to submit a letter of intent and develop a bid strategy.

After signing a letter of intent, LFM Capital conducts further due diligence (including, but not limited to, accounting, legal and market diligence) to develop an in-depth understanding of the potential investment. If LFM Capital proceeds with the investment, it seeks a lead or control position to own a majority of the business while the seller will retain

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a minority but substantial stake to ensure the owner's continued involvement and an alignment of interests among all equity holders.

Thereafter, LFM Capital employs a hands-on approach to managing the Funds' Portfolio Companies. It works closely with the management team to seek to achieve investment objectives and key strategic and operational milestones that position the Portfolio Company for successful exit. After completing the investment, LFM Capital will continually evaluate the market dynamics and consider the timing of the exit. The final step in the investment process is the successful exit of the Portfolio Company. LFM Capital seeks to sell a Portfolio Company typically through a sale or to a financial or strategic buyer.

## **Investing Risks**

Investing in securities in general involves risks of loss that investors should be prepared to bear. There can be no assurance that a Fund's investment objective will be achieved, or that an investor in the Fund will receive a return of its capital, and therefore, an investor should only invest in the Fund if such investor is able to withstand a total loss of its investment. In addition, there will be occasions when the General Partner of the Funds and its affiliates may encounter potential conflicts of interest in connection with the activities of the Funds. The following considerations, among others, should be carefully evaluated before making an investment in the Funds.

***The following risks do not purport to be a complete explanation of all the risks involved in acquiring an interest in the Funds. Potential investors are urged to read the entire Private Placement Memorandum and the related Governing Documents before making a determination whether to invest in any private investment fund sponsored by LFM Capital or its affiliates.***

**RISK INHERENT IN PRIVATE EQUITY INVESTMENTS.** The types of investments that the Funds anticipate making involve a high degree of risk. In general, financial and operating risks confronting portfolio companies can be significant. While targeted returns should reflect the perceived level of risk in any investment situation, there can be no assurance that the Funds will be adequately compensated for risks taken. A loss of principal is possible. The timing of profit realization is highly uncertain. There can be no assurance that the Limited Partners will receive distributions from a Fund in an amount equal to their investment in such Fund. Losses are likely to occur early in each Fund's life, while successes often require a long maturation. Investments in more mature companies involve substantial risks. Such companies typically have obtained capital in the form of debt and/or equity to

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expand rapidly, reorganize operations, acquire other businesses, or develop new products and markets. These activities by definition involve a significant amount of change in a company and could give rise to significant problems in sales, and general management of these activities.

**INVESTMENTS IN LOWER MIDDLE MARKET COMPANIES.** A substantial component of the Funds' investment strategy is to invest in lower middle market companies. While investments in lower middle market companies may present greater opportunities for growth, such investments may also entail larger risks than are customarily associated with investments in large companies. Small- and medium-sized companies may have more limited product lines, markets and financial resources, may have higher customer concentration and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller private companies, which may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investments in small- and medium-sized companies, could make it difficult for the Fund to react quickly to negative economic or political developments.

**EFFECTING OPERATING IMPROVEMENTS.** In some cases, the Funds' investment strategy will depend, in part, on the ability of the Funds 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 the Funds will be able to successfully identify and implement such restructuring programs and improvements.

**FINANCIAL LEVERAGE.** The portfolio companies in which the Funds will invest will make extensive use of financial leverage in making the majority of its investments, utilizing debt from a number of sources including banks, investment banks, public debt markets, mezzanine funds, hedge funds, finance companies and bridge loan funds. The use of debt could adversely impact the valuation of portfolio holdings and will expose investments to financial risk, including the inability to meet debt obligations as they mature and possible bankruptcy. Such risks will be heightened in an environment of increasing interest rates or an overall decline in economic conditions within the United States and the global economy.

**CHANGING ECONOMIC CONDITIONS.** The success of the General Partner's investment strategy could be significantly impacted by changing external economic conditions in the United States and global economies. The stability and sustainability of growth in global economies may be impacted by terrorism or acts of war. Changing economic conditions could

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potentially adversely impact the valuation of portfolio holdings. The United States recently experienced and global economies are currently experiencing a volatile and unstable period, which has included bank failures, a credit crisis, a loss of confidence among major financial institutions and instability in the public markets. Each of these ongoing conditions and the potential repercussions thereof may have lasting adverse effects on the returns of the Funds and its portfolio companies. Moreover, actual and the potential regulatory reactions to the past and current economic turmoil may further adversely impact the Funds in unanticipated ways.

**NO ASSURANCE OF RETURNS.** There can be no assurance that the Limited Partners will receive distributions from a Fund in an amount equal to their investment in such Fund. The timing of profit realization, if any, is highly uncertain.

**ABSENCE OF LIQUIDITY AND PUBLIC MARKETS.** The Funds' investments will generally be private, illiquid holdings. As such, there will be no public markets for the securities held by the Funds and no readily available liquidity mechanism at any particular time for any of the investments held by the Funds. In addition, the realization of value from any investments will not be possible or known with any certainty until the General Partner (or LFM Capital as its designee) elects, in its sole discretion, to sell the Funds' investments and subsequently distribute the proceeds to the investors in the Funds or elects to distribute securities to investors in lieu of cash.

**NO MARKET; ILLIQUIDITY OF A FUND INTERESTS.** An investment in the Funds will be illiquid and involves a high degree of risk. There is no public market for limited partnership interests in the Funds, and it is not expected that a public market will develop. Consequently, Limited Partners will bear the economic risks of their investment for the term of each Fund. Prospective investors will be required to represent and agree that they are purchasing the limited partnership interests for their own account for investment only and not with a view to the resale or distribution thereof.

**RELIANCE ON THE GENERAL PARTNER.** The General Partner of the Funds will have sole discretion over the investment of the funds committed to the Funds as well as the ultimate realization of any profits. As such, the pool of funds in each Fund represents a blind pool of funds. Investors in the Funds will be relying on the General Partner to conduct the business as contemplated by the applicable Fund's Private Placement Memorandum. The loss of one or more senior investment professionals of the General Partner could have a significant adverse impact on the business of the Funds. No assurances can be given that each of the Principals will continue to be affiliated with a Fund throughout its term. Notwithstanding any prior experience that the Principals may have in making investments of the type expected to be made by the Funds, any such prior experience necessarily was obtained under different market conditions, under different business conditions and with different resources at the disposal of the General Partner. There can be no assurance that the Principals will be able to duplicate prior levels of success.

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**COMPETITIVE MARKETPLACE.** The marketplace for private equity investing and leveraged buyouts has become increasingly competitive. Involvement by financial intermediaries has increased, substantial amounts of funds have been dedicated to making investments in the private sector and the competition for investment opportunities is at historically high levels. Some of the Funds' potential competitors may have more relevant experience, greater financial resources and more personnel than the General Partner. There can be no assurances that the General Partner will locate an adequate number of attractive acquisition candidates and investment opportunities. To the extent that the Funds encounter competition for investments, returns to Limited Partners may vary.

**DIRECT SOURCING MODEL.** The General Partner intends to source investment opportunities by identifying companies it believes could be attractive investment targets and contacting them directly to initiate relationships. Accordingly, the General Partner believes that fewer of its investment opportunities will arise from intermediary relationships with investment bankers (directly or through participation in auction processes), accountants, law firms, other private equity firms or other market participants than those of a more typical private equity firm. This means that most of a Fund's investment targets may not have undergone extensive (or any) due diligence by parties trusted by the General Partner or the Principals and the General Partner will bear a greater due diligence burden than it might have borne if its investments were sourced primarily through trusted intermediaries. Further, there can be no assurance that the General Partner will discover a sufficient number of high quality investment opportunities using its direct sourcing model.

**AVAILABILITY OF FINANCING.** In order to achieve the investment objectives of each Fund, the General Partner will rely on the availability of external financing, principally debt, from third party sources such as banks, investment banks, finance companies, hedge funds and mezzanine funds. Should such external financing not be available for any reason, the Funds may not be able to achieve its investment objectives.

**CONTROL PERSON LIABILITY.** The Funds may have significant or controlling interests in one or more of its investments in portfolio companies. The exercise of control over a portfolio company may impose additional risks of liability for, among other things, environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, the Funds might suffer a significant loss.

**POSSIBILITY OF BECOMING A MINORITY INVESTOR IN CERTAIN CASES.** The investment charters of each Fund include the ability to take minority stakes in privately held companies, although this is not expected to be a common investment strategy of the firm. In addition, during the process of exiting investments, the Funds may at times hold minority equity stakes in its portfolio companies, such as might occur if portfolio holdings are taken public or merged into other entities. Such minority holdings will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.



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**BRIDGE FINANCING.** The Funds may lend to portfolio companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in a Fund's control, such long-term securities may not be issued or issuable and such bridge 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.

**LIMITATIONS ON ABILITY TO EXIT INVESTMENTS.** The Funds expect to exit from an investment in three principal ways: (i) private sales, (ii) recapitalizations and (iii) initial and secondary public offerings. At any particular time, not all of these avenues may be open to the Funds or timing with respect to any one of these exit mechanisms may be inopportune. As such, the ability to exit from and liquidate portfolio holdings may be constrained at any particular time or for lengthy periods of time.

**INVESTMENTS LONGER THAN TERM.** Each Fund may make investments that may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although the General Partner expects that each Fund's investments will either be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

**NEED FOR FOLLOW-ON INVESTMENTS.** The Funds may be called upon to provide follow-on funding to its portfolio companies or may have the opportunity to increase its investment in a portfolio company. Although the General Partner may use capital commitments to make follow-on investments, there is no assurance that the Funds (and any co-investors) will wish to make such follow-on investments or that the Funds and its co-investors will have sufficient capital to do so. Accordingly, third-party sources of financing may be required, but there is no assurance that such additional sources of financing will be available, or, if available, will be on terms favorable to the Funds. A Fund's decision not to make a follow-on investment or its inability to do so may have an adverse impact on such portfolio company in need of such an investment or may diminish a Fund's proportionate ownership in such portfolio company and thus its ability to influence such portfolio company's future development and it could have a significant negative impact on the Fund's investment.

**POTENTIAL LIABILITIES.** In connection with its investments, each Fund will likely negotiate the right to appoint at least one of the investment professionals of the General Partner as a member of the portfolio company's board of directors. Such membership on the board of directors of a company can result in the Funds or the individual director being named as a defendant in litigation. Typically, portfolio companies will have insurance to protect directors and officers, but this insurance may be inadequate. The Funds will also indemnify the General Partner and its Principals, among others, for liabilities incurred in connection

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with operations of the Funds, including liabilities arising from such suits. Such indemnification obligations and other liabilities could be substantial.

**INDEMNIFICATION AND CONTINGENT LIABILITIES UPON DISPOSITION OF INVESTMENTS.** In connection with the disposition of an investment in a portfolio company, a Fund may be required to make representations about the business and financial affairs of such company typical of those made in connection with the sale of a business. The Funds 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 the General Partner may establish reserves and escrows. In that regard, distributions may be delayed or withheld until such reserve is no longer needed or the escrow period expires. In addition, the Funds may be obligated to fund such indemnity obligations to the extent escrow arrangements are insufficient to cover the indemnity obligations.

**CERTAIN LIMITATIONS ON ABILITY OF LIMITED PARTNERS TO TRANSFER THEIR INTERESTS IN A FUND.** The transferability of interests in a Fund will be restricted by the Partnership Agreement and by United States federal and state securities laws. In general, Limited Partners will not be able to sell or transfer their limited partnership interests to third parties without the consent of the General Partner.

**LIMITED PORTFOLIO DIVERSIFICATION.** The Funds' investments will not be broadly diversified. In addition, at times the Funds may have only a small number of concentrated investment holdings. A downturn in the economy or in the business of any one company could significantly impact the value of the Funds.

**LEGAL, TAX AND REGULATORY RISKS.** Legal, tax and regulatory changes could occur during the term of each Fund that may adversely affect such Fund.

**CONFLICTS OF INTEREST.** Instances may arise where the interest of the General Partner (or its members) may potentially or actually conflict with the interests of the Funds and the Limited Partners. For example, the existence of the General Partner's carried interest may create an incentive for the General Partner to make more speculative investments on behalf of the Funds than it would otherwise make in the absence of such performance-based arrangements. Further, conflicts of interest may arise as a result of the Funds' partners having investments in portfolio companies of existing LFM Capital entities and the Funds, as well as other investments both public and private.

**DIVERSE INVESTORS.** The Limited Partners may have conflicting investment, tax, and other interests with respect to their investments in the Funds. The conflicting interests of individual Limited Partners 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 the General Partner with respect to the nature or structuring of investments that may be more beneficial for some Limited Partners than for



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others, particularly with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Funds, the General Partner will consider the investment and tax objective of the Funds and the Partners as a whole, not the investment, tax or other objective of any Limited Partner individually.

**FAILURE TO MAKE CAPITAL CONTRIBUTIONS.** If a Limited Partner fails to pay when due installments of its capital commitment to a Fund, and the contributions made by non-defaulting Limited Partners and borrowings by such Fund are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Funds may be subjected to significant penalties that could materially and adversely affect the returns to the Limited Partners (including non-defaulting Limited Partners). If a Limited Partner defaults, it may be subject to various remedies as provided in the Partnership Agreement.

**LIMITED OPERATING HISTORY.** The Funds' investment program should be evaluated on the basis that there can be no assurance that the General Partner's assessment of the prospects of investments will prove accurate or that the Funds will achieve their investment objective. Past performance of the Principals of the General Partner or partnerships under their control is not necessarily indicative of future results. Therefore, investors should not assume that the Funds will perform in any manner similar to such past performance.

**LACK OF LIMITED PARTNER CONTROL.** Subject to the implementation of the investment limitations described herein, the General Partner has complete discretion in managing each Fund's portfolio. The Limited Partners will not make decisions with respect to the management, disposition or other realization of any investment made by the Funds, or other decisions regarding the Funds' business and affairs.

**RESERVES.** As is customary in the industry, the General Partner will establish reserves for follow-on investments by the Funds in portfolio companies, operating expenses (including management fees), each 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 portfolio companies. Inadequate or excessive reserves could impair the investment returns to the Limited Partners. If reserves are inadequate, the Funds 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, the Funds may decline attractive investment opportunities.

**DISTRIBUTIONS IN KIND.** The General Partner expects to distribute the proceeds of certain of the Funds' investments in kind. Any such distribution could put downward pressure on the price of the issuer's securities. A Limited Partner that receives assets other than cash from a Fund may incur costs and delays in converting those assets into cash.

**INSIDE INFORMATION.** From time to time, the Principals, the General Partner or their affiliates may come into possession of material, non-public information concerning an entity in

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which a Fund has invested or proposes to invest, and the possession of such information may limit the ability of such Fund to buy or sell securities of such entity or to distribute such securities to the Limited Partners.

**SIDE LETTER VARIATION OF THE PARTNERSHIP AGREEMENT.** The General Partner may enter into one or more “side letters” or similar agreements with certain investors pursuant to which the General Partner grants to such investors specific rights, benefits or privileges that are not made available to investors generally, including, without limitation, the circumstances under which exclusion from investments in portfolio companies or involuntary withdrawals from the Funds may be required; “most favored nation” rights (i.e., the right to receive favorable rights or economic arrangements, including co-investment arrangements, that may be afforded to other investors); and the right to receive reports from the Funds on a more frequent basis or to receive reports that include information not provided to other investors. Subject to applicable law, such agreements will be disclosed only to those actual or potential investors that have separately negotiated with the General Partner for the right to review such agreements.

**DILUTION.** Limited Partners subscribing for Interests at subsequent closings will participate in existing investments of the applicable Fund, diluting the Interests of existing Limited Partners therein. Although such Limited Partners will contribute their pro rata share of prior capital contributions previously drawn down by the Fund (plus, in certain circumstances, an additional amount thereon), there can be no assurance that such payment will reflect the fair value of a Fund’s existing investments at the time such additional Limited Partners subscribe for such Interests.

**ELECTRONIC COMMUNICATION.** The General Partner may provide to Limited Partners statements, reports and other communications relating to the Funds and/or the Limited Partners’ Interests in electronic form, such as email or via a password protected website (“Electronic Communications”). Electronic Communications may be modified, corrupted, or contain viruses or malicious code, and may not be compatible with a Limited Partner’s electronic system. In addition, reliance on Electronic Communications involves the risk of inaccessibility, power outages or slowdowns for a variety of reasons. These periods of inaccessibility may delay or prevent receipt of reports or other information by the Limited Partners.

**CYBER SECURITY BREACHES.** LFM Capital, the Funds and the Funds’ portfolio companies depend upon computer systems to perform necessary business functions. Although LFM Capital has implemented, and portfolio companies will likely implement, a variety of security measures, these computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, LFM Capital and the Funds’ portfolio companies may experience threats to their respective data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, such computer systems and

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networks, or otherwise cause interruptions or malfunctions in LFM Capital, the Funds or their portfolio companies' operations, which could result in damage to LFM Capital, the Funds, or their portfolio companies' reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

**INDUSTRY SPECIFIC TERMINOLOGY.** Prospective investors are cautioned that certain terms and phrases of common usage within the private equity industry may be misleading to those unfamiliar with such usage. In particular, individuals who participate in the management of a fund often are referred to, in a colloquial sense, as "general partners" or "partners" even though they are not actually general partners of any partnership. Prospective investors are reminded that each Fund is or will be a limited partnership, that the General Partner is or will be a limited liability company, and that the individuals directing the management of a Fund through the General Partner will be members of such limited liability company. It is not intended that the Funds will have any general partner other than the General Partner or that any actual general partnership will in any manner be associated with the formation, operation, dissolution or termination of a Fund. Prospective investors must not presume or rely upon the existence of any actual legal entities other than the Funds and the General Partner. With respect to all matters involving industry specific terminology, prospective investors are urged to consult with their own legal and other advisors.

**CONFIDENTIAL INFORMATION.** The Partnership Agreement will contain confidentiality provisions intended to protect proprietary and other information relating to the Funds and the Funds' portfolio companies. To the extent that such information is publicly disclosed, competitors of the Funds and/or competitors of its portfolio companies, and others, may benefit from such information, thereby adversely affecting the Funds, any portfolio companies, the General Partner and the economic interests of Limited Partners.

**FOREIGN INVESTMENTS.** The Funds, in very limited circumstances, may invest in companies that are based outside of the United States or the operations of which are primarily outside of the U.S. Any investment in a foreign country involves risks not found in the domestic securities market, including the following: the risk of economic and financial instability in the foreign country, which in some cases may include a collapse in credit markets, stock prices, currencies and/or consumer spending; the risk of adverse social and political developments, including nationalization, confiscation without fair compensation, political and social instability and war; the risk that the foreign country may impose restrictions on the repatriation of investment income or capital or on the ability of foreign persons to invest in certain types of companies, assets or securities; risks related to the possible lack of availability of sufficient financial information as a result of accounting, auditing, and financial disclosure standards that differ, in some cases significantly, from those in the United States; risks related to foreign laws and legal systems, which are likely to differ from those of the United States, including in particular the laws with respect to the rights of investors which may not be as comprehensive or well developed as those in the United States and the procedures for the judicial or other enforcement of such rights which may not be as effective as in the United States; risks related to the fact that some investments may be denominated in foreign currencies and, therefore, will be subject to fluctuations in

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exchange rates; and risks related to applicable tax laws and regulations and tax treaties, which are likely to vary from country to country and may be less well developed than those in the United States, possibly resulting in retroactive taxation so that the Fund could become subject to an unanticipated local tax liability.

**FOREIGN EXCHANGE RISKS.** Contributions to the Funds and distributions from the Funds will be denominated in U.S. dollars. Investments may, in very limited circumstances, be denominated in U.S. dollars or, if deemed advisable by the General Partner, in other currencies. As a result, the profits or losses of the Funds on any investment, as measured in U.S. dollars, will be affected by fluctuations in currency exchange rates and exchange control regulations as well as by the success of the investment itself. In addition, the Funds may incur costs in connection with conversions between various currencies. The Funds do not presently intend to seek to reduce currency risks through “hedging” or other methods.

#### **Risk of Loss:**

An investment in the Funds may be deemed speculative and is not intended as a complete investment program. The Funds are designed only for experienced and sophisticated persons who are able to bear the risk of substantial impairment or total loss of their investment.

**It is critical that investors refer to the relevant Governing Documents for a complete understanding of LFM Capital’s investment strategies and methods of analysis. The information contained herein is a summary only and is qualified in its entirety by such documents.**

#### **Item 9 – Disciplinary Information**

LFM Capital and its supervised persons have not been involved in any legal or disciplinary events that are material to a client’s or potential client’s evaluation of its advisory business or the integrity of LFM Capital’s management.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Neither LFM Capital nor its personnel are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Further, neither LFM Capital nor its personnel are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

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LFM Capital believes that it does not have any material relationships or arrangements that are material to our advisory business. Notwithstanding the prior sentence, LFM Capital believes that the following should be noted:

The General Partner is a related person of LFM Capital that serves as the general partner to the Funds and in connection therewith provides investment advisory services to the Funds. An affiliate of the General Partner maintains an investment in the Fund. As described in Item 6, an affiliate of the General Partner is entitled to receive performance-based fees from the Fund, which may in certain circumstances create a conflict of interest, as described in Items 6 and 8 above.

LFM Capital does not recommend or select other investment advisers for our clients.

### **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

LFM Capital has adopted a Code of Ethics which describes its high standard of business conduct and fiduciary duty to its clients (the “Code”). LFM Capital’s Code is designed to meet the requirements of Rule 204A-1 of the Advisers Act. The Code applies to LFM Capital’s access persons (which term includes all employees of LFM Capital, among certain other individuals, collectively, “Access Persons”) and sets forth a standard of business conduct that considers LFM Capital’s status as a fiduciary and requires Access Persons to place the interests of clients above their own interests. The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of LFM Capital’s Chief Compliance Officer. All Access Persons are provided with a copy of the Code and are required to acknowledge receipt of the Code upon hire and on at least an annual basis thereafter.

As required by Rule 204A-1 of the Advisers Act, and as further discussed below, the Code also sets forth certain reporting and pre-clearance requirements with respect to personal trading by Access Persons. Access Persons must pre-clear certain transactions in reportable securities. Access Persons must also provide the Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an Access Person. In addition, Access Persons must provide annual holdings reports and quarterly transaction reports in accordance with Advisers Act Rule 204A-1.

LFM Capital also maintains policies and procedures to prevent insider trading that are designed to prevent the misuse of material, non-public information. LFM Capital’s personnel are required to certify their compliance with the Code of Ethics and policies and procedures to prevent insider trading. LFM Capital’s insider trading policies prohibit it and

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its personnel from trading for clients or themselves, or recommend trading, in securities of a company while in possession of material, nonpublic information (“Inside Information”) about the company, and from disclosing such information to any person not entitled to receive it. In addition, among other things, such policies seek to control and monitor the flow of Inside Information to and within the firm, as well as prevent trading based on Inside Information. Further, LFM Capital’s Code ensures the protection of nonpublic information about the activities of its clients. LFM Capital will provide a copy of its Code of Ethics to any investor or prospective investor upon request.

## **Item 12 – Brokerage Practices**

LFM Capital recognizes its duty to seek “best execution” for its clients. The types of securities which are the primary investments by the clients are generally purchased in private placement transactions, without the assistance of a broker-dealer and without the payment of brokerage commissions or dealer markups. In the event that LFM Capital’s business were to evolve such that its clients were to execute transactions through a broker-dealer, then LFM Capital would adopt policies and procedures reflective of its duty to execute trades in publicly-traded securities in a manner designed to seek best execution.

LFM Capital has established allocation and aggregation procedures for the allocation of portfolio investment transactions. The allocation and aggregation procedures are designed to ensure that each Fund is treated fairly and that transactions are allocated in a manner that is fair and equitable to relative to each Fund, taking into account all relevant facts and circumstances. If all orders placed for the Funds cannot be fully executed under prevailing market conditions, then the securities traded may be allocated among the Funds on a pro rata basis or in some other equitable manner, taking into account the size of the order placed for each account and any other relevant factors. The aggregation of orders may not always be to the benefit of a Fund with regard to the price or quantity executed.

LFM Capital does not utilize “soft dollar” arrangements.

### **Brokerage for Client Referrals**

Not applicable to LFM Capital.

### **Directed Brokerage**

LFM Capital does not recommend, request or require clients to direct it to execute transactions through a specified broker-dealer

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### **Item 13 – Review of Accounts**

The General Partner of the Funds, through its Principals or other investment professionals at LFM Capital, regularly monitors the Funds' investments. Such reviews include a review of investment policy and the suitability of the investments used to meet each Fund's investment objective(s). LFM Capital considers, among other things, investment performance, market changes and whether any thing has changed subsequent to an initial investment decision that impacts the risk or potential return.

Fund investors generally receive (i) unaudited quarterly financial statements and updates on the Fund's portfolio within 60 days after each of the first three quarters of the Fund's fiscal year; (ii) audited annual financial statements within 120 days after the end of the Fund's fiscal year; (iii) updates from the General Partner of the Fund and (iv) information necessary for the completion of tax returns.

### **Item 14 – Client Referrals and Other Compensation**

LFM Capital may engage third party placement agents ("Solicitors") to introduce prospective investors when fundraising for a new private fund, which are compensated by LFM Capital. Under such an arrangement, LFM Capital may pay a referral fee to Solicitors when a Solicitor successfully introduces a Fund investor or other client to LFM Capital. The amount of compensation is based on a negotiated percentage of the amount of capital committed by the Fund investor or other client. The solicitation arrangement does not affect the amount of management fees or expenses paid by a Fund.

### **Item 15 – Custody**

Each Fund will be audited on an annual basis by an independent auditor and audited financial statements will be provided to all investors in each Fund within 120 days of such Fund's fiscal year end.



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## **Item 16 – Investment Discretion**

The General Partner has discretionary authority to manage the Fund pursuant to the grant of such authority set forth in the partnership agreement for the Fund. The General Partner does not have investment discretion with respect to the Longhorn Fund.

## **Item 17 – Voting Client Securities**

In light of LFM Capital's particular investment strategy and focus, LFM Capital does not contemplate being in a position to receive or vote any proxies of publicly held companies. However, there are situations where private portfolio holdings could have proxy issues. Should LFM Capital need to vote a proxy on behalf of any of its Funds, it shall follow the procedure outlined below.

Any proxies received will be provided to the Chief Compliance Officer who, prior to voting such proxy, will determine if there are any conflicts of interest related to the proxy in question. If a potential conflict is identified, the Chief Compliance Officer will determine as to whether the conflict is material (which may be done in conjunction with outside counsel). If no material conflict is identified, the Principals and other investment personnel with knowledge of the relevant portfolio holding will vote the proxy in question in accordance with the best interest of the relevant client(s). If a material conflict is identified, LFM Capital will generally seek to mitigate the conflict by either appointing an independent third party to vote such proxies or disclosing the conflict to affected clients/investors and giving such clients/investors the opportunity to vote the proxies in question themselves.

LFM Capital will deliver any completed proxies in accordance with instructions related to such proxy. LFM Capital will keep a record of its proxy voting policies and procedures, proxy statements received, votes cast, communications received and internal documents created that were material to voting decisions and client requests for proxy voting records and LFM Capital's response.

If you have any questions about LFM Capital's proxy voting policy, its proxy recordkeeping procedures or if you would like any detailed information about how proxies are actually voted, please contact the Chief Compliance Officer.



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## **Item 18 – Financial Information**

LFM Capital is not currently aware of any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.