

FIRM BROCHURE

NexPhase Capital, LP

February 5, 2016

This investment adviser brochure (“Brochure”) provides information about the qualifications and business practices of NexPhase Capital, LP.

If you have any questions about the contents of this brochure, please contact us at (212) 878-6000 or [email: agoldfarb@nexphase.com](mailto:agoldfarb@nexphase.com)

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.

Additional information about NexPhase Capital, LP is also available on the SEC’s website at www.adviserinfo.sec.gov.

**NexPhase Capital, LP
399 Park Avenue, 6th Floor
New York, NY 10022
Phone: (212) 878-6000
<http://www.nexphase.com>**

Item 2. Material Changes

This update is filed solely to reflect a change in the investment adviser's legal structure from NexPhase Capital LLC to NexPhase Capital, LP.

Item 3. Table of Contents

Item 4.	Advisory Business	4
Item 5.	Fees and Compensation	6
Item 6.	Performance-Based Fees and Side-by-Side Management.....	9
Item 7.	Types of Clients.....	10
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss	10
Item 9.	Disciplinary Information	17
Item 10.	Other Financial Industry Activities and Affiliations	18
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	20
Item 12.	Brokerage Practices	31
Item 13.	Review of Accounts	32
Item 14.	Client Referrals and Other Compensation.....	33
Item 15.	Custody.....	33
Item 16.	Investment Discretion.....	34
Item 17.	Voting Client Securities	34
Item 18.	Financial Information	36

Item 4. Advisory Business

A. General Description of Advisory Firm

NexPhase Capital, LP is a New York, New York-based investment advisory firm organized as a limited liability company under the laws of the State of Delaware and founded in 2015 by Kurt Larsen and Edward Yun, each of whom own 50% of the firm. The investment activities will be led by Messrs. Larsen and Yun, who together with the firm's other partners, will comprise the members of NPC's investment committee (the "Investment Committee"). A number of other investment professionals will work with the Investment Committee to execute NPC's investment strategy.

Messrs. Larsen and Yun currently serve as managing partners for Moelis Capital Partners LLC ("MCP"), but it is intended that as of January 1, 2016, Messrs. Larsen and Yun will separate from MCP, and that several current MCP employees and affiliated individuals will also separate from MCP and will assume their same roles with NPC.

NPC will provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere, including NexPhase Capital Fund III, LP and any future funds established by NPC ("NexPhase Funds" or "Funds"), and investment sub-advisory services to certain funds currently managed by MCP (collectively, the "Moelis Funds"). NPC may, from time to time, also establish certain investment vehicles through which certain of its employees, officers, and independent contractors, certain business associates, certain investors in the Funds, or others (including persons close to the firm) may invest alongside one or more Funds in one or more investment opportunities. Such vehicles, referred to herein as "co-investment vehicles," generally are contractually required, as a condition of investment, to purchase and exit their investments in each investment opportunity at substantially the same time, and on substantially the same terms, as the applicable Fund that is invested in that investment opportunity.

NPC's business focuses on advising its clients in making private equity investments of between \$20 to \$60 million in middle market companies primarily in North America.

As used in this Brochure:

- "we," "us" and "our" refer to NPC and its investment advisory business;
- the "NexPhase Funds" or "Funds" refer to NexPhase Capital Fund III, LP and any future private investment funds to which NPC provides investment advisory services;
- "NexPhase Clients" and "our clients" refer to the NexPhase Funds, and any funds sub-advised by NPC, which beginning on or about January 1, 2016 will include the Moelis Funds; and

- Unless otherwise indicated herein, the “general partners” refer to the respective general partners of the NexPhase Clients.

B. Description of Advisory Services

We provide investment advice regarding the selection, monitoring and realization of each NexPhase Client’s investments. Generally, we provide assistance to the NexPhase Clients’ general partners with respect to strategic planning, identifying potential investments, screening and referring potential investments to NexPhase Clients, recommending strategies for exit from investments, executing the investments, monitoring the performance of investments, providing economic and investment analysis with respect to investments, and preparing valuations and reports in accordance with the relevant NexPhase Client’s Governing Documents (as defined below). We work with the portfolio companies directly and provide managerial, advisory, and administrative assistance to the portfolio companies under the direction of the NexPhase Clients’ general partner.

In addition to the full-time investment professionals of NPC, the NexPhase Clients engage the services of certain operating partners to work actively with NPC on sourcing and evaluating new transactions, as well as providing strategic insights related to portfolio company matters. While these advisers may from time to time be referred to as “Operating Partners,” they are not partners or employees of NPC or any of its affiliates, but rather independent consultants engaged by NPC. The compensation of such individuals, including, but not limited to, transaction fees and other items detailed herein, for their provision of services to (or with respect to) certain portfolio companies is generally treated as an expense of the relevant NexPhase Client(s), and such compensation generally will not result in additional offsets to the management fees payable by investors in the NexPhase Clients.

We also work with an independent executive advisory board (the “Executive Advisory Board”) consisting of senior operating professionals with relevant industry and c-suite operating expertise who advise NPC on trends and challenges within its targeted industries, help identify attractive investment opportunities, facilitate introductions to companies and managers, provide critical insight during due diligence and join portfolio company boards when appropriate.

The relationship between us, each NexPhase Fund and our other clients is governed by the Advisers Act as well as the Governing Documents of each fund and the terms of investment advisory or sub-advisory agreements concluded between us and each client. Investments in the NexPhase Funds are privately offered only to qualified investors, which typically include institutional investors (for example, public and private pension funds) and eligible high-net-worth individuals.

The NexPhase Funds primarily participate in private equity and equity-related investments in companies operating in the middle-market with EBITDA typically in the range of \$5 million to \$30 million (although the ranges could be lesser or greater), including, for example, leveraged or management buyouts, recapitalizations, and minority equity investments.

The investment advice we provide to our clients is limited to private equity investment programs conducted by the NexPhase Funds, and other private equity investment programs for which we provide sub-advisory services, such as the Moelis Funds.

C. Availability of Tailored Services for Individual Clients

Our advisory services are tailored to the investment strategies of the NexPhase Clients. Investment restrictions are imposed in the relevant Governing Documents for the NexPhase Clients, and may be specifically negotiated with investors.

D. Client Assets Under Management

As of the date of this filing, we had not yet commenced investment advisory activities on behalf of any clients, and, as such, had \$0 in regulatory assets under management. We anticipate that we will have greater than \$100 million in regulatory assets under management within 120 days of the effectiveness of our registration.

Item 5. Fees and Compensation

A. Advisory Fees and Compensation

Management fees, performance fees and other fees we earn may be negotiated. The fees we charge are described in detail in the Fund limited partnership agreement (or analogous organizational document) of each NexPhase Client, separate investment and advisory, investment management or portfolio management documents, or side letters with investors (together, the “Governing Documents”) and investor offering documents. Generally, we charge between a 1.5 and 2 percent management fee annually on aggregate capital commitments and/or aggregate capital contributions. “Carried interest” i.e., performance based compensation, is assessed periodically according to each Fund’s Governing Documents, and in the discretion of the general partner or control vehicle of the applicable Fund. These fees are typically paid out of cash otherwise distributable to investors, such as the use of proceeds from a portfolio investment by NexPhase Clients.

Please refer to the relevant NexPhase Fund or Moelis Fund Governing Documents for a complete description of our fees and charges for each specific investment.

B. Collection of Fees

The management fee is calculated as a percentage of committed capital during the commitment period and invested capital thereafter, in each case in accordance with the Governing Documents. Management fees are paid by NexPhase Funds quarterly in advance on behalf of the limited partners by (i) requiring limited partners to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the limited partners of the NexPhase Funds. Limited partners are generally not permitted to withdraw from the Funds as outlined in the Governing Documents. In the event of a “non-voluntary withdrawal,” we will refund all pre-paid fees that have not been earned.

NexPhase Funds are assessed a “carried interest” or performance fee that is paid to each Fund’s general partner. The “carried interest” is assessed periodically according to each Fund’s Governing Documents, typically after the receipt by the Fund of proceeds from a portfolio investment, and is paid out of cash otherwise distributable to investors. See Item 6 for additional information on carried interest.

We reserve the right to waive or reduce management fees for certain investors, including employees, our affiliates, advisors and consultants, and others as may be determined in our sole discretion.

C. Other Fees and Expenses

Other fees may be borne by the NexPhase Funds and paid to us or to a NexPhase Fund’s general partner, managing member, or affiliates. These fees include finders, break-up, monitoring, advisory, transactional, directors’, organizational, set-up, investment banking, underwriting, syndication and similar fees. These fees may be substantial. These potential fee arrangements are disclosed in the private offering materials for each particular private offering.

Additionally, portfolio companies may reimburse NPC for approved expenses incurred by NPC in connection with its performance of services for such portfolio company, and such reimbursements are not applied to reduce the quarterly management fee.

NPC contracts with Operating Partners and Executive Advisory Board members and generally will negotiate to pay them a set retainer and/or consulting fee which is generally treated as an expense of the relevant NexPhase Client(s) or portfolio company as applicable. Operating Partners and Executive Advisory Board members also will receive additional compensation, including, but not limited to, transaction fees, a profits or equity interest in a portfolio company, profits or equity interests in one or more NexPhase Funds or general partners, or other compensation, which may be determined according to one or more methods, including the value of time (including an allocation for overhead and other fixed costs) of such Operating Partners or Executive Advisory Board members, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged to other providers for comparable services and/or a percentage of cash flows of profits from such portfolio company.

Furthermore, in the course of the performance of their services, Operating Partners and Executive Advisory Board members may contract directly with a portfolio company to provide additional consulting services, including joining the board of directors. No such compensation provided to the Operating Partners and Executive Advisory Board members will offset the management fees payable by investors in the NexPhase Clients.

Each NexPhase Fund must reimburse us and our affiliates for customary organizational and operating expenses, as the Governing Documents of each Fund more fully describe. In addition, each NexPhase Fund will pay costs and expenses relating to its activities, including:

- expenses incurred in connection with the evaluation, acquisition or disposition of investments (including expenses incurred in connection with transactions not consummated (“Broken Deal Expenses”)), including private placement fees, sales commissions, appraisal fees, taxes, brokerage fees, underwriting. The types of fees and expenses that will be charged to the NexPhase Funds in relation to the acquisition, holding and disposition of investments, include among other things: meals, entertainment, lodging and travel expenses;
- certain compensation, including, but not limited to, annual retainer fees and/or consulting fees paid to Operating Partners and Executive Advisory Board members;
- expenses incurred in connection with the carrying or management of investments, including custodial, trustee, record keeping and other administration fees;
- expenses incurred in connection with a Fund’s financial statements, tax returns, K-1’s and other communications with Investors;
- attorneys’ and accountants’ fees;
- taxes and other governmental charges levied against a Fund;
- insurance, regulatory and litigation expenses (and damages), including insurance and certain regulatory expenses of NPC, a Fund’s general partner, and other affiliated entities (as defined in the relevant Fund’s Governing Documents);
- expenses incurred in connection with the winding up or liquidation of a Fund;
- expenses relating to defaults by Investors in the payment of any capital contributions;
- expenses incurred in connection with any restructuring or amendments to the Governing Documents of a NexPhase Fund and related entities, including NPC and such Fund’s general partner;

- expenses incurred in connection with the formation of alternative investment vehicles to the extent permitted under the relevant Fund's Governing Documents;
- expenses incurred in connection with any valuation of the assets of a NexPhase Fund; and
- expenses incurred in connection with distributions to a NexPhase Fund and in connection with any meetings with Investors called by a Fund's general partner.

In cases where co-investors participate in an investment, such co-investors will bear their pro-rata share of any expenses associated with such investment. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary, ultimately is not consummated, all Broken Deal Expenses relating to such unconsummated transaction will be borne by the NexPhase Fund(s), and not by any prospective co-investors who were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-invest or other vehicle in connection with such transaction, such vehicle may bear its share of such Broken Deal Expenses. Such co-investments typically do not pay advisory fees or allocate any carried interest to NPC or affiliated entity.

Our clients will incur brokerage and other transaction costs, and a discussion of our brokerage practices may be found in Item 12 of this Brochure.

D. Refunds for Fees Charged in Advance

Investors in the Funds typically agree to commit a certain amount of capital to a Fund in advance of our performance of any investment advisory functions. Fees assessed against the Funds are paid to us, in advance, from these amounts as described above.

Upon termination of the investment advisory agreement with a NexPhase Fund, we will return to such Fund any paid but unearned portion of the management fee. In general, such fees are pro-rated from the date of termination to the end of the period to which the advance fee applied.

E. Compensation for Sales of Securities

Neither we nor our supervised persons accept compensation for the sale of securities or other investment products.

Item 6. Performance-Based Fees and Side-by-Side Management

Funds are assessed a "carried interest" or other performance-based compensation that is paid to the Fund's general partner. "Carried interest" is typically measured as a percentage of the profits of a Fund, and is negotiated separately for each Fund. Investors in the NexPhase Funds will be subject to carried interest.

Performance-based compensation arrangements may create an incentive for us to recommend investments which may be riskier than those which would be recommended under a different compensation arrangement, as we capture a set fraction of an investment's upside but do not suffer proportionately the downside of the investment. We address these conflicts through careful vetting of investment opportunities by our investment professionals, full disclosure of investments to limited partners by way of quarterly reports, as well as investment by a number of our investment professionals alongside NexPhase Funds, in an effort to align our interests with such NexPhase Funds.

Performance fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of time, services, or investment opportunities. We have implemented procedures to prevent this potential conflict of interest from influencing the allocation of investment opportunities among or between our clients. Under no circumstances may we allocate investment opportunities based on anticipated compensation or profits to ourselves or any other affiliates or employees.

For further discussion regarding investment allocation, see Item 11.D.

Item 7. Types of Clients

We provide investment advice to the NexPhase Funds as well as vehicles formed to effect investments to be made by qualified professional personnel and other investors. We also provide sub-advisory services to the Moelis Funds, which are private equity funds offering similar investment strategies to the NexPhase Funds.

We offer interests in the NexPhase Funds only to qualified investors, typically institutional investors and eligible high-net worth individuals. We typically impose a minimum investment in connection with participating in a NexPhase Fund, often \$5 million, although this minimum may be waived at our discretion. On occasion, we may also offer investment opportunities to our qualified professional personnel, as well as other qualified institutions or individuals (for example, executives of present or former portfolio companies) with whom we have a pre-existing relationship.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

A. Methods of Analysis and Investment Strategies

We seek to closely partner with entrepreneurial owners and/or management teams of portfolio companies to grow their companies.

We engage in a detailed due diligence process for each potential investment, including modeling short and long-term financial scenarios, company assessment, industry analysis, competitive benchmarking, evaluation of company management, risk assessment and transaction size, and pricing and structure analysis. The due diligence effort includes our investment professionals as well as Operating Partners and Executive Advisory Board members, legal, tax, insurance and accounting advisors and third-party consultants. In our analysis of potential investments, we primarily use information that a potential portfolio company provides to us as a result of our due diligence review. We may also employ third-party advisors.

Investments made on behalf of NexPhase Clients involve significant risks, including the risk of losing the entire investment, and investors must be prepared to bear the risk of a total loss of their committed or invested capital. Please see Item 8.B. below for additional risks associated with such investment.

B. Material Risks

There can be no assurance that any investment will meet its investment objectives, or that an investor will receive a return of capital. In many cases, the success of our investment strategy will depend, in part, on our ability to restructure and effect improvements in the operations of the portfolio companies held by NexPhase Clients. Identifying and implementing potential operating improvements involves a high degree of uncertainty, and there can be no assurance that we will be able to successfully identify and implement these improvements. The performance of prior investments made by NexPhase Clients is not indicative of any expected future results.

Financial Market Fluctuations

General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced in 2008, may reduce the availability of attractive investment opportunities for NexPhase Clients and may affect the ability of NexPhase Clients to make investments and the value of the investments held by NexPhase Clients. Instability in the securities markets and economic conditions generally, may also increase the risks inherent in the investments of NexPhase Clients. The public securities markets have seen periods of increased volatility where the ability of companies to obtain financing for ongoing operations or expansions was severely hampered by the tightening of the credit markets and the ongoing financial turmoil. There may be repercussions if this market turmoil returns, including the effect of unknown governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) which may have a positive or negative effect on market conditions. There can be no assurance that the market will, at that time, retain its current liquidity and it might be volatile for the foreseeable future. The ability to realize investments depends not only on portfolio companies and their historical results and prospects, but also on political, market and economic conditions at the time of such realizations. In the past, many private equity funds have

looked to the public securities markets as a potential exit strategy and there can be no assurance, particularly given the recent period of volatility in the financial markets and a potential lack of investor appetite for new issues in the public securities markets, that NexPhase Clients would be able to exit from their investments in portfolio companies by listing their shares on securities exchanges. The trading market, if any, for the securities of any portfolio company may not be sufficiently liquid to enable a NexPhase Client to sell these securities when NPC believes it is most advantageous to do so, or without adversely affecting the stock price. Continued or renewed volatility in the financial sector may have a material adverse effect on the ability of NexPhase Clients to buy, sell and partially dispose of their portfolio company investments. NexPhase Clients may be adversely affected to the extent that they seek to dispose of any of their portfolio investments into an illiquid or volatile market, and a NexPhase Client may find itself unable to dispose of investments at prices that NPC believes reflect the fair value of such investments. The duration and ultimate effect of future market conditions and whether such conditions may worsen cannot be predicted. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high yield debt market or otherwise.

Liquidity Risk

A long-term commitment is required for investing with us, as we do not generally sell the securities of portfolio companies for a number of years. In many cases these securities are not publicly traded. Consequently, any returns on the investments are paid to investors multiple years after they invest. A variety of factors, including national and international economic conditions, asset conditions, political and regulatory considerations, and public opinion, may impact each NexPhase Client's ability to buy or sell investments on favorable terms, if at all. Further, interests in the NexPhase Clients have not been registered under the Securities Act of 1933, as amended, or any other applicable securities laws and are not transferable except with the consent of the applicable general partner, which may be withheld by the applicable general partner in its sole discretion. There is no public market for interests of any NexPhase Client, nor is such a market expected to develop in the future. Investors in NexPhase Clients generally may not withdraw capital at any time. Consequently, investors in NexPhase Clients may not be able to liquidate their investments prior to the end of the term of the particular fund.

Leverage Risk

In addition, investments made by NexPhase Clients are expected to include companies whose capital structures may have significant leverage. These investments are inherently more sensitive to declines in revenues and increases in expenses and interest rates; the use of leverage enhances the possibility of a significant loss in the value of an investment portfolio. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future

operations and capital needs. Our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive interest rates. Further, if additional financing (including leverage) is needed for the capital requirements of a portfolio company, the availability of capital may be a function of capital market conditions that are beyond our control.

Reliance on NexPhase Capital, LP

Investors will not have the right to participate in the management of the NexPhase Funds or other clients or in decisions made by the general partners or us on their behalf. As a result, investors will have little control over their investments.

Default Risk

If a limited partner of a NexPhase Client fails to pay any portion of its capital commitment when due, and the contributions made by non-defaulting limited partners and borrowings by such Fund are inadequate to cover the defaulted capital contribution, such Fund may be unable to pay its obligations when due, and its ability to execute its investment strategy or to otherwise continue operations may be impaired. As a result, a NexPhase Client may be subjected to significant penalties that could materially and adversely affect the returns to the limited partners (including non-defaulting limited partners). A default by a substantial number of limited partners would limit opportunities for investment diversification and would likely negatively affect such NexPhase Client's economic results.

Competitive Market for Investments

We generally compete for investments with a number of investment banks, commercial banks, private equity funds, specialized investment funds, hedge funds, corporate buyers and other financial institutions. As a result of this intense competition, we face the risk that we will not be able to locate suitable investment opportunities, acquire them for an appropriate level of consideration, or fully invest our committed capital.

Relationship with Moelis

As noted above, we are currently affiliated with various Moelis entities, and as such, we are subject to a number of actual and potential conflicts of interest and to greater regulatory scrutiny than perhaps other similar firms. It is anticipated, that as NPC separates from Moelis, the number of conflicts will diminish. In addressing these current conflicts and regulatory requirements across our various businesses, we implement certain policies and procedures (for example, information barriers) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material nonpublic information with respect to issuers in which we may be considering making an investment or issuers that are

Moelis advisory clients. We are prohibited from acting on any material nonpublic information and our affiliation with Moelis may restrict our ability to invest in certain public companies.

Management Fee Payable Regardless of Performance

NexPhase Clients will pay fees to us and bear significant expenses. These fees and expenses are expected to reduce actual returns to our investors. Most of the fees and expenses will be paid to us regardless of whether the Funds produce positive investment returns.

Concentration Risk

A Fund will only participate in a limited number of investments (and may seek to make several investments in one industry or one industry segment within a short period of time) and, as a consequence, the aggregate returns of a Fund may be substantially adversely affected by the unfavorable performance of even a single investment, industry, or industry segment.

Lack of Control

NexPhase Clients may hold a non-controlling interest in a portfolio company, and therefore, may have a limited ability to protect their interest in the portfolio company or influence the creation of value at the portfolio company.

Legal Risk

A Fund may make investments in companies that are experiencing financial difficulties which may never be overcome. These investments could, in certain circumstances, subject NexPhase Clients to certain potential legal liabilities that may exceed the value of a Fund's original investment in the company. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to and distributions by the applicable NexPhase Client may be reclaimed if any such payment or distribution is later determined to have been a "fraudulent conveyance."

Derivatives Transaction Risk

Each NexPhase Client may enter into derivatives transactions and other hedging techniques to seek to preserve a return on a particular investment or to seek to protect against currency fluctuations. These transactions have special risks associated with them, including the possible default by the counterparty to the transaction and the illiquidity and high volatility of the instrument acquired. Suitable hedging instruments may not continue to be available at a reasonable cost and the use of hedging techniques may not prevent the relevant NexPhase Client from incurring losses.

Foreign Transaction Risk

A Fund may invest in assets located outside the United States. Investment in such assets involves certain risks not typically associated with an investment in the United States, including risks relating to: (i) currency exchange matters, such as fluctuations in the rate of exchange between the U.S. dollar and various non-U.S. currencies, and costs associated with conversion of currency; (ii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. markets, and less government supervision and regulation; (iii) certain economic and political risks, including on repatriation of capital, nationalization of business enterprises, political, economic or social instability, the possibility of substantial rates of inflation and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of non-U.S. taxes on income and gains on foreign assets; and (v) differences in applicable legal systems, including the possibility that a NexPhase Client may experience difficulty in non-U.S. jurisdictions.

Valuation Risk

There are no readily ascertainable market prices for many types of illiquid investments which NexPhase Clients may hold. Portfolio valuation is subjective and imprecise and requires the use of techniques that are costly and time consuming.

In-Kind Distributions

Under normal circumstances, NexPhase Clients intend to make distributions in cash or in publicly traded securities. However, it is possible that distributions may be made in-kind under certain circumstances (including liquidation of a NexPhase Client). In-kind distributions could consist of securities for which there is no readily available public market.

Credit Support

NexPhase Clients may make contingent funding commitments to their portfolio companies and provide credit support for such obligations. Such credit support may take the form of a guarantee, a letter of credit or a pledge of a portion of commitments to a lender. Such funding commitments may be secured by an assignment of the general partner's rights to draw down capital from the limited partners. It is possible that the limited partners will be required to acknowledge and consent to any such pledge and provide certain information and/or legal opinions as required by the lender. The general partner may be required to segregate unfunded commitments sufficient to satisfy the obligations of a NexPhase Client with respect to any such credit support. Utilization of the credit support will result in fees, expenses and interest costs to each NexPhase Client and it may result in an under-utilization of a NexPhase Client's capital.

Co-Investment Risk

NexPhase Clients may invest alongside strategic, financial or other third-party co-investors. The ability of a NexPhase Client to achieve certain co-investment objectives assumes that such NexPhase Client will be able to negotiate and execute mutually acceptable terms and conditions in respect thereof. Such investments will involve additional risks which may not be present in investments which do not involve a co-investor, including the risk that a co-investor or co-investors may have interests contrary to the investment objective of such NexPhase Client or may default on their obligations.

Risk of Receiving Liquidating Distributions of Illiquid Securities

NexPhase Client general partners are authorized to make liquidating distributions of restricted or otherwise illiquid securities. Limited partners therefore must be prepared to bear the risks of owning such securities for an indefinite period of time.

Taxation Risk

An investor is likely to face complicated tax analyses, and the tax treatment of an investment is subject to potential legislative, judicial or administrative change at all times. The U.S. federal income tax treatment of ownership of an interest in a NexPhase Client depends on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. U.S. federal income tax rules are periodically reviewed by persons involved in the legislative process, the Internal Revenue Service and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships, which is the legal structure of NexPhase Clients. The present U.S. federal income tax treatment of these investment vehicles may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made.

Regulatory Risk

The U.S. securities laws applicable to us and our operations are constantly under review by persons involved in the legislative process and by the SEC, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. These laws may be modified by legislative, judicial or administrative action at any time. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) made several sweeping changes to U.S. securities laws. These Dodd-Frank revisions to the U.S. securities laws and potential future revisions and interpretations could adversely affect the investors in NexPhase Clients, by, among other things, increasing compliance costs of our operations. Other jurisdictions are similarly reviewing their respective laws, regulations and policies with respect

to private investment funds and their investment advisers and any changes may have an adverse effect on investors in NexPhase Clients.

We and our affiliates and personnel are subject to extensive regulation by the SEC and other federal and state agencies, including periodic inspections and examinations. Even if an investigation or proceeding does not result in a sanction against us or our personnel, or if the sanction imposed is small in monetary amount, the adverse publicity attendant to the investigation, proceeding or imposition of sanctions could harm our reputation and materially adversely impact our businesses and returns to investors.

In addition, the targeted industries in which NexPhase Clients seek to invest are highly regulated. The adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, could have a material adverse effect on portfolio companies and thus on the ability of each NexPhase Client to meet its investment objectives. Such changes could necessitate the creation of new business models and the restructuring of investments in order to meet regulatory requirements, which may be costly and/or time-consuming and may adversely affect the performance of such NexPhase Client.

No NexPhase Clients are currently registered, nor do any intend to register in the future, under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (the “Investment Company Act”), or similar laws of U.S. states and non-U.S. jurisdictions, and thus the registration requirements and restrictions of the Investment Company Act will not be applicable to NexPhase Clients. On the other hand, investors in NexPhase Clients will not be afforded the protections of the Investment Company Act.

Cybersecurity Risk

Investment advisers, including NPC, must rely in part on digital and network technologies (“cyber networks”) to maintain substantial computerized data about activities for client accounts and otherwise conduct their businesses. Such cyber networks might in some circumstances be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers seeking to compromise sensitive information, corrupt data, or cause operational disruption. Cyber-attacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. NPC maintains policies and procedures on information technology security, it has certain technical and physical safeguards intended to protect the confidentiality of its internal data, and takes other reasonable precautions to limit the potential for cybersecurity incidents, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction. Nevertheless, despite

reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and such incidents, in some circumstances, might result in unauthorized access to sensitive information about NPC or its clients or their investors, and/or cause damage to client accounts or NPC's activities for clients or their investors. NPC will seek to notify affected clients and investors of any known cybersecurity incident that may pose a substantial risk of exposing confidential personal data about such clients or investors to unintended parties.

C. Particular Securities

We do not specialize in investments in a particular type of security or industry sector. We do seek to target investments in industry verticals where we have extensive experience and competitive advantages, including consumer, healthcare, software and industrial services.

Item 9. Disciplinary Information

There are no legal or disciplinary matters that would be material to a client's or investor's or prospective client's or investor's evaluation of our advisory business or the integrity of our management.

Item 10. Other Financial Industry Activities and Affiliations

A. Broker-Dealers

We are not registered, and do not have an application pending to register, as a broker-dealer.

B. Futures and Commodity Trading

Neither we nor any of our management persons 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 types of entities.

C. Material Relationships

As previously noted, our founders and all of our employees are currently employed by MCP or by Moelis Asset Management ("MAM"), which wholly-owns MCP, and is controlled by Kenneth Moelis. A Transfer and Separation Agreement has been signed between MCP and NexPhase Holdings LLC ("NPH"), whereby ownership of NPH is expected to transfer to Messrs. Larsen and Yun on or about January 1, 2016, at which time, NPH, and by extension, NPC, will become an independent company. In addition to Messrs. Larsen and Yun, it is expected that 17 MCP employees will become NPC employees at that time as well.

Once the MCP/NPH final separation occurs, certain material relationships between the two firms will remain, which will include, but not be limited to the following:

- NPC will maintain a strategic relationship with MAM. The relationship entitles MAM to certain rights related to the first two NexPhase Funds created by NPC, including, economic participation in the carried interest of the Fund(s) (and similar rights for serving as an anchor investor in future Funds). Neither MCP nor any other investor will be involved in the day-to-day operations of NPC nor do they have authority to direct the operations of the Funds.
- Per the terms of a subcontractor agreement between MAM, MCP, NPH, NPC and Messrs. Larsen and Yun, the parties have agreed that NPH/NPC will provide investment management, management, administrative and operations services to MCP in respect of the Moelis Funds until the final liquidation of the Moelis Funds.
- It is expected that NPH/NPC will remain in the current office space (with payment to MAM for rent and shared services) which will be shared with MCP and its affiliated entities through the end of 2016. As such, NPC has agreed to comply with certain MCP compliance policies including, but not limited to, personal trading policies and to enforce information barriers between the entities. Also, policies have been created outlining how these compliance policies between the entities will be enforced going forward.
- MAM has agreed to become a limited partner in the first two NexPhase Funds, and MAM will have the right, but not the obligation, to invest in subsequent NexPhase Funds.
- MAM will be entitled to certain fixed payments upon the closing of the first two NexPhase Funds. MAM will also receive variable payments based on qualified commitments, and a percentage of carried interest distributions from such Funds.
- NPC will not be entitled to any portion of carried interest from the Moelis Funds.
- NPH has signed an agreement with Moelis & Company LLC (“M&C”), a registered broker-dealer controlled by Moelis & Company, a public company listed on the New York Stock Exchange whose controlling shareholder is Kenneth Moelis. Under the terms of the agreement, NPH/NPC will pay M&C an annual retainer for providing financial advisory services to NPH/NPC including access to M&C’s investment bankers for investment ideas and due diligence assistance. M&C will also have the right to act as a financial co-advisor and/or placement agent to raise capital for the first NexPhase Fund.

We or the general partners of the Funds will be responsible for all decisions regarding portfolio transactions and will have full discretion over the management of the NexPhase Funds’ investment activities. The general partners of the Funds will be deemed registered as investment

advisers under the Advisers Act pursuant to NPC's registration in accordance with SEC guidance, and, accordingly, all of their investment advisory activities are subject to the Advisers Act. In addition, employees and persons acting on behalf of the general partner are subject to the supervision and control of NPC. Thus, the general partners, all of their respective employees and the persons acting on their behalf would be considered "persons associated with" NPC under, and subject to the restrictions of, the Advisers Act.

D. Other Investment Advisors

We do not recommend or select other investment advisers for our clients.

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

A. Code of Ethics

We have established a code of ethics (the "Code of Ethics"), which consists of policies and procedures reasonably designed to ensure compliance by us and our personnel with the Advisers Act, and to reflect our fiduciary duties to our clients. To comply with NPC's fiduciary duties, NPC and/or its personnel may not benefit at the expense of clients. To that end, our employees must, at a minimum:

- Place the interests of our clients above any personal interests and refrain from taking for their own advantage an opportunity that rightfully belongs to our clients;
- Keep all investment-related information that is non-public information relating to a portfolio investment or client confidential;
- Refrain from, directly or indirectly, purchasing or selling any security while in possession of material, non-public information regarding such security, whether or not such information was obtained in the course of employment at NPC in breach of a duty of confidence;
- Refrain from giving or accepting gifts or other benefits where a gift may be regarded as an inducement to the recipient to act contrary to his/her duties to us or our clients;
- Conduct all personal securities transactions in a manner consistent with the Code of Ethics (including pre-clearance of certain transactions and reporting of transactions);
- Adhere to MCP personal securities transaction pre-clearance requirements while NPC shares office space with MCP;

- Refrain from competing directly or indirectly with us or our affiliates or using corporate property, information or position for personal gain;
- Report any violation of the Code of Ethics to our Chief Compliance Officer; and
- Acknowledge the terms of our Code of Ethics annually.

The Code of Ethics also provides guidelines on avoiding potential conflicts of interest that might arise in the management of client investment programs where the Moelis broker-dealer or its affiliated broker-dealers may have played a role, among other provisions. Personnel who violate the Code of Ethics may be subject to remedial actions, potentially up to, and including, termination of employment.

Clients, investors and prospective clients and investors may request a copy of our Code of Ethics by contacting Andrew Goldfarb, Chief Compliance Officer, by e-mail at agoldfarb@nexphase.com or by telephone at 212-878-6006.

B. Participation or Interest in Client Transactions

We, our employees, and/or the general partner of the NexPhase Funds will make a capital commitment either directly to each NexPhase Fund or indirectly through a co-investment vehicle. The purpose of this commitment is to align our interests with the limited partners of the NexPhase Funds. Generally, investments and disposals are made on substantially the same terms and conditions as the relevant NexPhase Fund. Details regarding the commitment for each NexPhase Fund can be found in its Governing Documents.

We provide ongoing portfolio management and investment advisory or sub-advisory services for NexPhase Clients and investment decisions are made by our Investment Committee. The Investment Committee is responsible for monitoring and managing each NexPhase Client's investment portfolio in accordance with its particular investment objectives, limitations and guidelines, and as set forth in its applicable Governing Documents. We also comply with restrictions provided in the applicable Governing Documents relating to principal transactions or other affiliated transactions, in which we or our personnel may have.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Client cross transactions occur where an adviser executes a securities transaction between two (or more) of its managed client accounts. Cross transactions may benefit clients because they can avoid transaction fees that might otherwise

apply had the buy and the sell transaction been exposed to potential market transaction fees. However, they also can create conflicts of interest by not exposing such buy and sell transactions to market forces, so clients may not receive the benefits of best price, or an adviser might seek to prop up the performance of one fund by selling under-performing assets to another fund in order, for example, to earn higher fees in the aggregate. We do not practice this.

It is our policy not to execute any principal or agency cross securities transactions for client accounts unless our Investment Committee deems the transaction to be in the best interest of a particular client, such client and our Chief Compliance Officer give prior consent, and the transaction complies with SEC requirements.

The general partner of each NexPhase Client may, from time to time, receive fees or other payments in respect of investments completed by a NexPhase Client such as deal fees, monitoring fees or transaction fees. Such fees are not dependent on the performance of the investment, and may create a conflict of interest between us and our clients. To address this potential conflict, all or a portion of such fees generally offset the management fees paid to us by NexPhase Clients as further described in each client's relevant Governing Documents.

C. Personal Trading

Conflicts of interest may arise when we or our employees invest on our own behalf in the same securities that we recommend to clients, or have another interest in a transaction that is, or may be, in conflict with the interest of a client. To address these conflicts, we maintain specified procedures for managing or obtaining client consent for conflicts of interests, including obtaining consent for any conflict from an advisory committee comprised of investor representatives that is given the power to waive such conflicts after disclosure of material information related to the conflict.

Our investment professionals may also have personal conflicts of interest, such as (i) a material interest in a transaction to be entered into with or for a client; (ii) a relationship that gives or may give rise to a conflict of interest in relation to a transaction; or (iii) another interest in a transaction that is, or may be, in conflict with the interest of a client. In addition to the conflict waiver procedures described above, we have established internal procedures to identify and manage such conflicts. Pursuant to our Code of Ethics, each of our employees is required to submit to our Chief Compliance Officer a report of the employee's securities holdings (which must be updated annually), as well as provide to our Chief Compliance Officer a report of any personal securities transactions on a quarterly basis. In addition to these reports, our employees have an obligation to report any personal conflict of interest to our Chief Compliance Officer as such conflict becomes known. Our employees must obtain our Chief Compliance Officer's prior approval before buying or selling any covered security, including, but not limited to, stocks, bonds, puts, calls, options, and partnership or limited liability interests. In addition, our

employees are prohibited from purchasing securities issued in an initial public offering or in a private placement of securities (including an investment in a NexPhase Client or investment vehicle established for qualified professional personnel), without obtaining pre-approval in writing from our Chief Compliance Officer.

To prevent insider trading and other inappropriate forms of personal trading activities, we also maintain “restricted list” procedures. Under these procedures, our Chief Compliance Officer will place any securities of publicly-traded companies for which we can be deemed to possess material, non-public information on a “restricted list.” Employees must report the receipt of any such information to the Chief Compliance Officer or his designee, and are strictly prohibited from trading in securities (including, without limitation, equity, debt or options) on the restricted list for their own account.

D. Other Conflicts

In connection with its investment activities, NPC may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, the following:

- The NexPhase Funds;
- Any vehicles that have been formed to invest side-by-side with one or more NexPhase Funds in all or particular transactions entered into by such NexPhase Fund(s) (the investors in such investment vehicles may include employees, business associates and other “friends and family” of NPC or its personnel; individuals and entities that are also investors in one or more NexPhase Funds (“Adviser Investors”); and/or individuals and entities that are not investors in any NexPhase Funds (“Third Parties”));
- Adviser Investors and/or Third Parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more NexPhase Funds in particular transactions entered into by such NexPhase Fund(s);
- Adviser Investors and/or Third Parties acting as “co-sponsors” with NPC with respect to a particular transaction; and
- The Moelis Funds.

In recognition of its fiduciary duties, it is the policy of NPC to exercise due care to ensure that investment opportunities and transactions generally are allocated fairly and equitably among its clients over time.

The primary allocation principles for each NexPhase Fund are derived from the Governing Documents of such fund. In that regard:

- **Parallel Vehicles or “Side-by-Side” Funds.** When two or more NexPhase Funds are formed as part of the same investment program for the purpose of making the same investments (“Parallel Vehicles”), investments made by that investment program will be allocated among the Parallel Vehicles based on their relative capital commitments, subject to all limitations in the Governing Documents for each of the Parallel Vehicles.
- **Predecessor/Successor Funds.** Generally, a new NexPhase Fund will not begin investment activities until its predecessor NexPhase Fund has invested or committed a significant portion of its aggregate capital commitments. As a result, issues related to allocation of investment opportunities may arise when NPC begins investing a successor to an existing NexPhase Fund. In general, the Governing Documents will set forth rules and procedures for the allocation of investment opportunities among such NexPhase Funds.
- **Moelis Funds and NexPhase Funds.** In its role as sub-adviser to the Moelis Funds, NPC will manage existing investments of the Moelis Funds, and may in that capacity, make one more investment or add-on investments from existing capital for the Moelis Funds, but does not expect to be making large additional investments for the Moelis Funds.
- **Co-investment and Qualified Professional Personnel.** To the extent permitted under the Governing Documents, NPC may permit qualified personnel and other investors to participate in an investment opportunity alongside the NexPhase Funds. In general, (i) no investor in a NexPhase Fund has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of NPC or its related persons, (iii) co-investment opportunities may be offered to some and not other investors in the NexPhase Funds, in the sole discretion of NPC or its related persons, and (iv) NPC may contract with (or otherwise offer to) certain persons other than investors in the NexPhase Funds (e.g., Third Parties) to provide such persons with the opportunity to evaluate specified amounts of prospective co-investments in NexPhase Client portfolio companies or otherwise to have priority in co-investment opportunities, in each case in the sole discretion of NPC or its related persons.

While NPC generally allocates its investments pro rata among related Funds, NPC may determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion. NPC generally will determine the allocation of investment opportunities in a manner that it believes is fair and equitable to the NexPhase Clients consistent with NPC’s obligations and the primary allocation principles describe above and generally intends to take into consideration factors such as the following: the NexPhase Client’s investment restrictions and objectives (including those set forth in the relevant NexPhase Client’s Governing Documents, where applicable), strategy, risk profile, time horizon,

tax sensitivity, tolerance for turnover, asset composition and cash level and applicable regulatory restrictions. There can be no assurance that a NexPhase Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which NPC may be subject, discussed herein, did not exist.

The appropriate allocation of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by NPC and its affiliates in their good faith discretion, consistent with the Governing Documents of the NexPhase Funds, as applicable. There may be occasions when NPC pays an expense common to multiple NexPhase Clients (the "Allocated NexPhase Clients") (e.g., legal expenses for a transaction in which such NexPhase Clients participate). On such occasions, each Allocated NexPhase Client will reimburse NPC for its share of such expense, without interest, promptly after the payment is made by NPC.

In exercising its discretion to allocate fees and expenses, NPC may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among NexPhase Funds and Moelis Funds with differing fee, expense and compensation structures, NPC may have an incentive to allocate investment opportunities to the Funds from which NPC or its related persons may derive, directly or indirectly, a higher fee, compensation or other benefit.

NPC manages a number of Funds that may have investment objectives similar to each other. NPC may in the future establish one or more additional investment Funds with investment objectives substantially similar to, or different from, those of the existing Funds. Allocation of available investment opportunities between a current NexPhase Fund and any such future NexPhase Fund could give rise to conflicts of interest. In addition, it is expected that employees of NPC responsible for managing a particular Fund will have responsibilities with respect to other Funds managed by NPC, including Funds that may be raised in the future. Conflicts of interest may arise in allocating time, services or functions of these officers and employees.

Investments to finance follow-on acquisitions may present conflicts of interest, including determination of the equity component and other terms of the new financing as well as the allocation of the investment opportunities in the case of follow-on acquisitions by one NexPhase Client in a portfolio company in which another NexPhase Client has previously invested. In addition, a NexPhase Client may participate in releveraging and recapitalization transactions involving portfolio companies in which another NexPhase Client has already invested or will invest. Conflicts of interest may arise, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms.

NPC generally may, in its discretion, contract with any related person of NPC (including but not limited to a portfolio company of a NexPhase Client) to perform services for NPC in connection with its provision of services to NexPhase Clients. When engaging a related person to provide such services, NPC may have an incentive to recommend the related person even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost.

M&C may, directly or indirectly through one or more of its subsidiaries or affiliates, and subject to the requirements of the applicable Governing Documents and applicable law, including any consent requirements, enter into contracts on arms' length terms to perform financial, investment, advisory and consulting services for, and will in such cases receive customary compensation from, a NexPhase Client's portfolio company, a NexPhase Client or other parties in connection with transactions related to the NexPhase Client's investments or otherwise. Such compensation could include, without limitation, investment banking fees or fees in connection with restructurings and mergers and acquisitions. As with any other service provider, compensation for these services will not be shared with such NexPhase Client or its limited partners.

M&C, directly or indirectly through one or more of its subsidiaries or affiliates, may provide services in the future beyond those currently contemplated herein, including commercial banking, brokerage, customer financing, asset-based financing, corporate finance, and commercial finance services, among others, and engage in private equity investment activities. In conducting the aforementioned activities, M&C will be acting for its own account or the accounts of its clients and will have no obligation to act in the interest of NexPhase Clients. In addition, the foregoing activities could create conflicts of interest for a NexPhase Client, which could have an adverse impact on such NexPhase Client's performance.

Because there is a fixed investment period after which capital from investors in the NexPhase Funds may only be drawn down in limited circumstances and because advisory fees are, at certain times during the life of the Funds, based upon capital invested by the Funds, this fee structure may create an incentive to deploy capital when NPC may not otherwise have done so.

A significant portion of our compensation is derived from "carried interest" (a performance fee), which may create an incentive for our managers to make riskier or more speculative investments than would be the case in the absence of this arrangement, although our own commitment of capital to the NexPhase Funds may somewhat mitigate this incentive.

Investors may have conflicting investment, tax and other interests with respect to their investments. These conflicting interests of individual investors and of the different NexPhase Clients may relate to or arise from, among other things, the nature of investments made, the structuring or the acquisition of investments, and the timing of our exit strategy. As a

consequence, conflicts of interest may arise in connection with our investment decisions, including with respect to the structuring of investments.

Because certain expenses are paid for by a NexPhase Client and/or its portfolio companies or, if incurred by NPC, are reimbursed by a NexPhase Client and/or its portfolio companies, NPC may not necessarily seek out the lowest cost options when incurring (or causing a NexPhase Client or its portfolio companies to incur) such expenses.

In addition, as described above, portfolio companies (and, to a lesser extent, the NexPhase Clients) typically pay certain compensation to Operating Partners, Executive Advisory Board members and other consultants (including consultants introduced or arranged by NPC and/or its affiliates that may regularly provide services to one or more portfolio companies), and such compensation generally will not offset the management fees as described herein. Although the use of Operating Partners and Executive Advisory Board members and the allocation of compensation paid to them by NPC, its affiliates and/or the portfolio companies may subject NPC and/or its affiliates to potential conflicts of interest, NPC believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable NexPhase Client(s)) that is anticipated to result if the cost of the Operating Partner or Executive Advisory Board member is lower than market rates for the services provided and/or if the quality of the services of the Operating Partner or Executive Advisory Board member make a greater contribution to the success of the portfolio company. Although NPC seeks to retain Operating Partners and Executive Advisory Board members with a view to reducing costs to portfolio companies (and, ultimately, the NexPhase Clients) or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. NPC also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that NPC believes will align such persons' interests with those of the NexPhase Clients' limited partners.

As described in Item 5 above, NPC and its personnel and affiliates may perform related services for, and may receive fees from, actual or prospective portfolio companies or other investment vehicles of the NexPhase Funds. Such fees will be in addition to any management fees or carried interest paid by the NexPhase Funds to NPC. Additionally, a portfolio company may reimburse NPC for expenses. This creates a conflict of interest between NPC and its affiliates and the NexPhase Funds and their investors because the amounts of these fees and reimbursements may be substantial and the NexPhase Funds and their investors generally do not have an interest in these fees and reimbursements. NPC determines the amount of these fees for related services and reimbursements in its own discretion, subject to agreements with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third party co-investors in its transactions, and the amount of such fees and reimbursements may not (except in connection with the reductions described below) be disclosed to investors in the NexPhase

Funds. NPC and its affiliates will in some circumstances offset the amount of management fees paid by the applicable NexPhase Fund in connection with the receipt of the applicable Fund's share of such fees. The amount and nature of this offset varies from Fund to Fund, and is set forth in the Governing Documents of the applicable fund. Entities other than NexPhase Funds that participate in investments alongside the NexPhase Funds (such as entities through which NPC and certain employees and affiliates of NPC invest alongside the NexPhase Funds) may have a right to share in such fees, and advisory fees will generally not be offset in connection with the receipt of such entities' share of such fees.

Given the collaborative nature of NPC's business and the portfolio companies in which NexPhase Clients have invested, situations may arise where NPC is in the position of recommending portfolio company services to other portfolio companies. NPC may have a conflict of interest in making such recommendations, in that NPC has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for the NexPhase Clients, while the products or services recommended may not necessarily be the best available to the portfolio companies held by the NexPhase Clients.

NPC may have an incentive to recommend the products or services of certain investors in the NexPhase Clients, certain Third Parties, or their related businesses to the NexPhase Clients or their portfolio companies for use or purchase, even though the products or services recommended may not necessarily be the best available to the NexPhase Clients or the portfolio companies.

Portfolio companies controlled by a NexPhase Client may provide services to certain NexPhase Client investors. NPC may have an incentive to cause the portfolio company to favor those investors relative to other portfolio company clients or customers in terms of pricing or otherwise, which could adversely affect the portfolio company's profitability to the NexPhase Client. Additionally, the portfolio company could recommend to its clients or customers that they invest in a NexPhase Client.

NPC and/or its affiliates may engage in business opportunities arising from a NexPhase Client's investment in a portfolio company (for example, without limitation, entering into a joint venture with a portfolio company or making a proprietary investment in a portfolio company).

NPC has service providers, including for example, investment bankers, outside legal counsel and pension consultants, who may be investors in NexPhase Clients and/or who provide services to businesses that are competitors of NPC. NPC may have a conflict of interest with the NexPhase Clients in recommending the retention or continuation of a service provider to a NexPhase Client or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in such NexPhase Client or will provide NPC information about markets and industries in which NPC operates or is interested or will provide

other services that are beneficial to NPC. There is a possibility that NPC, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Certain members of a NexPhase Client's advisory committee are, or in the future may be, officers or directors of, or otherwise affiliated with, investors in another NexPhase Fund. The general partner of a NexPhase Fund may from time to time utilize the services of investors and their affiliates on an arm's length basis, as it deems appropriate.

NPC Employees, Operating Partners or Executive Advisory Board members may serve as directors of portfolio companies. Employees are prohibited from receiving consulting, management or other fees personally from portfolio companies. In addition, employees of NPC may leave the employment of NPC or its affiliates and become an officer or employee of a portfolio company.

NPC may enter into certain side letter arrangements with certain investors in a NexPhase Fund providing such investors with different or preferential rights or terms, including, but not limited to, different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

NPC and the NexPhase Clients will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the NexPhase Clients may be investors in a NexPhase Client, and may also represent one or more portfolio companies or investors in a NexPhase Client. In the event of a significant dispute or divergence of interest between NexPhase Clients, NPC and/or its affiliates, the parties may engage separate counsel in the sole discretion of NPC and its affiliates, and in litigation and other circumstances separate representation may be required. Additionally, NPC and the NexPhase Clients may engage other common service providers. In such circumstances, there may be a conflict of interest between NPC and the NexPhase Clients in determining whether to engage such service providers, including the possibility that NPC may favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the NexPhase Clients.

NPC may, in its discretion, have or cause NexPhase Clients and/or their portfolio companies to have, ongoing business dealings, arrangements or agreements with persons who are former employees or executives of NPC. NexPhase Clients, and/or their portfolio companies may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. In such circumstances, there may be a conflict of interest between NPC and NexPhase Clients (or their portfolio companies) in determining whether to engage in or to continue such dealings, arrangements or agreements, including the possibility that NPC may favor the engagement or

continued engagement of such persons even if a better price and/or quality of service could be obtained from another person.

In certain circumstances, a NexPhase Client may invest in a pooled investment vehicle that is advised by, or that has another business or other relationship with, NPC or its related persons. In such a case, investors in such NexPhase Client will bear not only the direct management fees and other expenses associated with their investment in the NexPhase Client, but also the expenses and fees associated with the investment in the underlying pooled investment vehicle, some of which fees and expenses may be paid to NPC or its related persons. Additionally, the interests of the NexPhase Client, as an investor, may conflict with the interests of the underlying pooled investment vehicle or NPC or its related persons in their capacity as service providers to the underlying pooled investment vehicle, which would create a conflict of interest for NPC. To address these conflicts of interest, consent of the advisory committee of the relevant NexPhase Fund or Moelis Fund is generally required.

The Governing Documents of NexPhase Clients permit the general partner of each such client to cause such client to distribute such general partner's share of securities resulting from an investment disposition by such client to such general partner or its affiliates in kind, while disposing of limited partners' share of such securities and distributing the net cash proceeds of such sale of securities to the limited partners. This ability creates conflicts of interest between the general partners and the limited partners of the applicable NexPhase Client, because the general partner may have an incentive to cause the NexPhase Client to exit an investment at a time that may result in limited partners receiving a lesser return on such investment than would be the case if the general partner was prohibited from receiving its proceeds from investments in kind (or was otherwise required to receive its share of investment proceeds in the same form as limited partners).

NPC may, from time to time, establish certain investment vehicles through which certain employees of NPC or its affiliates, certain business associates, other "friends of the firm," or other persons may invest alongside one or more NexPhase Funds in one or more investment opportunities. Such vehicles generally are contractually required, as a condition of investment, to purchase and sell each investment opportunity at substantially the same time, and on substantially the same terms, as the applicable NexPhase Fund that is invested in that investment opportunity. Such co-investment vehicles do not pay carried interest or management fees.

In the case of all conflicts of interest, the determination by NPC as to which factors are relevant, and the resolution of such conflicts, will be made using its best judgment, but in its sole discretion. In resolving conflicts, NPC may consider various factors, including the interests of the applicable NexPhase Funds and other clients with respect to the immediate issue and/or with respect to their longer term courses of dealing. Certain procedures for resolving specific conflicts

of interest are set forth below. When conflicts arise, the following factors may mitigate, but will not eliminate, conflicts of interest:

- A NexPhase Client will not make an investment unless NPC believes that such investment is an appropriate investment considered solely from the viewpoint of such NexPhase Client;
- Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the relevant offering and/or Governing Documents for NexPhase Clients;
- Generally, each NexPhase Client has established an advisory committee, consisting of representatives of investors not affiliated with NPC. The advisory committees meet as required to consult with NPC as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, NPC will be guided by its good faith discretion;
- Where NPC deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price;
- Prior to subscribing for interests in a NexPhase Client, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the NexPhase Client; and
- NPC and certain of its affiliates have adopted written policies establishing information “walls” designed to limit communication between business units investing in equity securities and debt securities of companies. These policies restrict the transfer of confidential information between these business units, subject to certain exceptions provided in the policies. These policies also establish procedures for communications among employees of different business units to guard against unlawful and inappropriate disclosure of material, nonpublic information. It is expected that when NPC vacates its current office space leased from MAM, such information walls will no longer be necessary.

Item 12. Brokerage Practices

A. Selection of Broker-Dealers

Our business is advising the NexPhase Funds and sub-advising the Moelis Funds on making opportunistic private equity, mezzanine and distressed investments in private securities. Accordingly, as a general matter we do not advise our clients on investments in public securities,

and generally do not transact a marketable securities business through broker-dealers. However, in situations where we may need to select a broker-dealer, we will consider the broker's execution capabilities, including block positioning, research, financial stability, ability to maintain confidentiality, delivery timelines and ability to obtain best execution for all client securities transactions.

1) *Research and Other Soft Dollar Benefits*

Given the nature of the investments made on behalf of clients, we do not typically make investments in listed companies. As a result, we do not have any soft dollar arrangements in place that would require us to give any specified amount of brokerage to any broker-dealer. We may receive unsolicited research from brokers, dealers and banks through which we execute portfolio trades or hold accounts. In circumstances in which we use such research, the quality and ability to receive research may factor into the selection of brokers, dealers and banks executing portfolio trades. Even in these cases, the broker-dealers are still evaluated in accordance with the criteria listed under Item 12A above.

2) *Brokerage for Client Referrals*

We do not consider whether we, or a related person, receive client referrals from a broker-dealer or a third party when selecting or recommending broker-dealers. On occasion, we will engage the Moelis broker-dealer to solicit capital on behalf of the NexPhase Funds. We do not consider the Moelis broker-dealer's success or failure in raising capital when selecting or otherwise recommending a broker-dealer.

B. Aggregation of Orders of Securities for Client Accounts

Given the nature of the investments we make on behalf of our clients, we do not typically make investments in listed companies. We do not routinely aggregate the purchase or sale of securities for various client accounts. However, when the NexPhase Funds or other clients conduct trading through a broker-dealer, we will seek to aggregate orders whenever practicable and cost-efficient. Our aggregation practices seek to treat all clients participating in the transaction in an equitable manner.

Item 13. *Review of Accounts*

A. Periodic Review of Client Accounts

Our investment team professionals and financial operations professionals review the operations of our affiliated Funds and other clients on a periodic basis. These professionals monitor operations, overall performance, financial performance and strategic direction of each portfolio

company. Each portfolio company provides us with regular reports regarding its financial status and performance, except in the rare instances where our control is limited, in which case we receive public information. Portfolio companies controlled by the NexPhase Funds generally provide monthly reports, whereas portfolio companies not controlled by the Funds generally provide reports on a quarterly basis. Our Investment Committee also performs quarterly comprehensive reviews of each portfolio company.

B. Factors that Trigger a Review of Client Accounts

Our investment professionals review the portfolio investments on a periodic basis.

C. Reports to Clients

We deliver written financial reports, including information relevant to each of our clients' (and, where applicable, their investors') investments with us on a quarterly basis. Clients (and, where applicable, their investors) also receive written annual reports following the end of each fiscal year that include audited financial statements (including a balance sheet and a statement of income or loss) and a summary of the portfolio investments for the applicable investment program. All investors in our client are invited to our annual investor meeting.

Item 14. Client Referrals and Other Compensation

A. Client Referrals

Generally, we do not accept economic benefits from a person who is not a client for providing investment advice or other advisory services to our clients, however, on occasion; we receive management fees, monitoring fees or similar fees, or reimbursements of certain expenses, from portfolio companies in which a NexPhase Fund has invested. To address this potential conflict, all or a portion of such fees generally offset the management and/or sponsor fees paid by our clients, and are disclosed in the private offering materials.

B. Compensation for Client Referrals

While not a client solicitation arrangement, NPC may from time to time engage one or more persons to act as a placement agent for a NexPhase Fund in connection with the offer and sale of interests to certain potential investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such NexPhase Fund that are subsequently accepted. Such NexPhase Fund may, subject to any limitations set forth in its Governing Documents, reimburse such fees. As described above, M&C will have the right to act as placement agent in connection with the capital raise of the first NexPhase Fund.

Any placement agents utilized will be registered broker-dealers or registered representatives of a SEC broker-dealer.

Item 15. Custody

All NexPhase Funds' certificated securities/assets are held in custody by unaffiliated broker/dealers or banks; however we have access to client accounts since an affiliate serves as the general partner of each Fund. The Funds are audited on an annual basis in accordance with generally accepted accounting principles (GAAP) and the financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of each Fund's fiscal year end. Limited partners should carefully review these statements, and should compare these statements to any account information provided by us.

NPC maintains custody of assets in the name of one or more NexPhase Funds with the following qualified custodians:

- City National Bank
- JP Morgan

Item 16. Investment Discretion

We have complete discretionary authority to manage the portfolios of each NexPhase Fund. This authority is not limited by the NexPhase Client Funds' Governing Documents. However, NPC may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partners investment in a NexPhase Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

Item 17. Voting Client Securities

A. Authority to Vote Client Securities

Although our investment programs do not typically involve publicly-traded securities, where such securities are involved, we believe our policies and procedures are reasonably designed to ensure that proxies are voted in the best interests of clients and to recognize and resolve any material conflicts of interest that may arise in the course of such voting. The relevant NPC

investment staff vote proxies in accordance with our proxy voting guidelines, unless a NexPhase Client's ownership of securities is subject to a voting agreement or shareholders' agreement, in which case any such voting or shareholders' agreement will control in the event of a conflict between the terms of such agreement and our proxy voting guidelines.

Our proxy voting guidelines require our Investment Committee or its designee to review all proxies prior to submission. The Investment Committee or a designee coordinates the receipt of each proxy, the communication of the votes to third parties, and the maintenance of all supporting documentation.

Our general policy is to vote proxy proposals, amendments, consents or resolutions relating to portfolio companies of NexPhase Clients, (collectively, "proxies") in a manner that serves the best interest of such NexPhase Client, as determined by us in our discretion, taking into account relevant factors, including, without limitation:

- the impact on the value of the returns of the relevant NexPhase Client;
- alignment of portfolio company management's interest with the relevant NexPhase Client, including establishing appropriate incentives for management; and
- the ongoing relationship between the relevant NexPhase Client, and the portfolio companies in which it invests, including the continued or increased availability of portfolio information

For routine matters, we generally vote proxies in accordance with the recommendation of the portfolio company's management, unless we believe such recommendation is not in the best interest of the client. For non-routine matters, such as changing the state of incorporation or extending shareholders' rights, we typically vote in support of management, but decide these matters on a case-by-case basis.

When any proxy raises material conflicts between us or our employees and one of our clients, such conflict will be fully disclosed to the Chief Compliance Officer. In the event of a conflict, we will vote the proxy in a manner we determine to be in the best interest of the client, provided that such vote is against our own interest in the matter. If we believe we should vote in a way that may also benefit, or be perceived to benefit, our own interest, then we must take action in accordance with the client's relevant Governing Documents, which may include disclosure of the facts surrounding any such conflict to the advisory committee of the applicable NexPhase Client and obtaining its consent before voting such proxy.

We will maintain a file or database of (i) our proxy voting policies and procedures; (ii) proxy statements received regarding client securities; (iii) records of votes cast by us on behalf of clients; (iv) records of client requests for proxy voting information; and (v) any documents

prepared by us that were material to the voting decision, for two years in our offices and for three years in an easily accessible location.

Investors in the NexPhase Funds and our other clients may request further information regarding our proxy voting policies and procedures, or how we have voted on specific proxies, by contacting Andrew Goldfarb, Chief Compliance Officer, by e-mail at agoldfarb@nexphase.com or by telephone at 212-878-6006.

Item 18. Financial Information

A. Financial Conditions Likely to Impair Contractual Commitments

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual and fiduciary commitments to clients.

B. Bankruptcy Petitions

We have not been the subject of a bankruptcy petition at any time during the past ten years.