

**INVESTMENT ADVISER BROCHURE**

**BLUE SAGE SERVICES, L.P.**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Blue Sage Services, L.P. (“Blue Sage Services”). If you have any questions about the contents of this Brochure, please contact us at (512) 536- 1900. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

Blue Sage Services is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding Blue Sage Services is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## MATERIAL CHANGES

Blue Sage Services, L.P. is providing this brochure as part of its 2019 Annual Amendment to the Form ADV. There are no material changes to report. However, Fund I has been dissolved and thus references throughout the Form ADV have been removed.

## ADVISORY BUSINESS

Blue Sage Services, a Delaware limited partnership and a registered investment adviser, and its affiliated investment advisers provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. Blue Sage Services was founded in 2002.

Blue Sage Services' clients include the following:

- ☐ Blue Sage Capital II, L.P. ("**Fund II**"); and
- ☐ Blue Sage Capital III, L.P. ("**Fund III**" and, together with Fund II and any future private investment fund to which Blue Sage Services or its affiliates provide investment advisory services, the "**Funds**").

The following general partner entities are affiliated with Blue Sage Services:

- ☐ Blue Sage Management, L.P.;
- ☐ Blue Sage Management II, L.L.C.; and
- ☐ Blue Sage Management III, L.P. (each, a "**General Partner**" and, together with Blue Sage Services and its affiliated entities, "**Blue Sage**").

Each General Partner is subject to the Advisers Act pursuant to Blue Sage Services' registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with Blue Sage Services.

The Funds are private equity funds and invest through negotiated transactions in operating entities, generally referred to herein as "**portfolio companies**." Blue Sage's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. Although investments are made predominantly in non-public companies, investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of Blue Sage or its affiliates generally serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies in which the Funds have invested.

Blue Sage's advisory services to the Funds are detailed in the applicable private placement memoranda or other offering documents (each, a "**Memorandum**"), limited partnership or other operating agreements or governing documents (each, a "**Partnership Agreement**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." In performing investment advisory services for the Funds, Blue Sage Services has been retained to provide advisory personnel and services. The advisory services of Blue Sage Services are described herein. Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Partnership Agreement. The Funds or the General Partner may enter into side letters or other similar agreements ("**Side Letters**") with certain investors that have the effect of establishing rights (including economic or other terms) under, or altering or supplementing the terms of, the relevant Partnership Agreement with respect to such investors.

Additionally, from time to time and as permitted by the relevant Partnership Agreement, Blue Sage may, in its sole discretion, provide or agree to provide co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Blue Sage's personnel and/or certain other persons associated with Blue Sage and/or its affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as a Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor or co-invest vehicle generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in Blue Sage's sole discretion, Blue Sage is authorized to charge interest on the purchase to the co-investor or co-invest vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

As of December 31, 2019, Blue Sage managed approximately \$393,350,423 in client assets on a discretionary basis. Blue Sage Services is principally owned by Peter J. Huff and James D. McBride III.

#### **FEES AND COMPENSATION**

In general, Blue Sage receives a management fee and a carried interest in connection with advisory services. Blue Sage receives additional compensation in connection with management and other services performed for portfolio companies of Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to Blue Sage. In addition, in certain circumstances Blue Sage receives compensation for management and other services performed in connection with co-investments made in portfolio companies of the Funds. Investors in a Fund also bear certain expenses.

## Management Fees

Fund II pays Blue Sage an annual Management Fee equal to: (i) for the first five years following the earlier to occur of certain events specified in the Partnership Agreement, the lesser of (x) Commitments plus assumed loans from the SBA in connection with Fund II's status as a SBIC, or (y) \$150,000,000; and (ii) thereafter, the cost basis of loans and investments in active portfolio companies of Fund II. The Management Fee will be payable until the final distribution of Fund II's assets pursuant to the Partnership Agreement.

During the investment period, Fund III is expected to pay Blue Sage an annual Management Fee, payable quarterly in advance, equal to 2.0% of Commitments. Commencing with the first Management Fee due date after the expiration of the investment period, the Management fee is expected to equal 2.0% of (i) the aggregate investment contributions, less (ii) the aggregate amount of investment contributions with respect to the portion of each investment that has been disposed of or completely written off. The Management Fee will be payable until all portfolio investments are distributed or until Blue Sage's relationship with a Fund is terminated for other reasons (as described in the Partnership Agreement). Installments of the Management Fee payable for any period other than a full three-month period are adjusted on a *pro rata* basis according to the actual number of days in such period.

In addition, the Management Fee for Fund II will be reduced on a dollar-for-dollar basis by an amount equal to 100% of all of Fund II's share of any transaction, director, consulting and management fees paid to Blue Sage in connection with services provided to Fund II's portfolio companies. The Management Fee for Fund III will be reduced by an amount equal to 100% of all of Fund III's share of certain fees received by Blue Sage in connection with services provided to Fund III's portfolio companies, including, but not limited to, transaction, break-up, commitment, investment banking, closing, placement, advisory, consulting, management, directors', monitoring and other similar fees. To the extent that any offset credit would reduce a Fund's Management Fee for a given period below zero, the credit will be carried forward for future application against payable Management Fees and if a credit remains upon liquidation a payment will be made crediting limited partners unless a limited partner has elected to waive such amount (*e.g.*, where an adverse tax consequence may result).

Blue Sage may be paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors in an investment. The receipt of such fees will not reduce the Management Fee payable by any Fund(s) that have also invested in such investment, and as a result a Fund will, in most cases, only benefit with respect to its allocable portion of any such fee and not the portion of any fee that relates to such co-investors.

As permitted under the applicable Partnership Agreement, Blue Sage may elect to waive all or a portion of the Management Fee. Any waived portion of the Management Fee is treated by the applicable Partnership Agreement as a deemed capital contribution by the relevant General Partner, which is effectively invested in the relevant Fund on such General Partner's behalf, and operates to reduce the amount of capital such General Partner would otherwise be required to contribute to a Fund. The limited partners of a Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration, or delay, of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above, and the amount of such waived or reduced Management Fees has the potential to be significant. Due to waived or reduced Management Fees by Blue Sage and/or timing of receipt of compensation subject to offsets (as described above), it is possible that Management Fee offsets will not be fully realized by investors in a Fund, resulting in a net additional benefit to Blue Sage.

### **Carried Interest**

The relevant General Partner will receive a carried interest with respect to a Fund equal to 20% of all realized profits subject to, in the case of Fund II, a 7.0% compound preferred return and, in the case of Fund III, an 8% compound preferred return, as more fully described in the relevant Partnership Agreement. The carried interest distributed to relevant General Partner is subject to a potential giveback at the end of life of a Fund if the relevant General Partner has received excess cumulative distributions and at certain interim intervals as provided in the applicable Partnership Agreement.

It is expected that any future Funds will have a similar fee structure.

### **Other Information**

Blue Sage is permitted, in its sole discretion, to exempt certain “**affiliated partner**” investors in the Funds from payment of all or a portion of Management Fees and/or carried interest, including the relevant General Partner and any other person designated by Blue Sage. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by Blue Sage or through other Funds which co-invest with a Fund. For example, in instances where a Blue Sage professional (or an affiliated entity thereof) invests in a Fund, such professional (or such affiliated entity) generally will be exempt from payment of the Management Fee and carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant Partnership Agreement, Blue Sage has the right to permit investors, affiliated with Blue Sage or otherwise, to invest through the relevant General Partner or other vehicles that do not bear Management Fees or carried interest.

The Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the relevant Partnership Agreement, over the term of the relevant Fund, and investors generally are not permitted to withdraw or redeem interests in the Funds.

Principals, investment committee members or other current or former employees of Blue Sage generally receive a portion of the Management Fee, carried interest or other compensation received by Blue Sage.

In addition to the Management Fee and carried interest payable to Blue Sage, each Fund bears certain expenses. As set forth more fully in the applicable Memorandum and/or Partnership Agreement of each Fund, a Fund bears all expenses relating to a Fund's activities, investments and business to the extent not reimbursed by a portfolio company or applied to reduce transaction fees, including some or all of the following fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, or otherwise disposing of, as applicable, portfolio companies and a Fund's actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; (ii) indebtedness of, or guarantees made by, a Fund, Blue Sage Services, the applicable General Partner or any affiliated partner on behalf of a Fund (including any credit facility, letter of credit or similar credit support), including interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iii) financing, commitment, origination and similar fees and expenses; (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker and similar services; (v) brokerage, sale, custodial, depository, trustee, record keeping, account and similar services; (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with a Fund's third-party administrator and administration or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to consultants performing investment initiatives and other similar consultants), tax and other professional services; (vii) reverse breakup, termination and other similar fees; (viii) directors and officers liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses; (ix) filing, title, transfer, registration and other similar fees and expenses; (x) printing, communications, marketing and publicity; (xi) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (xii) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of a Fund or such Fund's limited partners; (xiii) any activities with respect to protecting the confidential or non-public nature of any information or data; (xiv) to the extent provided in the applicable Partnership Agreement, or otherwise approved by the applicable General Partner in its sole discretion, activities or proceedings of the advisory

committee (including any reasonable out-of-pocket costs and expenses incurred by representatives of the applicable General Partner, the advisory committee members, permitted observers and other persons in attending or otherwise participating in meetings of the advisory committee); (xv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any limited partner or other person pursuant to the applicable Partnership Agreement or otherwise and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the applicable Partnership Agreement), except as otherwise set forth in the applicable Partnership Agreement; (xvi) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered into in connection therewith; (xvii) any annual limited partner meeting or other periodic, if any, meetings of the limited partners and any other conference or meeting with any limited partner(s), in each case to the extent incurred by a Fund, the applicable General Partner or any other affiliate of such General Partner; (xviii) except as otherwise determined by the applicable General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be an expense of a Fund if it were incurred in connection with such Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to a Fund to the extent not paid by the investors investing in such entities; (xix) the termination, liquidation, winding up or dissolution of a Fund; (xx) defaults by limited partners in the payment of any capital contributions; (xxi) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of a Fund and related entities, and any alternative investment vehicle of a Fund or a related entity, including the preparation, distribution and implementation thereof; (xxii) complying with any law or regulation related to the activities of a Fund (including regulatory expenses of the applicable General Partner incurred in connection with the operation of such Fund and legal fees and expenses); (xxiii) any litigation or governmental inquiry, investigation or proceeding involving a Fund, including the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the applicable Partnership Agreement; (xxiv) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer contemplated by a limited partner; (xxv) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of such Fund (except to the extent that such Fund is reimbursed therefor by a limited partner or such tax, fee or charge is treated as having been distributed to the limited partners pursuant to the applicable Partnership Agreement); (xxvi) distributions to the limited partners and other expenses associated with the acquisition, holding and disposition of a Fund's investments, including extraordinary expenses; (xxvii) compliance or regulatory matters related to a Fund, except as otherwise set forth in this Agreement; (xxviii) any costs, fees and expense of any third-party service providers and professionals related to the foregoing, including expenses related to maintaining the applicable General Partner's and its advisory affiliates' status as SEC-registered investment advisers, any related examination, and complying with the Advisers Act, and any similar U.S. federal or state or non-U.S. government or self-regulatory organization laws, rules or regulations that require the applicable General Partner or its affiliates to obtain or maintain a license, apply for, or otherwise

rely upon, an exemption or otherwise be regulated in order to control or manage the affairs of a Fund (including expenses of any audit or exam, and expenses of any legal or other service providers maintained by the applicable General Partner or its affiliates to advise it or perform services on behalf of it or a Fund and the costs of any services or programs implemented by the applicable General Partner or its affiliates in connection with such matters); (xxix) any travel (including, where appropriate as determined by the applicable General Partner, the cost of using private aircraft or other private air travel (at a cost not to exceed the cost of first class commercial airfare)), lodging or meals relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxx) any organizational expenses of a Fund; (xxxi) any private placement or finders' fees paid by a Fund to placement agents, finders or other third-parties performing similar services in connection with the organization or funding of a Fund or a related entity; and (xxxi) any other fees, costs, expenses, liabilities or obligations approved by the advisory committee.

As is typical for private equity funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in "Brokerage Practices."

As described above, in certain circumstances, Blue Sage is expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to Blue Sage's related policies and the relevant Partnership Agreement and/or Side Letter(s). Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of the applicable General Partner, ultimately is not consummated, all fees and expenses, or other liabilities or obligations, incurred for transactions not consummated relating to such proposed transaction ("**Broken Deal Expenses**") will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle is expected to bear its share of such Broken Deal Expenses.

Blue Sage and/or its affiliates generally have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the rate, timing and/or amount of such compensation. The receipt of such compensation generally will give rise to potential conflicts of interest between the Funds, on the one hand, and Blue Sage and/or its affiliates, on the other hand.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," Blue Sage expects to receive a carried interest allocation on certain realized profits in a Fund. Blue Sage does not currently advise Funds not subject to a carried interest, although it generally has the authority to waive carried interest with respect to certain affiliated partners as described under "Fees and Compensation."

The existence of performance-based compensation has the potential to create an incentive for the General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although Blue Sage generally considers performance-based compensation to better align its interests with those of its investors.

### **TYPES OF CLIENTS**

Blue Sage provides investment advice to the Funds. The Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended (the “**Company Act**”). The investors participating in the Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Blue Sage and members of their families or other service providers retained by Blue Sage.

The Funds may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

The Funds generally have a minimum investment amount of \$2,000,000 for third-party investors. Such minimum investment amount for each of the Funds may be waived by Blue Sage in its sole discretion.

In most circumstances, investors in the Funds must meet certain suitability and net worth qualifications prior to making an investment in a Fund. Generally, investors must be (i) “accredited investors,” as defined under Regulation D of the Securities Act of 1933, as amended (the “**Securities Act**”), (ii) “qualified clients,” as defined under the Advisers Act, and (iii) either “qualified purchasers” or “knowledgeable employees,” as defined under the Company Act. Blue Sage may waive such qualification requirements in certain circumstances.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **General**

Blue Sage is a private investment firm primarily focused on investing in small, family-owned businesses that are located in Texas, the South and the Midwest in towns far from large capital centers where less expensive capital is more plentiful and intermediated. In these geographic areas, Blue Sage seeks to target companies that operate in niche industries, defined as typically less than \$1 billion in total industry sales, allowing in some cases these companies to assume leadership positions in product quality and pricing. With each new platform investment, Blue Sage generally will seek to invest in both growth and buyout (recapitalization) transactions in basic industrial, manufacturing and service companies.

There can be no assurance that Blue Sage will achieve the investment objectives of any Fund and a loss of investment is possible.

## **Investment and Operating Strategy**

### *Sourcing*

Blue Sage regards deal origination as one of the most critical success factors in investing. Historically, the majority of Blue Sage's investments were sourced outside of traditional large investment bank-led broad auctions and were either directly sourced or referred through the Blue Sage's relationships.

Generally, a Fund's investments will be generated by a tiered approach of: (1) systematically reaching out to commercial bankers, accountants, lawyers and other service providers; (2) cultivating relationships among "fundless sponsors" and operating partners; (3) proactive industry research and identification, including attendance at several trade shows; (4) selectively working with traditional intermediaries; (5) targeted "buy side" representation; and (6) co-investing alongside other investment firms.

Recently, Blue Sage has sought to enhance and formalize its business development effort to identify key markets and intermediaries and assign coverage responsibilities among investment professionals. Blue Sage's professionals will seek to reach these markets through a combination of organic business development trips and private equity conferences targeting the lower middle market.

### *Preliminary Review and Diligence*

Once an attractive investment opportunity has been sourced, preliminary review and diligence begins. This seemingly perfunctory step in the process is actually a critical juncture. Blue Sage seeks to eliminate quickly those opportunities that do not fit its investment strategy, that are generally broad, competitive auction processes, that have underlying deficiencies that cannot be solved by structure or are otherwise not a high-probability prospect. In diligently providing a "quick no," Blue Sage is better able to allocate resources to those prospects that it believes could meet its rigorous underwriting standards. This affords more time to craft proposals, even early in the process, that signal a better understanding of the business and thus convey a higher probability for successful completion.

### *Negotiation, Structure, Confirmatory Diligence, Financing and Closing*

During the advanced stages of transactions, once Blue Sage controls the process via an executed exclusive letter of intent, more significant resources are brought to bear and selected third parties are engaged. In addition to legal counsel, outside consultants are used selectively for accounting, environmental, insurance and related matters. The use of consultants is targeted and directed to specific questions and issues, and not in substitution for internal, proprietary review and study. At this stage, Blue Sage will conduct a comprehensive analysis of the industry and competition and review the strategic plan with the management team. Elements of this review include organic and inorganic growth opportunities, alternative products or channels that could be exploited, likely competitive responses, threats of entry from external sources, risks of

obsolescence or substitution, breadth and depth of the supply chain and the relative strength of providers and distributors, detailed product costing modeling, technology infrastructure and information resources.

Extensive financial modeling is conducted in crafting the preferred capital structure to provide adequate margin for economic cycles, allow flexibility for internally generated cash flow for ongoing growth and ensure target returns can be achieved. Additional consideration is given to capacity to undertake strategic acquisitions to the extent consolidation is part of the investment thesis. Finally, exit and realization strategies are reviewed and discussed, which in most cases revolve around sales to other industry players or larger financial buyers.

#### *Operational Value Add and Strategic Execution*

Blue Sage seeks to launch new investments with both short-term tactical and long-term strategic plans. This begins during the diligence process with the final review of the strategic plan, investment thesis and financial model with the senior management team. In addition, financial reporting templates and board meeting schedules are developed along with key dashboards that capture unique drivers of the business. One of the first steps Blue Sage takes with a new investment is working with management to create a collaborative “100 Day Plan,” an intentional, focused action plan that ensures the expectations of the team and ownership are surfaced and discussed. The plan highlights immediate areas for focus to ensure that resources are in place and responsibilities are assigned to tackle the most important initiatives. Given the fact that most of the companies that Blue Sage invests in have been founder-led, establishing a performance culture is critical in the early days.

Many founder-led, small companies are managed without the benefit of best practices or business tools like capital budgeting or strategic planning, and thus generally provide fertile ground for operational improvement and growth. They are often capital-starved, as owners distribute cash out of the business for lifestyle considerations. Management and employee “bench strength”—in number and/or ability—is often lacking. Information and financial reporting systems are often inadequate, and there is an absence of dashboards or other metrics with which the business can be managed. Decision making is often intuitive, and rudimentary business planning and analysis tools are not employed. Blue Sage believes these types of operational improvements represent easily implemented, “low-hanging fruit” that drive revenue and profit.

#### **Risks of Investment**

Each Fund and its investors bear the risk of loss that Blue Sage’s investment strategy entails. The risks involved with Blue Sage’s investment strategy and an investment in a Fund include, but are not limited to:

*Business Risks.* A Fund’s investment portfolio is expected to consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Concentration of Investments.* Each Fund will participate in a limited number of investments and investments in one industry or one industry segment or within a short period of time. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, limited partners will be required to bear Management Fees through the applicable Fund during the investment period based on the entire amount of the limited partners' Commitments and other expenses as set forth in the Partnership Agreement.

*Dynamic Investment Strategy.* While each General Partner generally intends to seek attractive returns for a Fund primarily through making private equity investments as described herein, the relevant General Partner may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. A General Partner may pursue investments outside of the industries and sectors in which Blue Sage has previously made investments or has internal operational experience.

*Growth Equity Transactions.* A Fund's strategy may include targeting growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments may involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on a Fund's activities, including the ability of such Fund to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its investment objectives.

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, may complicate or prevent a Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a

result, a Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Funds (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, whether during or after the initial closing of a Fund, could adversely affect the ability of Blue Sage, its employees or other individuals associated with a Fund or the applicable General Partner who were or may in the future be granted direct or indirect interests in the applicable General Partner, to benefit from carried interest taxed at lower rates. This may reduce such persons' after-tax returns from a Fund and the applicable General Partner, which could make it more difficult for the relevant General Partner and its affiliates to incentivize, attract and retain individuals to perform services for a Fund. These same issues may also apply to officers, directors and employees of a Fund's portfolio companies if such persons receive a profits interest in such companies.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to the applicable General Partner) may exceed its income, thereby requiring that the difference be paid from such Fund's capital, including unfunded Commitments.

*Leveraged Investments.* A Fund may make use of leverage by incurring or having a portfolio company incur debt to finance a portion of its investment in a given portfolio company. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. In addition, this leverage could accelerate and magnify declines in the value of a Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of such Fund. Furthermore, should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund will invest generally will not be rated by a credit rating agency.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefor, and, in such situations, it is not expected that such Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund also will result in interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. A Fund may incur leverage on a joint and several basis with one or more other investment funds and entities managed by the applicable General Partner or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts may be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for Fund investments, and hence, most of the Fund's investments will be difficult to value. Certain investments may be distributed in kind to the Partners and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such Partners. After a distribution of securities is made to the Partners, many Partners may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such Partners may be lower than the value of such securities determined pursuant to the Partnership Agreement, including the value used to determine the amount of carried interest available to the General Partner with respect to such investment.

*Non-U.S. Investments.* A Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories and possessions. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on a Fund and/or the limited partners with respect to a Fund's income, and possible non-U.S. tax return filing requirements for a Fund and/or the limited partners.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions,

potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by a Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon a Fund's portfolio companies.

*Market Conditions.* The capital markets have experienced great volatility and financial turmoil. Moreover, governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) may have a negative effect on market conditions. General fluctuations in the market prices of securities and economic conditions generally may reduce the availability of attractive investment opportunities for a Fund and may affect such Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a Fund's investments and could have a negative impact on the performance and/or valuation of the portfolio companies. A Fund's performance can be affected by deterioration in the capital markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and a Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of a Fund to sell and/or partially dispose of its portfolio company investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event such Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that the relevant General Partner believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund's ability to raise funding to support its investment objective.

*Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.* The recent deterioration of the global credit markets has made it more difficult for investment funds such as the Funds to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, has dramatically reduced investor demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. A Fund's ability to generate attractive investment returns may be adversely affected to the extent such Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

*Projections.* Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by the relevant General Partner in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, a Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that a Fund will make follow-on investments or that such Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments may result in a lost opportunity for a Fund to increase its participation in a successful portfolio company or the dilution of a Fund's ownership in a portfolio company if a third party invests in such portfolio company.

*Investment in Junior Securities.* The securities in which a Fund will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect a Fund's investment once made.

*Lack of Unilateral Control.* Even if a Fund is the majority investor or controlling shareholder, as applicable, of a portfolio company, in certain circumstances it may not have unilateral control of the portfolio company. To the extent a Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, the relevant portfolio companies may be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of the Funds or their limited partners. Such third parties may be in a position to take action contrary to a Fund's business, tax or other interests, and such Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment.

*Material Non-Public Information.* As a result of the operations of Blue Sage and its affiliates, Blue Sage frequently comes into possession of confidential or material non-public information. Therefore, Blue Sage and its affiliates may have access to material non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Blue Sage's internal policies. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

*Hedging Arrangements; Related Regulations.* A General Partner may (but is not obligated to) endeavor to manage the relevant Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used.

In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled.

Certain hedging arrangements may create for a General Partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission ("CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

*Unfunded Pension Liabilities of Portfolio Companies.* Recent court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. A Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where such Fund may own an 80% or greater interest in such a portfolio company. If a Fund (or other 80%-owned portfolio companies of such Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of such Fund and the companies in which such Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

*Valuation of Assets.* There is not expected to be an actively traded market for most of the securities owned by the Funds. When estimating fair value, the relevant General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. Valuations are subject to multiple levels of review for approval. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by the relevant General Partner may give rise to conflicts

of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees.

*Contingent Liabilities Upon Disposition.* In connection with the disposition of an investment, a Fund and the relevant General Partner may be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, *e.g.*, about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and may be responsible for the content of disclosure documents under applicable securities laws. They may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements may result in contingent liabilities, which would be borne by a Fund and, ultimately, its investors.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in historically vulnerable industries. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Blue Sage or one of its service providers holding its financial or investor data, Blue Sage, its affiliates or the Funds may also be at risk of loss.

### **Conflicts of Interest**

Blue Sage and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Funds, and providing transaction-related, legal, management and other services to Funds and portfolio companies. Blue Sage will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Partnership Agreement, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Blue Sage conducting its activities, the interests of a Fund may conflict with the interests of Blue Sage, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, Blue Sage will determine all matters relating to structuring transactions and Fund operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees of the participating Funds.

During the commitment period of a Fund, all appropriate investment opportunities will be pursued by Blue Sage principals (the "**Principals**") through such Fund, subject to certain limited exceptions. Without limitation, the Principals currently manage, and expect in the future to

manage, several other investments similar to those in which a Fund will be investing, and may direct certain relevant investment opportunities to those investments. The Principals and Blue Sage's investment staff will continue to manage and monitor such investments until their realization. Such other investments that the Principals may control or manage may potentially compete with companies acquired by a Fund. Following the commitment period of a Fund, the Principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Fund's investments.

From time to time, Blue Sage will be presented with investment opportunities that would be suitable not only for a Fund, but also for other funds that Blue Sage may form in the future and other investment vehicles operated by advisory affiliates of Blue Sage. In determining which investment vehicles should participate in such investment opportunities, Blue Sage and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Investments by more than one client of Blue Sage in a portfolio company may also raise the risk of using assets of a client of Blue Sage to support positions taken by other clients of Blue Sage.

Blue Sage must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. Blue Sage generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Partnership Agreement, as well as factors including, but not limited to: investment restrictions and objectives (including those set forth in the relevant Partnership Agreements, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, diversification limitations, cash level (if any), applicable tax and regulatory considerations, life cycle, structure and other relevant factors. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. A Fund may invest together with other Funds advised by an affiliated adviser of Blue Sage in the manner set forth in the relevant Partnership Agreements and the Adviser's Allocation Policy. Blue Sage will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with Blue Sage's obligations and may take into consideration factors such as those set forth above.

Following such determination of allocation among Funds, Blue Sage will determine if the amount of an investment opportunity in which one or more Funds will invest exceeds the amount that would be appropriate for such Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the applicable Partnership Agreement, Side Letters and Blue Sage's procedures regarding allocation. Blue Sage's procedures permit it to take into consideration a variety of factors in making such determinations, including, but not limited to: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory, securities laws and/or other legal considerations (*e.g.*, qualified purchaser or qualified institutional buyer status); confidentiality concerns that may arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; perceived ease of process in coordinating or completing the investment with the prospective co-investor or co-investors similar thereto; Blue Sage's perception of whether the investment opportunity may subject the prospective co-investor to legal, regulatory, reporting or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair Blue Sage's ability to execute the relevant transaction in the desired time or on desired

terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; perceived public relations and reputational benefits or costs; and whether Blue Sage believes that allocating investment opportunities to an investor or person will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant portfolio company, other portfolio companies, the Funds or Blue Sage. Blue Sage may grant certain third-party investors the opportunity to evaluate specified amounts of prospective co-investments in Fund portfolio companies or otherwise to have priority in co-investment opportunities.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Blue Sage or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Fund investors. When and to the extent that employees and related persons of Blue Sage and its affiliates make capital investments in or alongside certain Funds, Blue Sage and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Blue Sage's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While Blue Sage will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which Blue Sage may be subject, discussed herein, did not exist.

In certain cases, Blue Sage will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Partnership Agreement, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, Blue Sage will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors similar to those employed in selecting co-investors, and unless required by the relevant Partnership Agreement, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Blue Sage and its affiliates may express inconsistent views of commonly held investments

or of market conditions more generally. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

Subject to any relevant restrictions or other limitations contained in the applicable Partnership Agreement, Blue Sage will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, Blue Sage may be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Blue Sage or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size. The Funds have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

As a result of the Funds' controlling interests in portfolio companies, Blue Sage and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Blue Sage personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Blue Sage and/or its affiliates. Unless such amounts are subject to the applicable Partnership Agreement's offset provisions, they will be in addition to any Management Fees or carried interest paid by a Fund to Blue Sage.

Additionally, a portfolio company typically will reimburse Blue Sage or service providers retained at Blue Sage's discretion for expenses (including, without limitation, travel expenses) incurred by Blue Sage or such service providers in connection with its performance of services for such portfolio company. This subjects Blue Sage and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Blue Sage determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to Blue Sage or such service providers generally is subject to: agreements with or review by sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third-party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

Blue Sage generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with (i) Blue Sage or a related person of Blue Sage (which may include a portfolio company of such Fund), (ii) an entity with which Blue Sage or its affiliates or current or former members of their personnel has a relationship or from which Blue Sage or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, Blue Sage may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This subjects Blue Sage to conflicts of interest, because although Blue Sage selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Blue Sage may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that Blue Sage, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Blue Sage), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Blue Sage has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Although uncommon, from time to time Blue Sage may cause a Fund to enter into a transaction whereby the Fund purchases securities from, or sells securities to co-investors or co-investment vehicles. Such transactions may arise in the context of re-balancing an investment. Any such transactions raise potential conflicts of interest. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. Blue Sage intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

Blue Sage and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Funds or other investment vehicles advised by Blue Sage and/or its affiliates; conversely, current or former personnel or executives of Blue Sage and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Blue Sage. Similarly, Blue Sage, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including, but not limited to, managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Blue Sage and/or its affiliates, and/or the Funds or other investment vehicles they advise. Blue Sage may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to

such Fund or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Blue Sage information about markets and industries in which Blue Sage operates (or is contemplating operations) or will provide other services that are beneficial to Blue Sage. Blue Sage may have a conflict of interest in making such recommendations, in that Blue Sage has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

In certain circumstances, current or former Blue Sage personnel may serve in interim or part-time roles at a portfolio company, or may provide services to a portfolio company as a secondee or in similar capacities, while maintaining certain benefits, support services or indicia of employment at Blue Sage. Under such arrangements, Blue Sage and/or the relevant portfolio company may pay all or a portion of the personnel costs of such employee, or supervise or oversee such employee. These arrangements have the potential to create conflicts of interest, in that amounts paid by a portfolio company in connection with secondee relationships will not result in additional offsets to the Management Fee. Due to the nature of secondee relationships, which are often initiated to meet a temporary portfolio company need, the arrangements between such employees and the related portfolio company are expected to change over time, and in many cases will be terminated when the portfolio company is sold. Employees may or may not return to Blue Sage at the end of such secondee arrangement.

Blue Sage, its equity holders, officers, principals and employees may buy or sell securities or other instruments that Blue Sage has recommended to a Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Fund. Such transactions are subject to any restrictions in the Fund's Partnership Agreement and any policies and procedures set forth in Blue Sage's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of Blue Sage have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, and therefore may have additional conflicting interests in connection with these investments.

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

In addition, as described above, portfolio companies typically pay certain fees to consultants (including consultants introduced or arranged by Blue Sage and/or its affiliates that regularly provide services to one or more portfolio companies), and such fees do not offset the Management Fee as described herein. Although the use of consultants and the allocation of compensation paid to them by Blue Sage, its affiliates and/or the portfolio companies subjects Blue Sage and/or its affiliates to potential conflicts of interest, Blue Sage believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of the consultant is lower than market rates for the services provided and/or if the services of the

consultant align with Blue Sage's model for the portfolio company and improve portfolio company performance. Although Blue Sage seeks to retain consultants with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. Blue Sage also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Blue Sage believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

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

Blue Sage and/or its affiliates may enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including, but not limited to, different fee structures, information rights, co-investment rights and liquidity or transfer rights.

Blue Sage has instituted a program under which portfolio companies owned by the Funds may participate in purchasing, vendor or similar arrangements with Blue Sage, its affiliates and other portfolio companies. Program participants expect to receive discounts negotiated with various vendors and service providers on a group-wide basis. Blue Sage and its affiliates also participate in the program, and receive similar benefits and discounts as the portfolio companies participating therein. No such amounts will result in additional offsets to the Management Fee. Blue Sage believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market.

From time to time, Blue Sage and personnel and persons selected by them expect to receive the benefit of "friends and family" and similar discounts from portfolio companies owned by the Funds under which such portfolio companies make their goods and/or services available at reduced rates. Because its portfolio companies offer such discounts to customers other than Blue Sage and such persons as part of their standard commercial practices in an effort to expand their respective customer bases, Blue Sage believes that the potential for conflicts of interest relating to such discounts is mitigated. Blue Sage and personnel generally refrain from requesting or negotiating for such discounts in the ordinary course.

Any of these situations subjects Blue Sage and/or its affiliates to potential conflicts of interest. Blue Sage attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Blue Sage's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among

a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Blue Sage will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Blue Sage consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

#### **DISCIPLINARY INFORMATION**

Blue Sage and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Blue Sage Services is affiliated with the General Partners, each of which is a general partner entity subject to the Advisers Act pursuant to Blue Sage Services' registration in accordance with SEC guidance. These entities operate as a single advisory business together with Blue Sage Services and serve as managers or general partners of the Funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

#### **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Blue Sage has adopted a Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of the Principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Blue Sage personnel to report their personal securities transactions, prohibits or requires pre-clearance for Blue Sage personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Blue Sage personnel from directly or indirectly acquiring beneficial ownership of or disposing of securities with limited exceptions, without first obtaining approval from the Blue Sage Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any investor or prospective investor upon request to Alan Mire, the Blue Sage Chief Compliance Officer, at (512) 536-1900. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

Blue Sage and its affiliated persons may come into possession, from time to time, of material non-public or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Blue Sage and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Blue Sage.

Accordingly, should Blue Sage or any of its affiliated persons come into possession of material non-public or other confidential information with respect to public and non-public

company, Blue Sage generally would be prohibited from communicating such information to clients, and Blue Sage will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Blue Sage personnel serving as directors of public companies and may restrict trading on behalf of clients, including a Fund.

The Principals and employees of Blue Sage and its affiliates may directly or indirectly own an interest in one or more Funds, including certain co-invest vehicles. To the extent that co-invest vehicles exist, such vehicles may invest in one or more of the same portfolio companies as a Fund. Co-invest opportunities may also be presented to certain affiliates of Blue Sage, as well as third party investors and other persons, and such co-investments may be effected through co-invest vehicles or directly in a particular portfolio company. Such co-investment opportunities generally will be allocated in the manner described under “Methods of Analysis, Investment Strategies and Risk of Loss.”

Blue Sage and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in a Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, any Fund, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain Funds may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Funds or may give priority with respect to investments to such Funds. Some of these restrictions could be waived by investors (or their representatives) in such Funds.

#### **BROKERAGE PRACTICES**

Blue Sage focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, Blue Sage may also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although Blue Sage does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If Blue Sage sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by Blue Sage. In such event, Blue Sage will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, Blue Sage may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

Blue Sage has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the

current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although Blue Sage generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with Blue Sage seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although Blue Sage generally does not make use of such services at the current time and has not made use of such services since its inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of Blue Sage's Funds. However, each and every research service may not be used for the benefit of each and every Fund managed by Blue Sage, and brokerage commissions paid by one Fund may apply towards payment for research services that might not be used in the service of such Fund. Research services may be shared between Blue Sage and its affiliates.

To the extent that Blue Sage allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Funds' interest in receiving most favorable execution.

Blue Sage does not anticipate engaging in significant public securities transactions; however, to the extent that Blue Sage engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds are completed independently, Blue Sage may also purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, Blue Sage may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of Blue Sage is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Funds.

Each Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Funds over time.

In Blue Sage's private company securities transactions on behalf of the Funds, Blue Sage may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, Blue Sage may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although Blue Sage generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds may not pay the lowest commission or fee for such services.

#### **REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Blue Sage closely monitors companies in which the Funds invest, and the Blue Sage Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

Each Fund generally will provide to its limited partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each limited partner's U.S. tax returns and (iv) descriptive investment information for each portfolio company annually.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Blue Sage and/or its affiliates may provide certain business or consulting services to companies in a Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the applicable Partnership Agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by such Fund. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Fees and Compensation."

From time to time, Blue Sage may enter into additional solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees payable to any such placement agents will be borne by Blue Sage indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s).

#### **CUSTODY**

Blue Sage maintains custody of assets held in the name of one or more Funds with the following qualified custodian: Frost Bank, 100 West Houston Street, San Antonio, TX 78205.

## INVESTMENT DISCRETION

Blue Sage has discretionary authority to manage investments on behalf of each Fund. As a general policy, Blue Sage does not allow clients to place limitations on this authority. Pursuant to the terms of the applicable Partnership Agreement, however, Blue Sage and/or its affiliates may enter into Side Letters with certain limited partners whereby the terms applicable to such limited partner's investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Blue Sage assumes this discretionary authority pursuant to the terms of the applicable Partnership Agreement and powers of attorney executed by the limited partners of such Fund.

## VOTING CLIENT SECURITIES

Blue Sage has adopted the Blue Sage Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for the Funds' portfolio investments. The Proxy Policy seeks to ensure that Blue Sage votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Blue Sage generally believes its interests are aligned with those of each Fund's investors, for example, through the Principals' beneficial ownership interests in such Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Blue Sage may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve Blue Sage's vote in a particular solicitation. Blue Sage does not consider service on portfolio company boards by Blue Sage personnel or Blue Sage's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Blue Sage when voting proxies on behalf of a Fund. Clients or investors that would like a copy of Blue Sage's complete Proxy Policy or information regarding how Blue Sage voted proxies for particular portfolio companies may contact Alan Mire, the Blue Sage Chief Compliance Officer, at (512) 536-1900, and it will be provided to you at no charge.

## FINANCIAL INFORMATION

Blue Sage does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of this Brochure.