

## Item 1 Cover Page



## Pemberton Capital Advisors LLP

42/44 Grosvenor Gardens,  
London SW1W 0EB  
[info@pembertonam.com](mailto:info@pembertonam.com)  
Tel: +44 (0)20 7993 9300  
Fax: +44 (0)20 7993 9329

CRD No: 282621  
SEC File no: 801-107757

### Form ADV Part 2A: Firm Brochure

29 March 2018

This Brochure provides information about our qualifications and business practices. If you have questions about our Brochure, call + 44 (0)20 7993 9300 or e-mail [compliance@pembertonam.com](mailto:compliance@pembertonam.com). The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any foreign or state securities authority.

More information about us is available on the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser's registration with the SEC does not imply a certain level of skill or training.

**This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a confidential offering memorandum, related subscription materials or other governing legal documentation.**

This page should be left blank.

**Item 2 Material Changes**

This is our Brochure on Form ADV Part 2A, filed as part of our annual amendment.

We had the following material changes from the date of our last Annual Brochure, which was 30 March 2017.

- Eric Capp and Philip Ashdown joined as partners and Corinna Mitchell, John Doyle and Daniele Iacovone left as partner.
- We noted that we are the non-discretionary sub-adviser in respect of the following funds, and compartments, to Pemberton Asset Management S.A., a Luxembourg domiciled CSSF authorised Alternative Investment Fund Manager (“IM”), an Exempt Reporting Adviser (“ERA”):
  - Pemberton Debt Fund Compartment 1 (“Compartment 1”) of the Luxembourg umbrella fund, Pemberton Debt Fund SCS, SICAV-FIS (“Debt Fund”), now closed to new investors;
  - Pemberton Strategic Credit Opportunities Fund (“SCOF”), Compartment 4 of the Debt Fund; U.S. investors invest in Compartment 4 through a Delaware feeder fund, Pemberton Strategic Credit Fund Delaware I LP (“SCOF Feeder Fund”);
  - Pemberton European Mid-Market Debt Fund II (A) (“Fund II”), Compartment 5 of the Debt Fund.; U.S. investors invest in Compartment 5 through a Delaware feeder fund, Pemberton Debt Fund Delaware II LP (Fund II Feeder Fund”).
- We will be, through the IM, the non-discretionary sub-adviser to the Payables & Receivables Opportunity Fund S.A. SICAV-FIAR (“PROF”), which launched with its compartment, Global Trade Solutions 1 (“PROF Compartment 1”). PROF Compartment 1 is being marketed in the United States to U.S. investors. As of the date of this Brochure, neither we nor the IM provide it with continuous and regular investment advice.
- We are the non-discretionary sub-adviser to the IM for other Luxembourg private funds, none of which are U.S. incorporated, marketed in the United States or have U.S. person investors.
- The IM filed a report on Form ADV Part 1 with the SEC as a Private Fund Adviser. Pemberton GP 1 (Cayman) Ltd and Pemberton Debt GP S.à.r.l., the two general partners that were named on the Pemberton Capital S.à.r.l. Report on Form ADV Part 1 as ERAs, are named on the IM’s Report on Form ADV Part 1 as ERAs.

We have the following material changes to report.

- Chris Higgins, a partner, leaves on 31 March 2018.
- On 9 April 2018 our new business address will be 52 Grosvenor Gardens, London, SW1W 0AU, UK.
- We will be, through the IM, the non-discretionary sub-adviser to Pemberton Strategic Credit Fund Cayman I LP (“ERISA SCOF Feeder Fund”), which will invest all or substantially all of its assets in Pemberton European Strategic Credit Opportunities Fund (“SCOF”).

In the future and when material changes occur, we will file an amended Brochure and send this to our clients.

**Item 3 Table of Contents**

Item 1 Cover Page .....	1
Item 2 Material Changes .....	3
Item 3 Table of Contents .....	4
Item 4 Advisory Business .....	5
Item 5 Fees and Compensation .....	8
Item 6 Performance-Based Fees and Side-By-Side Management .....	10
Item 7 Types of Clients .....	10
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss .....	10
Item 9 Disciplinary Information .....	15
Item 10 Other Financial Industry Activities and Affiliations .....	15
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	17
Item 12 Brokerage Practices .....	18
Item 13 Review of Accounts .....	18
Item 14 Client Referrals and Other Compensation .....	18
Item 15 Custody .....	18
Item 16 Investment Discretion .....	18
Item 17 Voting Client Securities .....	19
Item 18 Financial Information .....	19
Item 19 Requirements for State-Registered Advisers .....	19

## **Pemberton Capital Advisors LLP**

### **Item 4 Advisory Business**

#### **Who we are**

Pemberton Capital Advisors LLP ("PCA") is a limited liability partnership incorporated in England and Wales in November 2010. We are an SEC registered investment adviser and are authorised and regulated by the UK Financial Conduct Authority. We are one of several Pemberton companies that focus on advising private funds or compartments of same that make commercial loans to European mid-market corporates seeking to grow and expand their businesses. We are a MiFID Exempt CAD Adviser. We are an exempt CTA.

We employ 41 people. We have the following equity owners, as disclosed in our Form ADV Part 1: Legal & General Capital Investments Ltd-37.6%; PCA staff and management-30%; Symon Drake-Brockman (Managing Partner)-26.4%; and Pemberton Asset Management Services UK Limited ("PC Services")-6%. We are the 100% owner of Pemberton Capital Advisors France SAS ("PCAF"). PC Services is a wholly owned subsidiary of Pemberton Asset Management Holdings Limited ("Holdings"). The owners of Holdings are identified in our Form ADV Part 1 Schedule B. PCAF and Pemberton Asset Management GmbH ("PAMG") are both related persons and participating affiliates of us.

#### **Activities**

We are the non-discretionary sub-adviser to several funds and compartments. Certain of these are not incorporated in the United States, are marketed in the United States or have U.S. person investors. This includes Pemberton European Mid-Market Debt Fund I SCS, a Luxembourg SICAV-FIS ("Fund I"). Those fund compartments that are marketed in the United States or have U.S. investors are discussed below.

Pemberton Asset Management S.A., a Luxembourg CSSF authorised Alternative Investment Fund Manager ("IM"). The IM is the investment manager to all funds or compartments. It is also an Exempt Reporting Adviser ("ERA"). Pemberton Capital Advisors (Jersey) Limited, is the investment adviser of record to the funds and compartments. The IA is incorporated in Jersey and authorised by the JFSC.

Apart from this, we provide advice to the feeder funds of the compartments (noted below) for hedging (Spot FX and FX forwards).

#### **Funds and compartments**

We are the non-discretionary sub-adviser in respect of the following fund compartments that are marketed to U.S. persons or which have U.S. person investors:

- Pemberton Debt Fund Compartment 1 ("Compartment 1") of the Luxembourg umbrella fund, Pemberton Debt Fund SCS, SICAV-FIS ("Debt Fund"), which is now closed to new investors;
- Pemberton Strategic Credit Opportunities Fund ("SCOF"), Compartment 4 of the Debt Fund;
- Pemberton European Mid-Market Debt Fund II ("Fund II"), Compartment 5 of the Debt Fund.

We will, when it starts to operate, also be the non-discretionary investment adviser to Payables & Receivables Opportunity Fund S.A. SICAV-FIAR (“PROF”), which launched with its compartment, Global Trade Solutions 1 (“PROF Compartment 1”).

Each compartment has a feeder fund for U.S. persons to invest; in turn, substantially all of the assets in each feeder fund are invested in a compartment (the remainder is used for hedging).

- U.S. investors invested in Compartment 1 through a Delaware feeder fund, Pemberton Debt Fund Delaware I LP (“C 1 Feeder Fund”).
- U.S. investors invest in Compartment 4 through a Delaware feeder fund, Pemberton Strategic Credit Fund Delaware I LP (“SCOF Feeder Fund”).
- U.S. investors that are ERISA pension funds invest in SCOF through Pemberton Strategic Credit Fund Cayman I LP (“ERISA SCOF Feeder Fund”).
- U.S. investors invest in Compartment 5 through a Delaware feeder fund, Pemberton Debt Fund Delaware II LP (Fund II Feeder Fund”).

We do not manage assets in or for separately managed accounts.

The Debt Fund is a Luxembourg investment company with variable capital, a Luxembourg investment company with variable capital. The Debt Fund’s general partner is Pemberton Debt GP S.à.r.l. (“Debt Fund GP”), a private limited company (société à responsabilité limitée) incorporated in Luxembourg and a wholly-owned subsidiary of Holdings. The Fund GP is an ERA. The Debt Fund’s objective is to invest, via compartments, in a portfolio of loans of varying seniority and risk to mid-market European corporates to generate an expected quarterly income stream and attractive total returns for investors. The Debt Fund is an umbrella fund structure with separate investment compartments. Each compartment has or will have its own assets and its own processes, objectives and restrictions. Each compartment will have its own Supplement to the Debt Fund’s Information Memorandum.

U.S. investors participate in a compartment of the Debt Fund via a feeder fund.

- Compartment 1 is closed to investors. This invests in a portfolio of senior secured loans to established mid-market European companies to generate an expected quarterly income stream and attractive returns for Investors. Compartment 1 uses leverage as explained in Item 8, below.
- The investment objective of SCOF is to invest in a portfolio of senior loans, uni-tranche and subordinated debt, and preferred instruments to mid-market companies located in or with significant operations in Europe. This compartment will not use leverage.
- The investment objective of Fund II is to invest in a portfolio of senior loans to established mid-market European companies to generate an expected quarterly income stream and attractive returns for Investors. Fund II does not use leverage.
- PROF is a Luxembourg umbrella fund. PROF will through one or more compartments invest in a diversified portfolio of one or more investment programmes sourced through the IM’s strategic alliance with Global Supply Chain Finance Ltd (“GSCF”). GSCF, a Swiss company, is an SCF technology platform with 25 years of experience in servicing financing programmes where large global banks finance accounts receivable and accounts payable between multi-national corporates and their strategic distributors.

Nothing in this Brochure constitutes an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a confidential offering memorandum, related subscription materials or other governing legal documentation. The securities of the feeder funds are offered on a private placement basis. In the United States, securities, if so offered, are offered pursuant to Regulation D under the U.S. Securities Act of 1933. They are exempt from the definition of an investment company pursuant to Section 3(c)(7) of the U.S. Investment Company Act of 1940.

The IM filed a report on Form ADV Part 1 with the SEC as a Private Fund Adviser. Each of the general partners of the compartments and of the Debt Fund are named as a Private Fund Adviser on the IM's report on Form ADV Part 1. This is available via [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The disclosures in this Form ADV Part 2A relate solely to any activities that involve U.S. resident persons that would invest in a fund or a compartment for which we serve as non-discretionary investment sub-adviser. These include the Delaware feeder funds named above.

As at 31 December 2017, our assets under management for all funds and compartments were US\$ 1,438,612,289. Our regulatory assets under management are disclosed in our Form ADV Part 1.

### **How we operate**

Investment opportunities are sourced through the extensive and long-standing relationships of the PCA Origination Team and the PCA Portfolio Management Team, and PAMG and PCAF, with regional and international banks, PE sponsors and intermediaries in the European mid-market primary loan market to source assets, primarily in the form of bilateral, club or syndicated loan transactions.

We work with leading European banks, private companies, private equity ("PE") sponsors, debt advisors and other intermediaries and other key stakeholders to invest in:

- (i) *non-sponsor corporate loans* – providing growth or acquisition finance to, or refinancing existing debt packages of, European mid-market corporates;
- (ii) *mid-market PE Sponsor loans* – supporting PE sponsors in financing or refinancing European mid-market leveraged buyouts.

Only SCOF will focus on:

- *Growth capital* – supporting the continued growth of strongly performing mid-market businesses;
- *Recovery capital* – supporting post-restructuring growth; and
- *Opportunistic investments* – acquiring debt instruments in secondary trades to capture attractive pricing upside.

This approach offers a number of advantages:

- an "on the ground" presence in the UK, Germany, France, Italy and Spain is expected to facilitate closer relationships with the locally based banks and other market participants and intermediaries that will be key sources of market and borrower intelligence and investment opportunities;

- a focus on primary transactions is expected to result in better pricing and risk-adjusted returns for investors as, in our experience, there is significantly less competition and higher upfront fees than for secondary market transactions; and
- a focus on primary market transactions is expected to assist in minimising the fund or compartment's risk by enabling the Investment Team to determine the structure of transactions sourced for each fund or compartment and secure investor protections through directly negotiating the legal documentation.

PCA believes that working closely with banks is the most sustainable long-term approach to participation in the European private debt market and that this approach provides access to attractive investment opportunities that are not accessible by investors sourcing investment opportunities in competition with the banks.

PCA's investment strategy prioritises engaging with borrowers and banks early in the transaction process, enabling its Portfolio Management Team to directly negotiate loan terms to meet both the financing needs of borrowers and fund or compartment investment criteria.

We focus on the five largest European economies, which are Germany, the UK, France, Italy and Spain, and which comprise more than 70% of the annual EU-28 GDP. We also consider select other countries in Europe, including non-EU members Norway and Switzerland.

PCA's operating procedures are to research and identify opportunities to make commercial loans directly and, if so required, by buying privately issued bonds. We conduct due diligence on potential borrowers. We take this research/analysis, distil it and provide recommendations to the IM (copied to the IA). The IM's Investment Committee reviews our recommendations and determines either to make or decline the proposed investment, notifying the relevant general partner of its decision and, if a loan is to be made, requesting the relevant general partner to authorize and give instructions for the execution of the loan. Post-loan, we review the borrower's creditworthiness and help ensure that the loan is timely repaid – or advise on a course of action in the event of a default.

## **Item 5 Fees and Compensation**

### **Fees**

We receive our fees as detailed below. We are now in the "Investment Period". Fund administrators are responsible for checking on a quarterly basis the final determination of the calculation of fees. In addition, each fund or compartment auditor performs an annual review of the fee methodology and calculations.

- *Fees on Commitments during the Investment Period (when loans are being made to new portfolio companies) - this applies, today, only to Fund I.*

Quarterly in advance, save as disclosed below, each fund or compartment for which we act as the non-discretionary sub-adviser pays a management fee to its general partner that is a percentage of either: (a) Limited Partner commitments (i.e. the amount investors have agreed to pay to the fund or compartment, whether it has been drawn down or not) to that fund or compartment; or (b) the acquisition cost of investments of that fund or compartment. Those fees are then paid by the



relevant general partner to the IM. The IM retains an amount to cover its expenses plus its fee (calculated quarterly). The balance is paid by the IM to the IA who, in turn, retains an amount to cover its expenses plus its fee (calculated quarterly). The IA then pays the balance to us.

- *Fees on Commitments after the Investment Period (the period of time before fund or compartment closure) – this is not yet applicable.*

Fees from the fund or a compartment will be calculated on the basis of the acquisition cost of investments that have not been sold or written off. The amount of fees received by PCA will be the net residual management fee paid to the relevant general partner, after deducting non-reimbursable operating expenses paid by the IM and the IA and the fees retained by the relevant general partner, the IM and the IA.

- *Fees on Deployment – currently, this applies to SCOF and Fund II.*

Fees are paid quarterly in arrears, calculated on the basis of the Acquisition Cost of each Portfolio Investment, as at the end of the relevant calendar quarter. Acquisition Cost means the actual and prospective costs of acquiring or funding a Portfolio Investment, including all amounts committed or reserved to fund such Portfolio Investment.

We do not receive a fee from the feeder funds for our hedging advice.

In addition, we receive from the IA on a quarterly basis in advance an amount to cover any reasonable costs and expenses that we incur relating to our role as a sub-advisor to each fund or compartment.

Under the terms of the Debt Fund Limited Partnership Agreement, we are entitled to receive a fee for organising co-investment opportunities.

Under the terms of the fund documents governing each of SCOF and Fund II, the relevant general partner is entitled to be paid a co-investment fee equal to the amount that (a) the net amount paid for an investment that is sold to a co-investor, is greater than (b) the net amount of consideration received from the co-investor for the investment sold. The fee is reduced on a time basis, so if the co-invest amount is sold before the investment is funded, the general partner is entitled to keep all of the fee, if it is sold after the investment is funded and before the date two months after that funding date, the general partner is entitled to keep 80% of the fee, if it is sold before the date six months after the funding date, the general partner is entitled to keep 60%, if it is sold before the date seven months after the funding date, the general partner is entitled to keep 40%; if it is sold before the date eight months after the funding date, the general partner is entitled to keep 30%; if it is sold before the date nine months after the funding date, the general partner is entitled to keep 20% if the co-invest is sold after the date nine months after the funding date, the general partner is not entitled to any fee.

The same calculation and time-based reduction applies in relation to any fee that a co-investor may pay to affiliates of the general partner in relation to the purchase of a co-invest amount (to avoid doubt, excluding management fees, carried interest and equivalent fees or profit shares relating to certain Pemberton funds and certain managed accounts).

Because of the relationship that we, the IM and the IA, and our other related persons have to the general partners, this is a conflict of interest. All such fees are calculated on an arm's length basis and are reviewed annually by independent auditors for the methodology and calculations.

### **Valuations**

We review loan portfolios and produce loan and fund or compartment valuations on a quarterly basis, in accordance with each fund or compartment's Valuation Policy. The IM's Valuation Committee is responsible for providing a final valuation of each fund's or compartment's assets. The IM will consider the draft valuation recommendations of PCA in conjunction with reviewing independent valuations produced by Markit Valuation Services Ltd ("Markit") as a comparison in forming its views on valuations. Valuations are then finalized by the IM and sent to the fund or compartment administrator for recording and processing. The IM reviews the valuation methodology and calculations on at least a quarterly basis at the Valuation Committee. To address these conflict of interests, Markit is used as an independent benchmark to validate valuation calculations and the annual audits of the funds or compartments include an independent review of the valuation methodology and calculations for each fund and compartment.

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

We do not engage in side-by-side management.

### **Item 7 Types of Clients**

As noted above, we provide research and recommendations to our client, the IM, and cash management and FX hedging advice to the feeder funds as noted above.

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

#### **A. Sourcing loans**

The responsibility for identifying and sourcing loans resides with our Origination Team, which includes our staff, members of PCAF, PAMG and independent advisors in Italy and Spain. The Origination Team's direct coverage of the markets in which we seek to invest provides local relationships, market knowledge and insight to access high quality, locally-sourced deal flow across Europe.

Investment opportunities are sourced through the extensive and long-standing relationships that our Origination Team and Portfolio Management Team have individually built over several years with banks, intermediaries and PE sponsors focused on the European mid-market. We place controls on the information sharing that is involved in this. We believe that this approach offers advantages.

- Having a permanent presence on the ground in key markets facilitates closer relationships with locally based banks and other market participants and intermediaries that may be key sources of market and borrower intelligence and investment opportunities.

- Focusing on primary transactions is likely to result in better pricing and risk-adjusted returns for investors as we believe there to be less competition and higher up-front fees than for secondary market transactions.
- Focusing on primary market transactions helps minimize risk as it enables us to influence the structure of transactions and investor protections through direct input into commercial negotiations and legal documentation.

We expect the majority of loans to be direct bilateral, club or syndicated loans. However, legal requirements in certain jurisdictions in Europe, or timing considerations, may result in loans being structured as sub-participations or as private placements of debt.

#### B. Selecting loans

The Origination Team will evaluate new investment opportunities against a fund's investment criteria, considering, *inter alia*, the borrower's size, business profile and business model, its competitive and market position, its industry sector and the maturity, structure, pricing and security of a loan. If the Origination Team considers that the potential opportunity is attractive, it will discuss this with the Portfolio Management Team. If the Portfolio Management Team agrees that a potential transaction is worthy of further investigation, the potential loan enters our due diligence process. Here, after further research, the Portfolio Management and Origination Teams jointly prepare a paper for submission and initial review by our Credit Review Committee ("CRC"). This typically addresses the following topics:

- the background to the transaction and investment rationale;
- the source of the introduction and/or history of the relationship;
- an initial or indicative description of the borrower including its business mode, competitive position, growth drivers,
- an initial or indicative description of the management, ownership and strengths and weaknesses;
- an overview of the borrower's industry sector;
- a summary of the financial performance of the borrower, including a review of recent and current trading and a review of P&L, balance sheet and key financial ratios;
- the currently proposed pricing and fees;
- an initial credit assessment; and
- the legal structure and jurisdiction of the transaction.

If the CRC supports the proposed transaction, it will authorize the Portfolio Management Team to undertake more detailed due diligence on the potential loan and proceed to structuring, negotiating and completing due diligence.

Due diligence typically includes an investigation of major business, accounting, tax, legal and regulatory issues as well as meetings with the senior management of the borrower. We use external independent experts and advisors where necessary, subject to compliance with our policies and procedures, including attestations, documentation and reviews, to prevent the misuse of information and to prevent any passing of confidential information, confidential client information (defined and used in our Code of Ethics) or unpublished price-sensitive information (material non-public information).

We build a financial model that includes information provided for each loan based on information provided by the proposed borrower, which will typically include a business plan comprising an operational plan and detailed financial forecasts. The borrower's business plan will then be stress tested to take account of different scenarios for future business performance, focusing on factors expected to strengthen or weaken a borrower's financial position. The credit review will include relevant factors including a financial comparison to competitors in the same sector, an industry review and a management team assessment.

This process includes an appropriate level of governance to ensure proper communication and documentation of all steps.

If the Portfolio Management Team still considers the potential transaction to be attractive, it will submit a more detailed Credit Paper to the CRC. This will address the same topics as the initial credit review paper but in greater depth and with the advantage of the more detailed information gathered during the due diligence process, and will include a final internal credit rating. If the transaction and the Credit Paper receive CRC support, the Credit Paper will be submitted, with CRC's endorsement and comments, if any, to the IM for review and approval at its Investment Committee.

The IM, acting through its Investment Committee, has discretion under the Management Company Services Agreement with the relevant general partner to approve or decline a loan proposal. It may recommend the terms of a proposed loan subject to final changes to such terms being recommended by us, provided that any such changes are not material and that the final terms are confirmed by the IM. If there are material changes to the terms of a loan before signing but after the proposed loan is approved, the CRC must review the terms again and if, it still considers the loan appropriate, it will confirm its support for the transaction to the IM, which has full discretion to approve or reject the proposed loan. All loan proposals are submitted to the relevant general partner for ratification.

After a loan is approved, our Portfolio Management Team will complete the following operational and administrative steps for the execution and closing of the loan, including:

- completion of all remaining formal customer due diligence;
- finalizing and procuring execution of the loan and security documentation;
- ensuring the transaction is booked correctly by the administrator in the administrator's systems;
- ensuring all conditions precedent are met or any non-material deviations agreed and waived; and
- obtaining final sign off from our Managing Partner, the Chief Credit Officer or the Chief Operating Officer for the release of funds to the borrower.

#### C. Leverage - Compartment 1

Compartment 1 will use leverage with a view to enhancing its investment returns. Such leverage will not exceed 100% of the aggregate investor commitments to that compartment at the end of the Investment Period, taking into account currency fluctuations. This compartment will also borrow from third party providers, such as a bank, in other limited circumstances, including, *inter alia*, to pay this compartment's fees and expenses and to make investments pending receipt of drawdowns. Under the terms of the leverage facility provided by the leverage lender, Citibank, N.A. London Branch, there are

certain relevant considerations on assets in which this compartment may invest in addition to those in the offering document. These include tax, regulatory and eligibility constraints. Compliance with these considerations will be monitored at the point of acquisition by the portfolio manager and on an ongoing basis by the external collateral monitoring agent, Virtus Group L.P.

#### D. On-going loan management

We use a loan servicing and monitoring platform. The platform enables us to monitor within one integrated back office the following:

- Credit rating and credit migration;
- Collateral management and unsecured exposure;
- Covenant monitoring and all payments;
- Loan administration and waivers, including bilateral and agency functions;
- Financial reporting; and
- Integrated reporting on each loan and the portfolio through the life cycle of the loan.

Servicing is divided between credit monitoring and administrative functions, as set out below.

*Credit monitoring:* monitoring the performance of Portfolio Investments post-close will be undertaken using a two level approach of ongoing monitoring and formal semi-annual reviews.

*On-going process:* we monitor updated financial information submitted by borrowers under the terms of their loans as well as any public announcements by borrowers. Our corporate credit rating system automatically updates the credit rating for each Portfolio Investment at least semi-annually based upon updated financial information from the borrower. We monitor alerts from our Early Warning System (proprietary software): We operate a “traffic light system” to prioritize and track under-performing loans, with results circulated to the CRC.

We meet with the management of the borrowers, annually or as soon thereafter as is possible.

*Formal reviews:* each loan will undergo a formal semi-annual review by the CRC. Loans on the Watch List will be discussed on a weekly basis at a meeting of the CRC. The IM will be consulted in the event remediation action is recommended with respect to an investment on the Watch List.

#### E. Risks

##### *General regulatory risk*

We have obtained those licences and consents required from banking and financial services regulators to conduct business and seek to comply with all applicable laws and regulations. The possibility cannot be excluded, however, that either by reason of a change in law or regulation or their interpretation in any applicable jurisdiction or by reason of law or regulation of which we are unaware, certain activities or those of an agent in relation to the issue and offering of a fund and the investment and management

of the Portfolio Investments may constitute the provision of cross-border banking or financial services under any applicable banking or financial services law or regulation in any jurisdictions. Should it be determined that we have failed to comply with any applicable licence or consent requirements under any applicable banking or financial services law or regulation in any jurisdiction in relation to the issue and offering of a fund and the investment and management of the Portfolio, the regulators in such jurisdiction could, to an extent that they have authority to do so, impose sanctions on certain of the parties involved, including the fund, seeking the immediate cessation of such parties' activities in that jurisdiction, liquidation of the transactions conducted by a fund in that jurisdiction or with Limited Partners in or from that jurisdiction and even the imposition of criminal sanctions.

#### *Brexit*

The UK Government served the Article 50 notice on Wednesday, 29 March 2017 and negotiations commenced on 20 June 2017. In accordance with the terms of Article 50, the UK will cease to be subject to EU treaties on the earlier of any fully agreed withdrawal agreement and 29 March 2019 unless the Member States (acting through the European Council) unanimously agree to extend this period. There will be a transition period.

The implications of this are not yet clear or are capable of being anticipated. Our business has arisen as a result of a reduction in bank cross-border and domestic lending to mid-market corporates in the wake of the global financial crisis that started in 2008, creating demand for financing from non-bank sources. Bank lending volumes are unlikely to be stimulated by the uncertainty around Brexit and, compounded by the results of the EBA's latest round of bank stress testing, we believe this trend is set to continue through the end of 2017 and until the Brexit roadmap is clarified and implemented.

#### *Impact of further regulation or changes to regulation in the financial markets*

The instability in the financial markets has led to several unprecedented actions being taken by governments to support certain financial institutions and segments of the financial markets that have experienced volatility or a lack of liquidity. Governments, their regulatory agencies or self-regulatory organizations may take additional actions that affect the regulation of the assets in which the Fund invests, or the issuers of such assets, in ways that are unforeseeable.

Legislation and regulation may also change the way in which a fund operates or is regulated. If legislation or government regulations impose any additional requirements or restrictions on the ability of financial institutions to make loans, the ability of a fund to originate loans or the availability of loans in the secondary market for investment may be adversely affected. In addition, such requirements or restrictions could reduce or eliminate sources of financing for certain borrowers. This would increase the risk of defaults.

Investor-related regulation such as Solvency II and other similar national or EU regulatory constraints applicable to banks, insurance companies and pension funds may have an impact on a limited partner's investments in a fund. Each prospective Investor is urged to consult its advisors prior to making an investment in the securities of a fund and to verify to what extent it can take such regulatory risk exposure.

*LIBOR, EURIBOR or other interest rate benchmark reform*

Where any floating rate Portfolio Investments calculate interest by reference to a benchmark interest rate, such as London Inter-Bank Offered Rate ("LIBOR") or the European Inter-Bank Official Rate ("EURIBOR") (together, a "Benchmark"), a change in the method of calculation or the discontinuance of a Benchmark (or any currency or period in respect of which a Benchmark is calculated) could have a negative impact on the value of any such floating rate Portfolio Investments.

The current administrator of LIBOR is ICE Benchmark Administration Limited and it is likely that the administrator, and the method of calculating LIBOR, could change in the future or that LIBOR would be replaced. Any new administrator of LIBOR may make methodological changes that could change the level of LIBOR, which in turn may adversely affect the value of the Portfolio Investments. Any new administrator of LIBOR may also alter, discontinue or suspend calculation or dissemination of LIBOR. No administrator of LIBOR will have any obligation to any investor in respect of any floating rate Portfolio Investments.

Any change to the setting or existence of LIBOR, EURIBOR or other Benchmark could have a material adverse effect on the value of, and the amount payable under any Portfolio Investments which pay interest linked to LIBOR or EURIBOR or any other Benchmark and no assurance may be provided that relevant changes will not be made to LIBOR or EURIBOR and/or that any Benchmark will continue to exist.

Specific risks are set forth in a fund or compartment private placement memorandum and must be reviewed by each investor prior to investing.

**Item 9 Disciplinary Information**

There is nothing to report.

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

We have two participating affiliates, PAMG and PCAF. Each under the terms of a participating affiliate agreement ("PAA"), provide us with research, advice and recommendations on loans for a fund or compartment. (Aside from this, they provide assistance in identifying loan prospects in Europe.) The PAA is structured based upon no-action letters issued by the SEC Staff. The individuals that perform services for us under the PAA, Geoffroi de Saint Chamas, Guillaume Farges, Juergen Breuer, Ralph Hora, Nils Weber, Peter Schlesinger, are "associated persons". They are subject to certain compliance controls, complying with the personal account trading provisions of our Code of Ethics and keeping records. Both of our participating affiliates are subject to supervision/oversight, record keeping and information protection requirements.

We, each general partner, the IA and the IM have boards of directors. Keith Jones, Chairman, Symon Drake-Brockman, Managing Partner and Matteo Colombo, a non-executive director and an employee of Legal & General Capital Investments Ltd (L&G Cap"), sit on the IA board and on our Executive Management Committee.

Mr Drake-Brockman, Mr Jones, Thomas Lack, our Chief Operating Officer and a partner, and Mark Hickey, a portfolio manager and a partner, Mr Colombo, Hannah Gore-Randall, a non-executive director and an employee of L&G Cap, are members of our Executive Management Committee.

Mr Drake-Brockman, Mark Hickey, a portfolio manager, Mr Lack, Nicole Gates, our Chief Credit Officer, and Helen Richards, our Chief Compliance Officer, are Partners of PCA.

Our officers, partners and employees hold multiple roles in two or more of PCA, the IM, the IA and the Holdings. Our partners and staff that perform multiple roles are Mr Drake-Brockman, Mr Jones, Mr Lack and Mr Hickey who is a member of the IM's Investment Committee.

There is at least one independent non-executive director on the governing body of each of PCA, the IM, the IA and the various general partners. This helps ensure that the interests of the different governing bodies are substantially aligned but each has an independent voice focused exclusively on the interests of that corporate entity.

The IM Investment Committee is comprised of Coen Teppema and Jean de Courreges (both directors of the IM), Simon Hauxwell (an independent Luxembourg consultant), Mr Hickey (portfolio manager), Juergen Breuer, Head of PAMG and Geoffroi de Saint Chamas, Head of PCAF.

To address the conflicts of interest arising out of these multiple roles, we supervise the persons involved, prepare records of meetings and decisions taken, identify and address conflicts for board of director's meetings and Investment Committee meetings, require recusal from meetings and decisions when warranted and enforce pre-clearance requirements and account and position reporting requirements under our Code of Ethics (Item 11). We monitor all such arrangements and take or recommend to the appropriate entity appropriate steps when required.

L&G Cap, the majority shareholder of Holdings and also a shareholder of PCA, has two seats on our Executive Management, Audit, Operational Risk and Controls committees and one seat on our Ethics and Remuneration Committee. Legal and General Assurance Society Limited ("L&G Assurance"), an affiliate of L&G Cap, was a seed investor in the Fund and remains so invested. Legal and General Reinsurance Company Ltd, Bermuda, is also an investor in the Fund. Through its economic interests and investments in Holdings, PCA and the Fund, these Legal & General companies, receive a portion of management and/or performance fees borne by investors in each fund or compartment. Although L&G Cap will not be involved in the day-to-day management of each fund or compartment or a general partner and will not have any decision-making authority with respect to each fund or compartment, L&G Cap has appointed two directors of Holdings and the IA and, through those directorships, has approval rights relating to certain decisions made by those entities (including, among other things, approval rights in respect of the appointment or removal of any external discretionary investment manager of each fund or compartment). L&G Cap may exercise certain voting rights as a shareholder of Holdings and participates in certain committees of the IA and PCA.

These Legal & General companies have other relationships with or interests in other investment vehicles and accounts that may give rise to potential conflicts. For example, one of these companies may sponsor, advise, undertake, manage or invest in investment vehicles and accounts that pursue



investment strategies similar to those of a fund or a compartment. Such activities can, where direct competition is involved, affect each fund or compartment. For example, no such company is under an obligation to share any investment opportunity, idea or strategy with each fund or compartment or any Pemberton company. While the existence of a conflict of interest will not necessarily have an adverse impact on each fund or its compartments, a general partner, the IM, the IA or PCA, and L&G Cap has incentives to see each fund or compartment succeed. Accordingly, we require L&G Cap, L&G Assurance not to misuse our confidential client information and disclose any conflicts of interest that have an impact on us, the IM, the IA, a general partner or a fund or compartment.

Certain Partners and staff members may invest in or alongside a fund or a compartment of the Debt Fund. Certain Partners and staff members may be entitled to a share in the income and capital returns from the fund or compartment in the form of carried interest ("carried interest"), such returns being derived substantially from the fund or a compartment's Portfolio Investments under the terms of the Fund or a compartment agreed with investors in the compartment. Distributions of carried interest are subject to a waterfall that permits distributions of carried interest to the carry vehicle only after all of the fund's Limited Partners have received amounts drawn down from them and a hurdle rate of return of 4% per annum compounding annually for Compartment 1, and 8% per annum compounded annually for SCOF and 5% per annum compounded annually for Fund II.

The loans and similar assets made by a fund or a compartment can be illiquid and hard to value. Valuations are performed as set forth in Item 5 above.

Discretionary remuneration of our partners and staff is based on the performance of PCA. There is no link between such remuneration and the performance of each fund or compartment.

Partners and members of our staff have confidential client information arising from the execution of their duties. Certain employees of PCAF and GmbH also have confidential client information. To address this conflict of interest, we require all such persons to comply fully with our Code of Ethics (Item 11). We engage in monitoring and testing to help ensure compliance with our Code of Ethics.

Our staff may receive gifts and entertainments from counterparties, including suppliers and service providers, or give these to them. Giving or receiving gifts and entertainments may influence the relationship we have with our suppliers and service providers. As noted above, we require disclosure of gifts and entertainment and pre-clearance of gifts and entertainment above a set amount. Our staff may engage in outside activities or hold non-executive directorships or shareholdings in third parties with whom we are not affiliated. To address this, we require the disclosure of all outside activities and, where a conflict of interest arises, we may require recusal or the cessation of a relationship.

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

As a fiduciary, we owe a duty to our clients to act solely in their best interests. We have adopted a Code of Ethics pursuant to Advisers Act Rule 204A-1. Under our Code of Ethics, officers, partners and employees, staff, are "supervised persons", must comply with the U.S. federal securities laws at all times and act in accordance with standards articulated in the Code of Ethics.

The Code of Ethics contains policies and procedures that are designed to address the material conflicts of interest associated with the personal trading activities of access persons. These include a personal account transaction policy to address the conflicts of interest presented by personal trading activities. Transactions in certain investments are prohibited, while others require a pre-clearance. Additional policies and procedures to help ensure compliance with Rule 204A-1 are in place. These include: the prevention of misuse of material non-public information or confidential client or investor information; the delivery of the Code of Ethics and a written acknowledgment of its receipt (initial and annual); analysis of Code activity; initial, quarterly and annual reporting requirements; and a requirement to report promptly any suspected violations of our Code of Ethics. All supervised persons are required to discuss any perceived risks or concerns with the Chief Compliance Officer.

A copy of our Code of Ethics is available upon request.

#### **Item 12 Brokerage Practices**

It is not the intention of a fund or compartment to buy or sell securities. We do not intend to engage in any activity that involves brokerage or soft commissions. Nevertheless, on occasion, a loan will be made to a borrower in the form buying a bond of the borrower (on a private placement basis). That bond would be held as a loan and the redemption of the bond would be treated as the repayment of the loan in question.

#### **Item 13 Review of Accounts**

We provide credit review for loans on a continuous basis. There are regular meetings to discuss loans, potential loans and other related matters, as well as addressing the conflicts that arise from such activities. Financial statements are subject to an annual audit.

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

As we do not provide investment advice in separately managed accounts, we do not have a solicitation agreement within the scope of Advisers Act Rule 206(4)-3. However, the IM, the IA and the Debt GP have retained Park Hill Group LLC to seek investors for Compartment 4.

#### **Item 15 Custody**

Loan documentation is held by the IM and designated loan agents. Since a fund or compartment does not buy, sell or hold securities, and loan documentation is held by independent third parties, we do not have custody as envisaged by Advisers Act Rule 206(4)-2.

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

We are a non-discretionary investment manager. We provide research and recommendations to the IM for a fund to make commercial loans. From time to time we may consider a loan that would be suitable for one or more compartments of the Debt Fund or the Fund, or both. This is an allocation issue and a conflict of interest. To address this, loans are considered and made based upon objective criteria that is assessed in the credit due diligence process and without regard to fees, and in accordance with

allocation requirements applicable to a fund or a compartment. The final allocation is made by the IM Investment Committee.

**Item 17 Voting Client Securities**

We exercise our voting rights whenever there is a restructuring that requires different creditor groups to vote on a restructuring plan. Other than this, we do not vote proxies.

**Item 18 Financial Information**

There is nothing to disclose.

**Item 19 Requirements for State-Registered Advisers**

We are not registered with any state securities authority.