

**Part 2A of Form ADV: *Firm Brochure***

March 31, 2017

**Palisades Management, LLC  
("Palisades")**

11726 San Vicente Blvd, Suite 450  
Los Angeles, CA 90049

(310) 571-6214

[www.palisadesventures.com](http://www.palisadesventures.com)

**This brochure provides information about the qualifications and business practices of Palisades. If you have any questions about the contents of this brochure, please contact Palisades at 310-571-6214 or [anders@palisadesventures.com](mailto:anders@palisadesventures.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Palisades also is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**An investment advisor's registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.**

### **3. Table of Contents**

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

#### **4. Advisory Business**

Palisades provides investment advisory services to venture capital and growth stage funds, including Palisades Ventures, LP, Palisades Qualified Investors, LP, Palisades Non-Qualified Investors, LP and Palisades Growth Capital II, L.P. (collectively, the “Palisades Funds” or the “Funds”, and each individually a “Fund” or a “Palisades Fund”), that are each exempt from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”).

Palisades is the investment adviser to each of the Palisades Funds with its principal place of business located in California. Palisades was formed as a Delaware limited liability company in 2000. It is owned by Paul D’Addario and Anders Richardson via their respective entities Vandelay Industries LLC and Kevorka LLC.

As the investment adviser for each Palisades Fund, Palisades identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for each Palisades Fund. Palisades primarily provides investment advisory services related to venture capital and growth stage investments in Technology, Media & Telecommunications, and business services sectors (the “Target Sectors”). In addition to the Target Sectors, Palisades also provides investment advisory services related to venture capital and growth stage investments in Technology Enabled Sectors, including Healthcare Services, Consumer/Retail, Manufacturing Services, Environmental Services and Financial Services. These venture capital and growth stage investments generally take the form of privately-negotiated investment instruments.

Palisades provides investment advisory services to each Palisades Fund pursuant to a separate investment advisory agreement (each, an “Investment Advisory Agreement”). The terms of the management services to be provided by Palisades to a Palisades Fund, including any specific investment guidelines or restrictions, are set forth in each of the Palisades Fund’s Investment Advisory Agreements and the partnership agreement of each Palisades Fund. Palisades or its related entities also may enter into side letter agreements with certain investors in the Palisades Funds, establishing rights under, or supplementing or altering the terms of, the applicable limited partnership agreements relating to such Palisades Funds with respect to such investors. While Palisades and its related entities have no obligation to offer any such additional rights, terms or conditions to any other investor in such Palisades Funds, Palisades and its related entities generally disclose the presence of such arrangements to all limited partners of the relevant Palisades Funds. Once invested in a Palisades Fund, investors cannot impose additional investment guidelines or restrictions on such Palisades Fund.

As of December 31, 2016, Palisades managed a total of \$ 158,315,691 of client assets, all of which is managed on a discretionary basis. On August 25, 2015, Palisades held its first closing of the sale of limited partnership interests in Palisades Growth Capital II, L.P. and accepted limited partners with aggregate capital commitments of \$33,575,000. The final Subsequent Closing Date (the “Final Closing Date”), has been extended through August 25, 2017.

#### **5. Fees and Compensation**

Palisades charges annual fees for investment advisory services. The fees are asset-based, generally either calculated on a percentage of capital invested, committed capital, or unreturned capital, depending on the stage of the Fund, and range from 1.50% to 2.00% of that capital. The fees are non-negotiable once the limited partnership agreements are executed. Such fees are payable semiannually, partially in arrears and partially in advance, and are debited from the Palisades Fund accounts. The fee payment process and rates are approved at the formation of each Palisades Fund and described in the partnership agreements. The

Palisades Fund partnership agreements generally restrict a Palisades Fund's ability to terminate its Investment Advisory Agreement with Palisades. The specific restrictions or terms vary depending on the nature of the Fund.

For each Palisades Fund, expense reimbursements may be payable to Palisades or its affiliates. The expense reimbursements are disclosed in the relevant offering documents and limited partnership agreements. These expense reimbursements are in addition to the investment advisory fees described above. Each Palisades Fund also generally absorbs all of the expenses relating to such Palisades Fund's activities, operations and meetings including, but not limited to, all expenses, costs and liabilities incurred in connection with the identifying, structuring, negotiating, making, monitoring, sale, proposed sale, other disposition or valuation of portfolio investments, temporary investments and investments considered for a Palisades Fund but not consummated (including due diligence in connection with each of the foregoing) (as further discussed in Item 12 ("Brokerage Practices"), consultants, outside counsel and accountants; the cost of insurance; any taxes, fees or other governmental charges levied on such Palisades Fund; all costs of compliance with the Investment Advisers Act of 1940, the Investment Company Act, the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act") and other applicable regulatory regimes and laws (these costs of compliance are absorbed by some Palisades Funds but not all); and the costs of expenses of any litigation relating to the activities or operation of such Palisades Fund, including the amount of any judgments or settlements paid in connection therewith, relating to the business, activities and interests of such Palisades Fund.

In addition, Palisades or the affiliated general partners of the Palisades Funds may receive customary break-up fees, monitoring and directors' fees and organization, financing and other similar fees in connection with portfolio investments of the Palisades Funds as compensation for financial advisory and similar services provided to the Palisades Funds' portfolio companies (each, a "Portfolio Company"). These fees are referred to collectively as "Other Fees." In addition, we may be reimbursed by the Portfolio Companies for expenses we incur in connection with our performance of the services that give rise to Other Fees. In general, the aggregate management fee that a Fund pays us is reduced by a portion of any Other Fees (generally above a threshold defined in the applicable Palisades' Fund agreement) received by us in connection with the activities of the Palisades Fund.

The right of Palisades, the affiliated general partner entities or other affiliates to receive Other Fees may create a conflict of interest between Palisades, on one hand, and the Palisades Funds and their investors, on the other hand, because The Palisades Funds and their investors do not have a direct interest in Other Fees. Palisades believes, however, that management fee offsets (to the extent applicable) and the equity commitments made by Palisades' principals may serve to mitigate this potential conflict. In addition, Palisades believes this potential conflict may be further mitigated by the fact that the ability of Palisades or its affiliates to collect these kinds of fees may be subject to negotiation with third parties, such as sellers, buyers, and management teams or boards of directors of, or lenders to, Portfolio Companies.

Similar advisory services may or may not be available from other registered or unregistered investment advisers for similar or lower fees.

Centre Partners Management, LLC (CPM), Palisades Growth Capital II, LP and Palisades Management, LLC entered into a Fund Administration Service Agreement ("Service Agreement") to provide Accounting and other Administration services to Palisades Growth Capital II, LP and Palisades Management LLC. In accordance with the Service Agreement, Palisades Growth Capital II, L.P. pays a base fee of \$10,000 per month to CPM and Palisades Management, LLC pays CPM a base fee of \$5,000 per quarter. In addition, Palisades Management, LLC pays an annual fee of \$48,000 to CPM for the accounting and administration of the Palisades Ventures Funds complex and its related Palisades Management LLC accounting and administration. Also, CPM and Palisades Management, LLC shares certain employee resources.

Palisades Management, LLC has retained, Jeff Anderson, Senior Director as an Advisor to the firm.

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

Palisades or the affiliated general partner of a Palisades Fund generally is eligible to receive performance-based fees from such Palisades Fund pursuant to the terms of the applicable limited partnership agreement for the Palisades Fund. These performance-based fees are calculated based on a share (generally 20%) of the capital appreciation of investments in the portfolio of such Palisades Fund. Some Palisades advisory personnel participate in performance-based fees through the general partners of the Palisades Funds.

Investment vehicles sponsored by Palisades or its affiliates may effect co-investments with one or more Palisades Funds (“Co-Investment Vehicles”) and, in some cases, may allocate a portion of the Co-Investment Vehicles’ investment profits to their general partners, which are affiliated with Palisades, as a carried interest, as set forth in the relevant organizational documents for the Co-Investment Vehicles.

The entitlement of Palisades and its affiliated general partners to performance-based distributions may create an incentive for Palisades to take risks in managing the Palisades Fund that it would not otherwise take in the absence of such arrangements. See “Resolution of Conflicts” in Item 11 for additional information. Performance-based fees will only be charged in accordance with the provisions of Rules 205-3 of the Investment Advisers Act of 1940.

## **7. Types of Clients**

See Item 4 (“Advisory Business”).

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

### ***Methods of Analysis, Investment Strategies – Venture Capital and Growth Stage***

Palisades believes long-term investment success is primarily driven by a combination of: (1) the availability of attractive investment opportunities; (2) skill in evaluating these opportunities; (3) patience and discipline to adhere to a strict investment criteria; and (4) skill in monitoring and supporting Portfolio Companies. The Palisades Fund’s target market, combined with Palisades’ sourcing approach, provides a significant number of attractive investment opportunities. Below is a description of the key elements of Palisades’ investment strategy:

- Focus on companies that have large growth opportunities with relatively lower risk.
- Focus on growth stage companies that are underserved in the private equity market.
- Execute a multipronged sourcing strategy to generate both opportunistic and targeted investment opportunities at reasonable valuations.
- Focus on the following target sectors: Technology, Media and Wireless Telecommunications; and, invest opportunistically in Technology Enabled Sectors, including Healthcare Services, Consumer/Retail, Manufacturing Services, Environmental Services and Financial Services.

### ***Investment Strategies – Material Risks***

The investment strategies that Palisades pursues on behalf of the Palisades Funds involve risks to the Palisades Funds and, by extension, to the investors in the Palisades Fund. There can be no assurance that Palisades will be successful in implementing the investments and investment strategies that it pursues on behalf of the Palisades Funds. If Palisades is unable to implement these strategies successfully, the Palisades Funds and the investors in the Palisades Funds will not realize their objectives and may sustain substantial impairment of total loss of their investments.

*Dependence on Key Personnel* – Palisades’ success will be highly dependent on the skill and expertise of Palisades’ management team. There can be no assurance that any individual Palisades professional will continue to be associated with the Palisades Funds. The loss of key personnel could have a material adverse effect on the Palisades Funds.

*Nature of Investments* – Palisades’ investment strategies will concentrate on making investments in companies that have significant risks as a result of business, financial, market or legal uncertainties. There can be no assurance that Palisades will correctly evaluate the nature and magnitude of the various factors that could affect the performance of Palisades Fund investments. Prices and market movements of Palisades Fund investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Palisades Funds’ activities and the value of Palisades Fund investments.

*Business and Market Risks* – Venture capital and growth stage investments pursued by Palisades involve a high degree of business and financial risk that can result in substantial losses. In particular, these results could arise from changes in the financial condition or prospects of the entity in which the investment is made, changes in economic and market conditions, and changes in laws, regulations, fiscal policies or political conditions in localities where investments are made. A Palisades Fund may be materially affected by conditions in the financial markets and economic conditions, including interest rates, availability and terms of credit, inflation rates, economic uncertainty, changes in laws, including tax, regulatory, or other laws, commodity prices, political circumstances, and natural disasters. Portfolio Companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and service capabilities, and a larger number of qualified managerial and technical personnel.

*Investments in Less Established Companies* – Palisades may recommend that Palisades Funds invest a substantial portion of their assets in the securities of early stage companies that may involve greater risks than generally are associated with investments in more established companies. To the extent that there is any public market for the securities held by the Palisades Funds, such securities may be subject to more abrupt and erratic market price movements from those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. There can be no assurance that losses in certain Portfolio Companies will be offset by gains (if any) realized on other portfolio investments.

*Uncertainty of Financial Projections* – Palisades may rely upon projections developed by Palisades or transaction parties or third party reports concerning an investment’s expected future performance and cash flows. Projections are inherently subject to uncertainty and factors beyond the control of the persons making such projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could materially adversely impair the realization of projected values and cash flows.

*Risks in Effecting Operating Improvements.* In many cases, the success of a Palisades Funds' investment strategy will depend, in part, on the ability of the Palisades Fund to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing potential operating improvements at Portfolio Companies entails a high degree of uncertainty. There can be no assurance that Palisades will be able to successfully identify and implement such improvements.

*Portfolio Concentration* – Palisades does not pursue diversification on behalf of the Palisades Funds. A Palisades Fund's portfolio may include a small number of large positions. If a Palisades Fund's investments are concentrated in a few companies or industries, any adverse change in one or more of such companies or industries could have a material adverse effect on the Palisades Fund investments and, therefore, the Palisades Fund. Therefore, while this portfolio concentration may enhance total returns to investors, if any large position has a material loss, then returns to the investors may be lower than if they had invested in a more diversified portfolio.

*Provision of Managerial Assistance* – Although the goal of Palisades is to ensure that Portfolio Companies have successful management teams, there can be no assurance that any Portfolio Company's management team will be able to operate in such a manner. The Palisades Funds may obtain rights to participate substantially in and to influence substantially the conduct of the management of their Portfolio Companies. The Palisades Funds may designate directors to serve on the boards of directors of Portfolio Companies. The designation of directors and other measures contemplated could expose the assets of the Palisades Funds to claims by a Portfolio Company or its security holders and its creditors. See Controlling Interests below for additional information about risks associated with the exercise of control over a company.

*Leveraged Investments* – Palisades may recommend investments in companies in which the Palisades Funds invest which employ leverage senior to any such Palisades Fund's investments, and this will increase the exposure of such Palisades Fund to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment, or rising interest rates. 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 finance future operations and capital needs. Such Palisades Fund's investments may be unsecured and are likely to be equity, subordinated debt, or another form of junior capital in an issuer's capital structure. If an issuer is unable to generate sufficient cash flow to meet principal and interest payments on its senior indebtedness, such Palisades Fund may suffer a partial or total loss of capital invested in the issuer, which would adversely affect the returns of such Palisades Fund.

*Availability of Financing* – Palisades may recommend that the Palisades Fund invest in Portfolio Companies that depend on debt financing. If debt financing becomes unavailable, or is excessively restrictive or costly, whether due to adverse changes in economic or financial market conditions or a decrease appetite for risk by lenders, the proposed operations of the Portfolio Companies and thus the Palisades Funds could be adversely affected.

*Difficulty of Locating Suitable Investments* – There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable Palisades to invest all of the Palisades Funds' committed capital in opportunities that satisfy the Funds' investment objectives or that such investment opportunities will lead to completed investments by the Funds. The act of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. The Funds will be competing with other private equity funds, as well as institutional and strategic investors, for investments in Portfolio Companies. As a result of this competition, attractively-priced investment opportunities may be scarcer than expected, which could have an adverse impact on the length of time that is required for a Fund to become fully invested.

*Accuracy of Third Party Information* – Palisades may select investments for the Palisades Funds on the basis of information and data made directly available to Palisades by third parties. Although Palisades will evaluate all such information and data and will ordinarily seek independent corroboration when Palisades considers it appropriate and when such corroboration is reasonably available, Palisades may not be in a position to confirm the completeness, genuineness or accuracy of such information and data and, in some cases, complete and accurate information may not be available. Investments made based on incomplete or inaccurate information have a greater likelihood of not meeting performance objectives.

*Illiquidity of Investments* – Many of the investments pursued on behalf of the Palisades Funds will be highly illiquid. There can be no assurance that a Palisades Fund will be able to realize such investments at attractive prices or otherwise be able to affect a successful realization or exit strategy. Accordingly, it is unlikely there will be significant near term cash flow available to the Palisades Funds or their investors.

*Follow-On Investments* – A Palisades Fund may be called upon to provide follow-on funding for its Portfolio Companies and may have the opportunity to increase its investment in its Portfolio Companies. There can be no assurance that Palisades will recommend to cause such Palisades Fund to make follow-on investments or that such Palisades Fund will have sufficient capital to do so. A determination by Palisades not to make such follow-on investments or the inability of such Palisades Fund to make them may have a substantial negative impact on a Portfolio Company in need of such an investment, may diminish such Palisades Fund's ability to influence the Portfolio Company's future development, and may dilute the value of such Palisades Fund's investment if third parties make such investments and are able to "cram down" prior investors.

*Nature of Equity Securities.* The investments recommended by Palisades for the Palisades Funds will typically be among the most junior securities in a Portfolio Company's capital structure and thus subject to the greatest risk of loss. Such securities will be subordinated to the senior obligations of a Portfolio Company, all or a significant portion of which may be secured, either contractually, in the case of debt securities, or because of the nature of the security, in the case of preferred stock or common stock. Such subordinated investments may be characterized by greater credit risks than those associated with the senior obligations of such Portfolio Company. Adverse changes in the financial condition of a Portfolio Company or in general economic conditions or both may impair the ability of such Portfolio Company to make payments on the subordinated securities and result in defaults on such securities more quickly than in the case of the senior obligations of such Portfolio Company.

*Non-U.S. Portfolio Companies.* Although no Palisades Fund currently intends to do so, a Fund may invest in securities of non-U.S. issuers. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Fund's non-U.S. Portfolio Companies are denominated, and costs associated with conversion of investment principal and income from one currency into another; (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. securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic and political risks, including potential exchange control regulations and potential restrictions on non-U.S. investment and repatriation of capital and the risks associated with political, economic or social instability; and (iv) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities.

*Liabilities Upon Disposition* – As part of the disposition process of an investment in a Portfolio Company, a Palisades Fund may be required to make representations about the business and financial affairs of the Portfolio Company typical of those made in connection with the sale of any business and may be responsible for the content and disclosure documents under applicable securities laws. A Palisades Fund also may be required to indemnify the purchasers of such investment or underwriters to the extent that any such



representation or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities of a Fund which might ultimately have to be funded by Fund investors to the extent of their capital commitments, plus any income or gains distributed in excess of their capital commitments. While the Palisades Funds have liability coverage, the nature and extent of the liabilities may or may not fit within the terms and limits available.

*Third Party Involvement* – Palisades may recommend that a Palisades Fund co-invest with third parties through joint ventures or other entities, and those investments may involve risks in connection with such third-party involvement. A third-party co-venturer may have financial, legal or regulatory difficulties, negatively affecting such investment, may have economic or business interests or goals that are inconsistent with those of the Fund or may be in a position to take action contrary to the Fund’s investment objectives. In addition, the Palisades Fund may, in certain circumstances, be liable for actions of its third party co-venturers or partners.

*Lack of Control of Portfolio Companies.* With respect to management at the Portfolio Company level, many Portfolio Companies rely on the services of a limited number of key individuals, the loss of any one of whom could significantly adversely affect the Portfolio Company’s performance. Palisades expects that as a general matter the Funds will not control the Portfolio Companies, and that such control will rest with the incumbent owner-managers. As a condition of making non-controlling investments in Portfolio Companies, each Fund will typically seek to obtain appropriate shareholder rights to protect such Fund’s investment, but it may not be possible to obtain such rights in all cases. As a result, each Fund is subject to the risk that a Portfolio Company in which it invests may make business decisions with which it disagrees and the management of such company may take risks or otherwise act in ways that do not serve the Fund’s interests. Due to the lack of liquidity for the investments in non-publicly traded companies, a Fund may not be able to dispose of its interest in a Portfolio Company as readily as it would desire or at an appropriate valuation. As a result, a Portfolio Company may make decisions that could decrease the value of a Fund’s investment in that company.

*Controlling Interests* – A Palisades Fund may be considered to control, participate in the management of or influence the conduct of Portfolio Companies due to its equity ownership, representation on the board of directors or contractual rights. Each Fund may be represented on the boards of directors of certain of its Portfolio Companies or may have its representatives serve as observers to such boards of directors. Although such positions in certain circumstances may be important to a Fund’s investment strategy and may enhance a Fund general partner’s and Palisade’s ability to manage the Portfolio Companies, they may also have the effect of impairing a general partner’s ability to sell the related securities when, and upon the terms, it may otherwise desire, and may subject such general partner, Palisades and/or a Fund to claims they would not otherwise be subject to, including claims of breach of duty of loyalty, securities claims and other director related claims.

*Conflicts of Interest* – Palisades and its respective affiliates, employees and agents may be subject to certain conflicts of interest involving themselves on one hand and the Palisades Funds on the other hand. Such conflicts include:

- *Different Investments in Portfolio Companies* – A Palisades Fund may take different positions in Portfolio Companies in which another Palisades Fund or other investment vehicle, permitted to be organized under the relevant governing documents, has invested. In such event, a Palisades Fund and such other Palisades Fund or investment vehicle may have conflicting interests because they are investing in different classes of securities of the same Portfolio Company.

- *Co-Investments* – Palisades may provide co-investment opportunities to investors in the Palisades Funds and other persons. Palisades may receive a management fee, carried interest or both with respect to such co-investments. The potential for such remuneration may incentivize Palisades to allocate a greater percentage of investment opportunities to co-investors than it otherwise would have.
- *Conflicts Among Investors* – Investors in the Palisades Funds are not clients of Palisades or the general partners of the Palisades Funds. In selecting investments appropriate for a Palisades Fund, the applicable general partner and Palisades will consider the investment objectives of the Palisades Fund as a whole, not the investment objectives of any investor individually. Investors in the Palisades Funds may have conflicting investment rationales and tax positions.
- *Management Fees; Carried Interest* – Palisades or the general partner of each Palisades Fund will receive management fees and carried interest as described under Item 5 (“Fees and Compensation”) and Item 6 (“Performance-Based Fees and Side-By-Side Management”) above. The management fees and carried interest payable by the Palisades Funds have not been established on the basis of an arm’s-length negotiation among the Palisades Funds, their general partners and Palisades. Moreover, the existence of the carried interest may create an incentive for the management of Palisades to approve and cause the Palisades Funds to make more speculative investments than they would otherwise make in the absence of such performance-based compensation.
- *Other Fees; Management Fee Offset* - As described in Item 5 (“Fees and Compensation”), Palisades, its affiliated general partners and other affiliates may receive from actual or prospective Portfolio Companies and affiliates thereof, break-up fees, monitoring and directors’ fees, and organization, financing and other similar fees in connection with portfolio company investments and potential investments. Certain of these fees may not be established on a completely arm’s length basis or may adversely affect a portfolio company. Moreover, because Palisades Fund investors will receive a benefit from such fees only to the extent provided for in the applicable fund agreements, most of which provide for a management fee offset only after a significant portion of these fees are retained by the general partners or their affiliates, the ability to collect and retain these fees may create an incentive for Palisades and or its affiliate to approve and cause a Palisades Fund to make more speculative investments than might otherwise be made in the absence of such compensation.
- *Operation of Fund Assets* – Companies in which a Fund may have an ownership interest may be in direct competition with companies in which Palisades and its other affiliates have an ownership interest, and Palisades or its affiliates may be subject to conflicts of interest with respect to the operation of companies owned by the Fund.
- *Tax Matters Partner* – Finally, each Palisades Fund must have a designated “tax matters partner” with authority to act for the Fund in certain dealings with the IRS. The general partner of each of the Palisades Funds will be designated as the tax matters partner for each of the Palisades Funds. To the extent that the characterization for federal income tax purposes of a particular “partnership item” may be more or less favorable to the tax situation of the applicable general partner or any of its affiliates as opposed to that of the investors, a conflict of interest will exist.

*Allocation of Expenses* – Palisades and its employees and affiliates may from time to time incur expenses on behalf of itself, the applicable general partner, the Palisades Funds and one or more existing or subsequent entities established by Palisades. Although Palisades and its employees and affiliates will

attempt to allocate such expenses on a basis that they consider equitable, such allocations depend on the professional judgment of Palisades and its employees rather than a determinative formula. There can be no assurance that investors in the Palisades Funds will agree with these allocation determinations.

*Distributions* – There can be no assurance that the operations of the Palisades Funds will be profitable, that the Palisades Funds will be able to avoid losses or that cash from their investments will be available for distribution to the investors in the Palisades Funds. The public market for high-technology companies has been extremely volatile in recent years. Many Portfolio Companies may need substantial additional capital to support growth or to achieve or maintain a competitive position, and will have substantial variation in operating results from period to period. Portfolio Companies can experience failures or substantial declines in value at any stage and may face intense competition. The Palisades Funds will have no source of funds from which to make distributions to investors other than income and gain received on its investments and the return of capital. In addition, it is possible that Portfolio Companies may generate taxable income and that there will not be funds available from which to make distributions to the investors.

*Defaults by Investors* – The consequences of defaulting on a capital call may be material and adverse to the defaulting investor. If an investor fails to contribute any portion of its Commitment upon a call by the applicable general partner, such investor may be subject to a number of remedies available to the applicable general partner. The defaulting investor could lose its entire investment in a Palisades Fund and remain liable for amounts due in respect of its Commitment (including payments of Management Fees), as well as for interest on such amounts at the maximum rate permitted by law.

*Not Registered as a Broker Dealer* – Palisades and the general partners of the Palisades Funds are not registered as broker-dealers under the Exchange Act, or members with the Financial Industry Regulatory Authority (the “FINRA”), and are consequently not subject to the record-keeping, specific business practice provisions, and other investor protection provisions of the Exchange Act and the rules of the FINRA.

*Increased Regulatory Scrutiny* – The financial services industry, and the activities of private investment funds and their managers, have been subject to increasing regulatory oversight. Such scrutiny may increase Palisades’ exposure to potential liabilities as well as legal, compliance, and administrative costs. Increased regulatory oversight may impose administrative costs involved with the implementation of new policies and procedures, the filing of additional information, and time, attention, and resources from Palisades’ management which may divert attention from the management of Portfolio Companies. According to the regulations, it is expected that from time to time, Palisades’ officers will have contact with governmental authorities and be requested to respond to inquiries or examinations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) aims to reform various aspects of the U.S. financial markets. This has affected private fund managers, the funds they manage, and the financial industry as a whole. Some of these changes are anticipated to add expenses to the legal, operations and compliance responsibilities of Palisades and increase the amount of time Palisades spends on non-investment related activities. The Dodd-Frank Act will also affect a range of market participants with whom the Palisades Funds interact.

*Investing in a Palisades Fund Can Have Complicated Tax Consequences* – Investors in a Palisades Fund will be subject to the risks and uncertainties associated with the tax treatment of partnerships and other entities, which can be complicated. An investment in a Palisades Fund may not be suitable for direct investments by foreign investors, who must invest in the Palisades Fund via a domestic investment vehicle, and may not be suitable for tax-exempt investors. A Palisades Fund may generate income that is subject to U.S. federal income tax for tax-exempt investors. There can be no assurance that a Palisades Fund will have sufficient cash flow to permit it to make annual distributions in the amount necessary to pay all tax liabilities resulting from an investor’s ownership of partnership interests in a Palisades Fund. Persons considering an

investment in a Palisades Fund are strongly encouraged to consult their own tax advisors regarding the tax consequences (including any U.S. federal, state and local, and foreign tax consequences) of their prospective investment and the consequences of such an investment to them.

*Changes in Applicable Tax Laws and Tax Risks* – There may be changes in tax laws or interpretations of such tax laws adverse to a Palisades Fund or its investors. There can be no assurance that the structure of a Palisades Fund or of any investment will be tax efficient to any particular investor, or that the Internal Revenue Service will not challenge any tax provision taken by a Palisades Fund. Prospective investors are urged to consult their own tax advisers with reference to their specific tax situations, including any applicable U.S. state or local or non-U.S. taxes and, in the case of U.S. tax exempt investors, with reference to any special issues that investment in the Fund may raise for such investors. There can be no assurance that a Palisades Fund will have sufficient cash flow to permit it to make annual distributions in the amount necessary to pay all tax liabilities resulting from limited partners' ownership of partnership interests in the Palisades Fund.

## **9. Disciplinary Information**

Palisades and its management personnel have no reportable disciplinary events to disclose.

## **10. Other Financial Industry Activities and Affiliations**

Compensation is approved by and disclosed at the formation of a Palisades Fund, pursuant to the partnership agreement. See Item 5 ("Fees and Compensation") and Item 6 ("Performance-Based Fees and Side-By-Side Management") for additional compensation disclosures.

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

Palisades has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, which requires each of our employees to comply with all applicable federal and state laws and regulations. Our Code makes clear that our business will be conducted consistent with high ethical standards. The trust of our investors and the firm's reputation are of paramount importance. To that end, our Code requires each employee to avoid any action that results in a conflict of interest with the firm and its clients, prohibits outside business activities without the consent of the Chief Compliance Officer, prohibits trading on the basis of material non-public information and prohibits accepting extravagant gifts or entertainment from the firm's business relationships. Employees are required to report all personal securities transactions to the firm, and must obtain the approval of Anders Richardson, the Chief Compliance Officer, or either William Tomai, the Chief Financial Officer or Paul D'Addario, the managing partners, prior to trading in certain securities covered by the policy.

Palisades will provide a copy of the Code of Ethics to any client or prospective client upon request.

### ***Conflicted Transactions***

Palisades may, in its discretion, contract with any related person of Palisades, including but not limited to a portfolio company of a Palisades Fund, to perform services for Palisades in connection with its provision of services to a Palisades Fund. It also may recommend to a Palisades Fund or a Portfolio Company that it contract for services with a related person or an entity with which Palisades or a member of its personnel otherwise derives financial or other benefit. When engaging a related person to provide such services or making such a recommendation, Palisades may have an incentive to recommend the related person or services even if another person may be more qualified to provide the applicable services, can provide such services at a lesser cost or

both. The engagement of such related persons may be subject to approval by a Palisades Fund's limited partners or an advisory committee comprised of limited partners as provided in the applicable partnership agreement.

Palisades and certain of its professionals may perform management, advisory, financial advisory and other services for, and will receive fees from, actual or prospective Portfolio Companies or other investment vehicles, which fees will be in addition to any asset-based fees or carried interest paid by the Palisades Funds. Subject to the terms of the relevant limited partnership agreements for the Palisades Funds, Palisades is permitted to retain a portion of such fees and the Palisades Funds will benefit from these fees only to the extent set forth in such limited partnership agreements.

Certain Palisades professionals, in connection with the monitoring of Portfolio Company investments, also may serve on the board of directors of certain Portfolio Companies. In these circumstances, it is possible for such professionals to receive director's fees, options or other compensation in connection with such services. Where required by the terms of the relevant limited partnership agreements for the Palisades Funds, such compensation will reduce the management fees paid by those Palisades Funds.

In certain circumstances, Palisades may offer co-investment rights to certain limited partners in the Palisades Fund and to other investors who are believed to have the capacity or willingness to consider an additional investment. Palisades is not obligated to offer co-investment opportunities to all investors.

## **12. Brokerage Practices**

### ***Investment or Brokerage Discretion***

Palisades typically purchases investments directly from private owners and does not typically engage brokers to effect transactions. However, Palisades has sole discretion over the purchase and sale of investments and the broker or dealer, if any, to be used to effect transactions. When applicable, Palisades will seek the best execution available except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services.

Palisades has no formal arrangements with specific brokers or dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from client transactions (so called "soft dollar" arrangements).

## **13. Review of Accounts**

### ***Reviews***

Palisades' professionals monitor the Portfolio Companies of the Palisades Funds and generally maintain ongoing oversight of such Portfolio Companies. The investment portfolios of the Palisades Funds are primarily private, illiquid and long-term in nature. Review may become more frequent should material changes in variables of the market, political or economic environment occur.

### ***Reporting***

Investors in the Palisades Funds are furnished with quarterly financials, which include summaries of investment holdings, and annual reports containing financial statements examined by the Palisades Funds' independent auditors within 90 days after the end of each calendar year (or as soon as practicable thereafter).

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

Palisades and its related persons may occasionally receive discounts on products and services provided by portfolio companies held by the Palisades Funds.

Palisades also receives compensation in the form of break-up fees, commitment fees, monitoring and directors' fees, and organization, financing, divestment and other similar fees ("Other Fees"), as defined earlier in Item 5 ("Fees and Compensation"), from portfolio companies that are in addition to the management fees from the Palisades Funds. Some Palisades Funds offset management fees in varying degrees by such fees received from Portfolio Companies.

## **15. Custody**

All funds and certificated securities for the Palisades Funds are held in custody by unaffiliated broker/dealers or banks. However, Palisades has access to client accounts since its affiliates serve as general partners of the Palisades Funds. The Palisades Funds are subject to an annual audit by RSM US LLP, a PCAOB registered and inspected independent public accountant. Limited Partners in each Palisades Fund are provided with annual audited financial statements, prepared in accordance with U.S. GAAP, within 90 days of such Fund's fiscal year end (or as soon as practicable thereafter).

## **16. Investment Discretion**

Palisades has discretion over the Palisades Funds. Pursuant to the Limited Partnership Agreement of each Palisades Fund, and subject to the direction and control of the general partner of such Palisades Fund, Palisades performs the day-to-day investment operations of each Palisades Fund in accordance with the terms and conditions of the Limited Partnership Agreement of such Palisades Fund. These arrangements are disclosed and approved upon the formation of a Palisades Fund.

## **17. Voting Client Securities**

While the securities evidencing the venture capital and growth stage investments made by the Palisades Funds are not typically the subject of proxies, there could be certain circumstances where we, having discretionary authority over the accounts of the Palisades Funds, may be asked to vote the securities of such Funds on restructuring or other corporate matters. We will ensure that a record of each securities position held by each Palisades Fund is maintained and, where any such vote is to occur, we will ensure that it receives all relevant information, disclosure materials and such proxies or consents as are necessary for us to cast votes in a timely manner.

Palisades will also determine where there is, or appears to be, a material conflict of interest that could influence the voting decision in a manner that would be adverse to the interests of a Palisades Fund. If we determine that there is no material conflict of interest, then we will make the voting determination and take the required voting action. If we determine that, due to a conflict of interest, we are not capable of making an independent determination as to the voting decision then generally the voting decision will be that recommended by the applicable limited partner advisory committee.

The Palisades Funds cannot direct Palisades vote in a particular solicitation. Each Palisades Fund is controlled by its general partner (a Palisades' affiliate) and, as such, each Palisades Fund is aware of how it voted with respect to its securities.

A copy of the proxy voting policies and procedures will be provided to any client and prospective client upon request.

## **18. Financial Information**

As an advisory firm that maintains discretionary authority for the Palisades Funds, Palisades is required to disclose any financial condition that is reasonably likely to impair the ability to meet contractual obligations. Palisades is under no such impairment.