

## **Form ADV Part 2A - *Brochure***

### **Carpenter Fund Management Company, LLC**

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**March 28, 2016**

This brochure provides information about the qualifications and business practices of Carpenter Fund Management Company, LLC ("**CFMC**"). If you have any questions about the contents of this brochure, please contact the chief compliance officer of CFMC, James B. Jones, at (949) 261-8888 or e-mail us at [jjones@carpentercompany.com](mailto:jjones@carpentercompany.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.

CFMC is a registered investment adviser. The term registered investment adviser reflects CFMC's registration with the SEC and does not imply a certain level of skill or training. This brochure has not been approved by the SEC or any state securities authority.

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

## **Item 2 – Material Changes**

### **MATERIAL CHANGES**

This is the first annual amendment to the Carpenter Fund Management Company, LLC (“**CFMC**”) Form ADV Part 2A (brochure). Since its initial brochure dated October 16, 2015, CFMC has amended its brochure to reflect the following material changes:

CFMC’s assets under management as of December 31, 2015 are \$286 million.

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#### Item 4 – Advisory Business

Carpenter Fund Management Company, LLC (“**CFMC**”) was formed in 2007 and acts as an investment manager to investment funds (each such fund, a “**Fund**”). It can provide services directly to Funds and can provide services through an affiliate that acts as the general partner of each of the Funds (the “**General Partner**”). CFMC is managed by Edward J. Carpenter, James B. Jones, and John D. Flemming (the “**Managing Members**”). Mr. Carpenter is CFMC’s principal owner.

Each Fund invests in community banks. CFMC advises Funds as to what investments to acquire, when and how to dispose of investments and how to increase the value of investments in community banks, including advising on the regulatory environment in which community banks operate. The General Partner ultimately makes the investment decisions for each Fund. CFMC currently does not provide advice other than with respect to investments in the banking sector, with a focus on community banks. For each Fund, CFMC’s advice is tailored to the investment program detailed in that Fund’s limited partnership agreement.

CFMC does not participate in wrap fee programs.

As of December 31, 2015, CFMC, through the General Partner, manages on a discretionary basis aggregate assets, plus unfunded committed capital, of approximately \$286 million.

#### Item 5 – Fees and Compensation

A. Management Fees. In consideration of the investment advisory services provided by the General Partner, each Fund pays the General Partner or its designated affiliate a quarterly management fee. Under each Fund’s limited partnership agreement, the quarterly management fee payable by a Fund until the termination of that Fund’s “Commitment Period” equals 0.5% of the Fund’s aggregate capital commitments, and thereafter 0.375% of the Fund’s funded capital commitments, reduced proportionately by the cost of realized investments. Quarterly installments of management fees are payable in advance, on January 1, April 1, July 1 and October 1 of each year.

Other Fees. The General Partner or one or more of its affiliates may receive cash or non-cash commitment, break-up, topping, termination, monitoring, directors, organizational, set-up, advisory, investment banking, underwriting, syndication and other similar fees in connection with the actual or prospective purchases or dispositions of specified investments. Subject to certain carve-outs, management fees at the level of each Fund will be reduced by 100% of that Fund’s proportionate share of such fees, reduced by the General Partner’s unreimbursed out-of-pocket expenses incurred in actual or prospective transactions giving rise to such fees.

Carried Interest. Distributions from each Fund are made to that Fund’s partners under a distribution waterfall specified in that Fund’s limited partnership agreement. Each Fund has a distribution waterfall for disposition proceeds and a distribution waterfall for current proceeds. In general, each distribution waterfall provides for distributions (i) first, to investors

until they receive distributions equal to the cost and expenses associated with the Fund's realized investments, (ii) then, to investors until they have received a cumulative compounded preferred return of 8% per annum on invested capital in the Fund's realized investments, (iii) then, to the General Partner until it receives "Carried Interest" distributions equal to 20% of the Fund's net profits, and (iv) then, 80% to investors and 20% to the General Partner as a "Carried Interest" distribution.

The above fees are currently not negotiable.

B. Deduction of Fees. The General Partner is permitted to deduct fees from each Fund's assets. Management fees are deducted from Fund assets on a quarterly basis on January 1, April 1, July 1 and October 1 of each year. Carried Interest distributions are deducted from Fund assets when distributions of disposition proceeds and current income are made under the distribution waterfalls discussed in Item 5.A.

C. Other Expenses. Each Fund bears the costs and expenses of its operations as specified in that Fund's limited partnership agreement. Fund expenses may include, without limitation, (i) fees, costs and expenses of any administrators, custodians, consultants, brokers, appraisers, attorneys, accountants and other agents; (ii) out-of-pocket fees, costs and expenses, if any, incurred in developing, negotiating, structuring, holding and disposing of actual investments; (iii) certain broken deal expenses; (iv) brokerage commissions, custodial expenses and other investments costs; (v) interest on and fees and expenses arising out of all borrowings made by the Fund; (vi) the costs of any litigation, directors and officers liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Fund; (vii) expenses of liquidating the Fund; (viii) taxes, fees or other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fund; (ix) corporation blocker expenses; (x) out-of-pocket expenses of the advisory committee of the Fund (the "Advisory Committee"); and (xi) expenses incurred by the Fund in connection with registering as a bank holding company, including expenses related to ongoing reporting and regulatory compliance by the Fund in connection with its status as a bank holding company.

Although each Fund initially will not incur brokerage fees, each Fund may in the future incur brokerage costs in connection with investments acquired or disposed of via broker-dealers. See Item 12 for a discussion of CFMC's brokerage practices.

D. Management Fees. In general, quarterly installments of management fees are payable by each Fund in advance, on January 1, April 1, July 1 and October 1 of each year. Each Fund may make Carried Interest distributions prior to the date when all capital has been returned to investors, which could result in the General Partner receiving Carried Interest distributions before an investor receives a return of capital and its preferred return on a back-end basis.

If a Fund terminates its relationship with the General Partner and with CFMC other than at the end of a calendar quarter, CFMC will refund to that Fund any prepaid management fees that

relate to the portion of that quarter during which CFMC will not act as an investment adviser to that Fund.

E. Neither the General Partner, nor its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

CFMC manages each Fund simultaneously. CFMC and its affiliates receive both performance-based Carried Interest distributions and asset-based fees from each Fund as described above in Item 5.A. CFMC does not believe that it has an incentive to favor one Fund over another Fund, since each Fund may make comparable performance-based Carried Interest distributions and pay comparable asset-based fees.

#### **Item 7 – Types of Clients**

Types of Clients. CFMC provides investment advisory services to each Fund. Pension plans, trusts, investment companies and individuals have invested in the Funds. Interests in each Fund were offered to investors who qualified as (i) “accredited investors” as defined in Regulation D promulgated under the U.S. Securities Act of 1933 (“**Securities Act**”), and (ii) “qualified clients” as defined in the U.S. Investment Advisers Act of 1940 (“**Advisers Act**”). Future Funds may have different admission standards.

Minimum Capital Commitments. The Funds are not open to new investors. The minimum capital commitment that an investor was required to invest in each Fund varied. The minimum capital commitment was \$500,000 for the Carpenter Community BancFund, L.P.; \$5 million for the Carpenter Community BancFund-A, L.P.; and \$250,000 for the Carpenter Community BancFund-CA, L.P. (“**Fund-CA**”). Each Fund’s minimum was subject to waiver by the General Partner. Future funds may have different minimum capital commitments.

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

A. Methods of Analysis. CFMC uses fundamental analysis, and relies upon inspections of corporate activities, SEC filings and company press releases. CFMC primarily analyzes potential investments based on strong management, suitable business plans, and attractive markets.

Investment Strategies. CFMC advises the Funds to make privately-negotiated equity and equity-related investments in a select group of community banks positioned for expansion. Modest levels of leverage at the portfolio company level may be used, consistent with bank regulatory limits. As investments in portfolio companies mature, CFMC expects to use M&A markets to exit these investments, although public markets may also form an important part of each Fund’s portfolio management strategy. CFMC may advise future funds using different strategies, such as making investments through publicly-traded securities.

Investing in securities of each Fund involves risk of loss that Fund partners should be prepared to bear. Certain material risks are summarized in Item 8.B.

**Material Risks.** Investment into a Fund involves a high degree of risk. There can be no assurance that a Fund's investment strategies will be achieved, or that an investor will receive a return of its capital. In addition, there are occasions when CFMC and its affiliates encounter conflicts of interest in connection with a Fund. An expanded discussion of risks and conflicts of interest can be found in each Fund's private placement memorandum.

Below is a discussion of certain material risks related to the investment approach taken by CFMC for its clients, the Funds.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive private investments in community banks is highly competitive and involves a high degree of uncertainty. There can be no assurance that CFMC will be able to locate, consummate, and exit investments for the Funds that realize value, satisfy the rate of return objectives of the Funds or cause the Funds to invest all of their committed capital. An investment in any of the Funds may result in the partial or total loss of capital.

**Favorable Environment for Investment in Community Banks.** Currently, the conditions for investment in community and customer-focused banks may be favorable. However, no assurance can be given that those favorable conditions will continue, and, in fact, those conditions could change suddenly or over an extended period of time.

**Newly-Formed Banks May Incur Significant Operating Losses.** Newly-formed and young banks are expected to incur operating losses in their early periods of operation because of an inability to generate sufficient net interest income to cover operating costs. Newly-formed and young banks may never become profitable. Current accounting rules require immediate write-off, rather than capitalization, of start-up costs and, as a result, newly-formed and young banks are expected to report larger early period operating losses. Those operating losses can be significant and can occur for longer periods than planned depending upon the ability to control operating expenses and generate net interest income, which could affect the availability of earnings retained to support future growth of such newly formed or young banks.

**Limits on the Size of Loans.** Regulatory limits on banks constrain the size and profitability associated with any loans that they may make. In addition, competing banks may have significantly larger capitalization and an ability to make significantly larger loans than the types of banks into which CFMC typically advises its clients to invest. Any inability to offer larger loans will limit the revenues that can be earned from interest amounts charged on larger loan balances. In addition, the performance of banks will, regardless of loan size, be dependent upon their ability to attract and retain customers in their respective markets that are dominated by substantially larger regulated and unregulated financial institutions.

**Competition in Banking Industry.** Increased competition in the markets in which the Funds' portfolio companies operate may result in reduced loans and deposits. Ultimately, a portfolio company may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that the Funds' portfolio companies will offer. Such competitors include national banks, regional banks and other community banks. The Funds' portfolio companies also face competition from many other types of financial institutions, including savings and loan associations, financing companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, such potential competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and extensive promotional and advertising campaigns. Technological innovation contributes to greater competition in U.S. and international financial services markets as advances in communication enable more companies to provide financial services over larger regions.

**Limited Market Areas.** Each of the Funds' portfolio companies will generally operate within a discrete geographical market. As a result of such lack of geographical diversity, an economic downturn in the market in which a portfolio company operates could adversely affect the banking business of that portfolio company.

**Recruiting and Retaining Qualified Personnel.** The Funds' portfolio companies depend upon their continuing ability to attract and retain highly qualified personnel. Competition for such employees among financial institutions is intense.

**Technology-Based Frauds and Scams.** Financial institutions are prime targets of criminal activities through various channels of information technology. Risks posed by business interruption, fraud losses, business recovery expenses, and other potential losses or expenses that may be experienced from a significant event are not readily predictable or avoidable.

**Banking Regulators Have Broad Enforcement Powers; Examinations; Regulations Protect Depositors, not Investors.** Banks are subject to supervision by several governmental regulatory agencies, including the Federal Reserve Board of Governors ("**FRB**"), the Federal Deposit Insurance Corporation and state banking regulators. Regulations promulgated by those agencies, as well as their interpretation and application by regulators, are beyond the control of the Funds' portfolio companies, may change rapidly and unpredictably and can be expected to influence the earnings and growth of the Funds' portfolio companies. Banks also undergo periodic examinations by one or more regulatory agencies. Following such examinations, the Funds' portfolio companies may be required, among other things, to change their asset valuations or the amounts of required loan loss allowances or to restrict their operations.

In addition, those regulations may limit the growth of the Funds' portfolio companies and the return to their investors by restricting activities such as the payment of dividends, mergers with, or acquisitions of, other institutions, investments, loans and interest rates, interest rates paid on deposits and the creation of branch offices. Although such regulations will impose



costs upon the Funds' portfolio companies, any investor in any of the Funds should not assume that those regulations protect the interests of any Fund as a shareholder in its portfolio companies. The regulations to which the portfolio companies are subject may not always be in the best interests of investors.

**Bank Holding Company Act Requirements.** Each Fund has registered as a bank holding company under the U.S. Bank Holding Company Act of 1956 (the "**Bank Holding Company Act**"). The Bank Holding Company Act generally prohibits a bank holding company from (1) acquiring, directly or indirectly, more than 5% of the outstanding shares of any class of voting securities of a bank or bank holding company, (2) acquiring control of a bank or another bank holding company, (3) acquiring all or substantially all the assets of a bank, or (4) merging or consolidating with another bank holding company, without first obtaining FRB approval. No assurance can be given that a Fund will obtain the FRB approvals necessary to operate such Fund's business in a manner that will maximize returns to investors. In addition, the U.S. Change in Bank Control Act of 1978 and various state laws impose limitations on the ability of one or more individuals or other entities to acquire control of banks or bank holding companies.

The FRB has issued a policy statement on the payment of cash dividends by bank holding companies. In the policy statement, the FRB expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends which exceed its net income or which could only be funded in ways that would weaken its financial health, such as by borrowing. The FRB also may impose limitations on the payment of dividends as a condition to its approval of certain applications, including applications for approval of mergers and acquisitions.

**Liability for an Undercapitalized Subsidiary Bank.** Under U.S. federal law, a bank holding company may be required to guarantee a capital plan filed by an undercapitalized bank or thrift subsidiary with its primary regulator. If the subsidiary defaults under the plan, the holding company may be required to contribute to the capital of the subsidiary bank an amount equal to the lesser of 5% of the bank's assets at the time it became undercapitalized or the amount necessary to bring the bank into compliance with applicable capital standards. These requirements may force a Fund to provide guarantees or make contributions it would not have elected to provide or make in the absence of such laws.

**Volcker Rule.** Under the "Volcker Rule", "banking entities" and their affiliates may not engage in proprietary trading or acquire or retain any ownership interest in or sponsor a "hedge fund" or a "private equity fund," subject to exceptions and exemptions. One such exemption permits banking entities to sponsor and make small investments in such private funds that are organized in the banking entity's fiduciary or advisory capacity for investment by customers. In general, nonconforming fund investments or sponsorships made before December 31, 2013 may remain in place until July 21, 2016, with a possible extension of one year for most such investments. No new investments or sponsorships may be undertaken, other than those permitted by the Volcker Rule. The term "banking entity" is defined generally to include any

insured depository institution (as defined in section 3 of the U.S. Federal Deposit Insurance Act of 1950), any company that controls an insured depository institution or that is treated as a bank holding company for purposes of section 8 of the International Banking Act of 1978, and any affiliate or subsidiary of any such entity, subject to certain carve-outs.

**Downturn in the Real Estate Market Could Diminish Portfolio Value.** A downturn in the real estate market could hurt the Funds' portfolio companies because many of their loans may be secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature.

**Allowances for Loan Losses May Prove Inadequate.** Depending on changes in economic, operating and other conditions (including interest rates) that are generally beyond the control of the General Partner or any portfolio company of a Fund, actual loan losses could be significantly greater than estimated losses. No assurance can be provided that the allowances used by the Funds' portfolio companies will be sufficient to cover actual future loan losses should such losses be realized. Loan loss experience, which is helpful in estimating the requirements for the allowance for loan losses at any given balance sheet date, will likely be minimal at many of such portfolio companies. Levels of nonperforming loans and related loan losses may increase as economic conditions and the residential housing market, on a local and national level, evolve.

**Changes in Market Interest Rates.** The profitability of the Funds' portfolio companies will depend in part on net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans, and interest expense on interest-bearing liabilities, such as deposits. Therefore, any change in general market interest rates, whether as a result of changes in monetary policies of the FRB or otherwise, can have a significant effect on net interest income. No assurance can be given that such portfolio companies will effectively minimize their interest rate risk. Furthermore, when differences between short-term and long-term interest rates shrink or disappear, the spread between rates paid on deposits and received on loans could narrow significantly, decreasing net interest income.

**Investments in Less Established Companies.** Investments in newer companies may involve greater risks than are generally associated with investments in more established companies. If there is any public market for the securities held by the Funds, those securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources, and therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow.

**Illiquid and Long-Term Investments.** A Fund's return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of

that investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the investment is made.

**Risks in Effecting Operating Improvements.** In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of such Fund to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty.

**Investments Longer than Term.** A Fund may make investments that are not advantageously disposed of before the date that the Fund will be dissolved. A Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

**Risk of Limited Number of Investments.** A Fund may participate in a limited number of investments and, as a consequence, the aggregate return of such Fund may be substantially adversely affected by the unfavorable performance of even a single investment.

**Non-Controlling Investments.** A Fund may hold a non-controlling interest in portfolio companies and may co-invest with third parties through joint ventures and other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial difficulties resulting in a negative impact on investments, have economic or business interests or goals which are inconsistent with those of a Fund, or be in a position to take (or block) action in a manner contrary to a Fund's investment objectives. In addition, a Fund may in certain circumstances be liable for the actions of its third-party co-investors.

**Material, Non-Public Information.** CFMC and its affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Funds will not be free to act upon any such information and may not be able to initiate a transaction or sale that it otherwise might have initiated absent those restrictions.

**Additional Capital.** Certain portfolio companies of the Funds may be expected to require additional financing to satisfy their working capital requirements or acquisition strategies. If the funds provided by such financings are not sufficient, a portfolio company may have to raise additional capital at an unfavorable price. There can be no assurance that such portfolio companies will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

**Bridge Financings.** A Fund may lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security, however, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the

interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the position taken by any of the Funds.

**Conflicts of Interest.** There will be occasions when CFMC and its affiliates may encounter conflicts of interest in connection with a Fund. If any matter arises that CFMC determines constitutes an actual conflict of interest, the General Partner may take such actions as may be necessary or appropriate to resolve the conflict (and upon taking such actions the General Partner will be relieved of any responsibility for such conflict). The following discussion lists certain additional conflicts of interest:

- **Carried Interest.** The existence of Carried Interest distributions may create an incentive for the General Partner to make riskier or more speculative investments on behalf of the Funds than would be the case in the absence of this arrangement. If a Fund makes distributions of property other than cash, the amount of each such distribution will be accounted for at the fair market value of such property as determined by the General Partner. An independent appraisal generally will not be required and is not expected to be obtained.
- **Other Fees.** The General Partner and its affiliates may be entitled to receive cash and noncash commitment, break-up, monitoring, directors', organizational, set-up, advisory, investment banking, underwriting, syndication and other similar fees in connection with the purchase, monitoring or disposition of investments, or from unconsummated transactions including warrants, options, derivatives and other rights in respect of securities owned by a Fund. Such fees will offset the management fee as discussed above in Item 5.A.
- **Other Activities of Carpenter and its Affiliates.** The Managing Members and their affiliates are actively engaged in the community banking business. In addition to their activities with respect to the Funds, certain Managing Members and their respective affiliates may continue to advise other clients with respect to forming, capitalizing and operating community bank investments, as well as providing advice with respect to potential exits from such investments. As a result of such current and future other business activities, there may arise conflicts of interest with respect to the manner in which certain Managing Members and their affiliates allocate their time among the business and affairs of CFMC, the General Partner, the Funds and such other activities.
- **Carpenter & Company Consulting.** Carpenter & Company is a financial services consulting organization owned and operated by certain Managing Members or their respective affiliates. For many years, Carpenter & Company provided consulting services on a fee basis to community banks, including to groups seeking to organize de novo community banks. Carpenter & Company may continue to provide these services to companies which are or may become portfolio companies of a Fund and will receive fees from such companies based on the kind and length of service and other factors.
- **Carpenter & Company's Affiliated Broker-Dealer.** Seapower Carpenter Capital, Inc. ("**Seapower**"), an affiliate of Carpenter & Company, is a registered broker/dealer and member of FINRA. Seapower is operated by certain Managing Members or their respective affiliates.

From time to time, Seapower may be permitted to provide various investment banking services, including capital raising and other financial advisory services, to companies which are or may become portfolio companies of the Funds. No portfolio company, as a condition of the Fund's investing in the portfolio company, will be required to engage Seapower to provide any such services. Seapower does not serve as a market maker or firm commitment underwriter. The FINRA rules of conduct impose certain requirements and limitations on a broker/dealer, and persons associated with a broker/dealer, in connection with securities offerings. The General Partner expects that Seapower will comply with all applicable FINRA rules and other applicable laws and regulations. If a regulator determines that Seapower has failed to comply with such rules, laws and regulations for any reason, the Fund may be unable to participate, or its participation may be delayed, in certain securities offerings and such failure may have a material adverse effect on the Fund's financial performance.

- **Material Non-Public Information.** As a result of the extensive operations of Carpenter & Company and its affiliates, the General Partner and its affiliates may come into possession of confidential or material, non-public information. In the event any material, non-public information is disclosed to any members of the General Partner or its affiliates, the Funds may be prohibited by applicable securities laws and the General Partner's internal policies from acting upon any such information. Due to these restrictions, the Funds may not be able to sell a portfolio company investment that it otherwise might have sold which could impact the financial performance of the Funds.
- **Parallel Vehicles.** To facilitate investment by certain investors with a mandate to invest in the State of California, CFMC formed Fund-CA to invest exclusively in portfolio companies located in the State of California. CFMC will therefore have an incentive to favor Fund-CA when allocating State of California investment opportunities among the Funds. However, this risk is mitigated by the fact that Fund-CA has aggregate commitments of \$8,163,265, which represents less than 3% of the aggregate commitments of the Funds.

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

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of CFMC's advisory business or the integrity of its management.

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

CFMC is affiliated with Seapower, a registered broker-dealer and member of FINRA. CFMC shares office space and may share certain overhead expenses with Seapower, but maintains separate and independent operations. Seapower is permitted to provide various investment banking services, including capital raising and other financial advisory services, to companies which are or may become portfolio companies of one or more of the Funds. If Seapower provides such services, Seapower may be entitled to receive reasonable compensation or reimbursement of expenses. CFMC's relationship with Seapower may give rise to conflicts of interest, which are disclosed under "Conflicts of Interest" above in Item 8.

Each of the Funds is a pooled investment vehicle and the General Partners is a sponsor or syndicator of limited partnerships. The General Partner controls the Funds and the General Partner is under common control with CFMC. The relationship between the General Partner and the Funds is discussed above in Items 4 and 5. The General Partner's relationship with the Funds may give rise to conflicts of interest, which are disclosed under "Conflicts of Interest" above in Item 8.

The General Partner and certain of the Funds are each registered as bank holding company, and in that capacity is regulated by the Federal Reserve System. Since 2008, the General Partner has caused those Funds to acquire control interests in a number of banks with the result that several banks or bank holding companies are related persons of the General Partner. The relationship between the General Partner and the Funds is discussed above in Items 4 and 5. The relationship of the General Partner with the Funds may give rise to conflicts of interest, which are disclosed under "Conflicts of Interest" above in Item 8.

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

Code of Ethics. CFMC's code of ethics provides that CFMC and its directors, officers and partners (or other persons occupying a similar status or performing similar functions), employees, and any other person that provides advice on behalf of CFMC and is subject to CFMC's supervision and control ("**Supervised Persons**"), will comply with, at all times, CFMC's fiduciary duties to its clients. CFMC intends to comply with all applicable securities laws (including insider trading laws) and expects its Supervised Persons to comply as well.

Access Persons of the CFMC are subject to additional requirements. "**Access Persons**" include Supervised Persons who: (i) have access to nonpublic information regarding any Fund's purchases or sales of securities; or (ii) are involved in making securities recommendations to the Funds, or have access to such recommendations that are nonpublic.

CFMC requires all of its Access Persons to report, and its chief compliance officer to review, their personal securities transactions and holdings with respect to "reportable securities" periodically as required by Rule 204A-1(a)(3).

Every Access Person must obtain approval from the chief compliance officer before engaging in any purchase or sale, either long or short, of any form of stock or derivative of any financial institution or financial institution holding company.

CFMC's chief compliance officer is responsible for enforcing CFMC's code of ethics. Each Supervised Person is expected to promptly report any violations of the code of ethics, or the specific policies set forth above, to CFMC's chief compliance officer. Each Supervised Person is provided a copy of the code of ethics and any amendments.

CFMC will provide a copy of its code of ethics to any client or prospective client upon written request.

Recommendations Subject to a Conflict of Interest. The General Partner may cause a Fund to engage in a purchase of an investment from or sale of an investment to another Fund as the counterparty if the purchase or sale meets the needs and investment objectives of the Funds involved. If any conflict of interest were to arise, the General Partner would address this conflict by requiring that the Funds obtain consent as required by applicable law and under the organizational documents of the applicable Fund.

The General Partner may also cause one or more Funds to invest in securities or other interests sold or issued by entities in which CFMC or a related party has a direct or indirect interest. Such interests may result from, among other things, a direct or indirect investment in the applicable entity or a member of CFMC serving as an officer or director of the entity or because CFMC receives advisory fees, directors' fees, or other fees from such entity. The General Partner will address this conflict of interest by requiring that the Fund obtain appropriate consent to the extent required by applicable law and under the organizational documents of its Fund.

Investments in Client Securities. Each Fund's partnership agreement may place restrictions on the General Partner and affiliates being permitted to invest in securities in which that Fund also invests. However, in some circumstances, CFMC and its affiliates are permitted to invest in securities that it recommends to clients. CFMC addresses this conflict of interest by limiting the circumstances in which personal trading can occur under the terms of each Fund's limited partnership agreement.

CFMC and its related persons will not recommend securities to clients, or buy or sell securities for a Fund's, at or about the same time that CFMC or a related person buys or sells the same securities for its own account (or account of a related person).

## **Item 12 – Brokerage Practices**

A. Best Execution. Initially, the Funds invested in portfolio companies through non-public transactions that did not use broker-dealers. If CFMC or the General Partner causes a Fund to use brokerage services, CFMC intends to satisfy its duty of "best execution". In satisfying that duty, CFMC may not always obtain the lowest possible commission cost, but will seek to obtain the best qualitative execution. In determining whether this standard is met, CFMC will consider the full range and quality of a broker-dealer's services when placing brokerage, including, among other things, execution capability, commission rate, financial responsibility, responsiveness to the adviser, and the value of any research services provided.

1. Research and Other Soft Dollar Benefits. CFMC does not currently receive "soft dollar" benefits from broker-dealers. If CFMC selects a broker-dealer for a Fund because of the value of research or brokerage services, those "soft dollar" arrangements will comply with the best execution safe harbor section 28(e) of the U.S. Securities Exchange Act of 1934.

2. Brokerage for Client Referrals. CFMC does not consider, in selecting or recommending broker-dealers, whether it or a related person receives client referrals from a broker-dealer or third party.

3. Directed Brokerage. CFMC does not routinely recommend, request or require that a client direct CFMC to execute transactions through a specified broker-dealer. CFMC does not permit a client to direct brokerage.

B. Trade Aggregation. CFMC anticipates that it will not generally use broker-dealers to execute a Fund's investment transactions, and, consequently, trade aggregation will not be at issue. However, CFMC expects to aggregate orders across its Funds when it has the opportunity to do so.

If CFMC aggregates brokerage orders for the Funds for the purchase or sale of securities, the allocation of aggregated securities among the Funds will be undertaken on a fair and reasonable basis, taking into account any restrictions applicable to a Fund, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals for each Fund and each such other investor and other considerations deemed relevant by CFMC in good faith.

### **Item 13 – Review of Accounts**

Each Fund's account is reviewed on a daily basis by one or more of the managing members of the Fund's General Partner. Each Fund's accounts are reviewed in light of emerging economic trends as well as developments in the competitive, financial, and regulatory environments in which the Funds invest. Since the General Partner reviews each Fund's accounts on a daily basis, there are no factors that trigger review on a non-periodic basis.

The General Partner prepares written quarterly reports for each Fund to that Fund's limited partners. These quarterly reports include financial statements prepared in accordance with U.S. GAAP, schedule of changes to capital account balances, and summary descriptions of each investment owned by that Fund. The General Partner also prepares written annual reports for each of its Funds to distribute to that Fund's limited partners. These annual reports include valuations of all investments and audited financial statements prepared in accordance with U.S. GAAP, and are subject to review and audit by independent public accountants.

If the General Partner determines in good faith that, as a result of the U.S. Freedom of Information Act ("FOIA"), any state public records access law, any state or other jurisdiction's laws similar in intent or effect to FOIA, or any other similar statutory or regulatory requirement, a limited partner or any of its affiliates may be required to disclose information relating to a Fund, its affiliates, or any portfolio company (other than certain Fund-level, aggregate performance information), the General Partner may, in order to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to that limited partner.



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

Neither CFMC nor the General Partner receives any economic benefit for providing advisory services to the Funds other than amounts paid directly from the Funds. If the General Partner or its affiliates receives fees or reimbursements from a Fund's portfolio companies, management fees at the level of that Fund are reduced by 100% of that Fund's share of those fees, reduced by the General Partner's unreimbursed out-of-pocket expenses incurred in actual or prospective transactions giving rise to those fees. See Item 5.A for more information.

Neither of CFMC nor the General Partner directly or indirectly compensates any person that is not a supervised person for client referrals.

#### **Item 15 – Custody**

The General Partner is deemed to have custody of all of the assets of each Fund. The General Partner intends to rely upon Rule 206(4)-2(b)(4) of the Advisers Act, which provides an exemption from the requirement that a qualified custodian send account statements if annual audited financial statements to all limited partners in a Fund and certain other conditions are met. As a result, the General Partner does not anticipate that its qualified custodian will send account statements directly to its clients. However, CFMC hereby urges each limited partner in each Fund to compare the annual audited financial statements it receives from its Fund with any account statements that it receives from CFMC, the General Partner, or its Fund.

#### **Item 16 – Investment Discretion**

The General Partner generally has full discretionary authority over the investment decisions of each Fund. Limitations on the General Partner's discretionary authority typically occur in the partnership agreement of a Fund. Often, a Fund's partnership agreement will place certain restrictions on a Fund's investments, such as, for example, single position limits and limits on non-U.S. investments. The General Partner obtains its discretionary authority through each Fund's partnership agreement and often through each limited partner of a Fund giving a power of attorney to the General Partner of the Fund.

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

The General Partner generally has the authority to vote the securities owned by its Fund. The General Partner votes each Fund's securities in accordance with that Fund's partnership agreement. The General Partner will keep a copy of each Fund's votes as part of each Fund's books and records. Each Fund's partnership agreement addresses the conditions under which limited partners of that Fund may access that Fund's books and records. Each Fund may obtain a copy of the General Partner's (or CFMC's) proxy voting policies by contacting CFMC's chief compliance officer.

**Item 18 – Financial Information**

There is no financial condition that is reasonably likely to impair CFMC's ability to meet contractual commitments to its clients. CFMC has not been the subject of a bankruptcy proceeding.