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Item 1 – Cover Page

Performance Equity Management, LLC

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

March 30, 2020

This brochure provides information about the qualifications and business practices of Performance Equity Management, LLC (“PEM LLC”). If you have any questions about the contents of this brochure, please contact us at (203) 742-2400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

PEM LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain an investment adviser.

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## **Item 2 – Material Changes**

This Item discusses only specific material changes that were made to our brochure since the date of our last annual update, dated March 29, 2018. Since that date, Scott Koeber has resigned as Chief Compliance Officer and Chief Financial Officer, effective January 31, 2020. Mr. Jon DeKlerk, Chief Operating Officer, assumed the title of Chief Compliance Officer and Mr. Christopher Millin assumed the title of Chief Financial Officer, effective February 1, 2020. We encourage you to review our updated brochure and to contact PEM LLC with questions.

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#### **Item 4 – Advisory Business**

PEM LLC is a Delaware limited liability company. PEM LLC is owned entirely by Performance Equity Associates, LLC (“PEA”).

PEM LLC offers discretionary and non-discretionary investment supervisory and related services to separate account clients and/or funds with respect to private market assets. Its fund clients consist of private investment-related funds (“Private Investment Funds”) for which PEM LLC acts as investment adviser. PEM LLC also acts as the manager of each general partner (“General Partner”) of a particular Private Investment Fund. PEM LLC has been in business since June 2005. In addition, one or more officers or managing directors of PEM LLC may have an interest in the General Partner of a Private Investment Fund.

PEM LLC provides portfolio management to its Private Investment Funds. Each General Partner has delegated to PEM LLC, as investment adviser, the authority to make all investment decisions for the Private Investment Funds. Each of the existing Private Investment Funds has entered into an investment management agreement with PEM LLC. The investment advisory services provided to the Private Investment Funds consist primarily of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions of such investments. From time to time, PEM LLC personnel acting on behalf of a Private Investment Fund may serve on a portfolio company’s board of directors or otherwise act to influence management of companies in which such Fund holds an investment. In addition, such persons may serve on advisory boards of any underlying investment fund in which clients have invested.

The PEM LLC Investment Committee (see Item 10) will source private market investments for clients of one of PEM LLC’s former affiliates which remains a non-discretionary client (“Former Affiliate”), subject to approval by the Former Affiliate, comprised of the head of Alternatives Investment Unit of the Former Affiliate (“Head of Alternatives”). Potential private market investment transactions for the Former Affiliate are brought by members of the PEM LLC Investment Committee to the Head of Alternatives for consideration. Pursuant to an investment management agreement, the Former Affiliate maintains investment discretion and control with respect to private market investments for enumerated clients of the Former Affiliate, including the right to negotiate any such private market investments and to select counsel for the Former Affiliate’s clients. PEM LLC evaluates the choice of legal counsel for its discretionary clients on a deal by deal basis. PEM LLC may in its sole discretion retain the same counsel as the Former Affiliate with respect to such investments based upon its evaluation of such counsel and determination that such choice is appropriate and in the best interests of PEM LLC’s clients based upon factors that may include, but not limited to, the expertise of such counsel and potential cost savings for PEM LLC’s clients.

To the extent PEM LLC enters into an agreement with a client for separate account management, PEM LLC works with such clients to help determine how best to manage their assets. In such a case, a client may impose restrictions on PEM LLC with respect to investing such separate account in certain securities or types of securities.

PEM LLC's discretionary assets under management are equal to \$4,711,698,674 for the period ended September 30, 2019. PEM LLC's non-discretionary assets under management are equal to \$5,548,593,324 for the period ended as of September 30, 2019.

## **Item 5 – Fees and Compensation**

PEM LLC will be delivering this brochure only to “qualified purchasers” as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940.

The specific manner in which fees are charged by PEM LLC is established in a client’s written agreement with PEM LLC. All fees are subject to negotiation. PEM LLC generally will bill its fees on a quarterly basis in advance. However, clients may elect to be billed in advance or arrears each calendar quarter. At this time, fees for PEM LLC’s funds are paid at the start of the quarter. For certain non-discretionary clients, the fees are paid in arrears and are invoiced quarterly. Fees and compensation are discussed in further detail in Item 6. Also, clients may elect to be billed for fees or to authorize PEM LLC to debit fees directly from client accounts.

PEM LLC’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are borne by the client. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, audit expenses, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, underlying fund fees and expenses, and other fees and taxes on brokerage accounts and securities transactions.

PEM LLC’s advisory fees are not inclusive of all the fees and expenses that the Limited Partners of Private Investment Funds may pay. The relevant Private Investment Fund’s governing documents may set forth specific expenses that will (or will not) be borne by the Private Investment Fund, and provisions of the Private Investment Fund’s governing documents will supersede this brochure to the extent of any direct conflict. The fees and/or expenses that Private Investment Funds may pay will typically fall into three general categories: (1) organizational expenses, (2) operational expenses, and (3) investment-related expenses. As is stated in each Private Investment Fund’s governing documents, expenses that are not permissible shall be absorbed by the General Partner.

Limited Partners in a Private Investment Fund will receive their pro rata share of such allowable fees and expenses for the time each Limited Partner is invested in the Private Investment Fund. Certain expenses may be incurred by a subset of the Limited Partners. On a less frequent basis, certain expenses may be incurred on behalf of PEM, LLC or an affiliate of PEM, LLC as well as one or more Limited Partners. To address the potential conflicts of interest associated with the allocation of such expenses, PEM LLC has adopted an expense allocation policy designed to ensure equitable allocation of expenses among clients and, as applicable, PEM LLC.

Management fees are prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter are charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned,

unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

PEM LLC (or the general partner of a fund managed by PEM LLC) may also receive fees or other compensation (“Portfolio Fees”) directly or indirectly from companies whose securities are held directly or indirectly (e.g., via a fund) by PEM LLC discretionary fund (or the general partner of such a fund) and separate account clients (such companies, “Portfolio Companies”). Portfolio Fees include: (i) directors’ fees received by PEM LLC (or a fund’s general partner) or its employees; (ii) PEM LLC’s (or such fund’s) *pro rata* portion of break-up fees received by PEM LLC (or such fund’s general partner), or its employees; and (iii) consulting, commitment, advisory, monitoring and similar fees received by PEM LLC (or such fund’s general partner) in respect of services provided to portfolio companies and investments made by PEM LLC (or such fund), in each case excluding any portion of those fees attributable to parallel and similar vehicles. Any such Portfolio Fees received by PEM LLC (or the general partner of a fund managed by PEM LLC) will be used to offset the advisory fees payable by the applicable PEM LLC discretionary fund and separate account clients. For the avoidance of doubt, any such fees received in respect of a parallel vehicle, side-by-side investment or similar vehicle or investment are not Portfolio Fees and will not be offset against PEM LLC’s advisory fee.

Item 12 further describes the factors that PEM LLC considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

PEM LLC generally receives a management fee from a Private Investment Fund based on a percentage of assets under management, the terms of which are set forth in a Fund's limited partnership agreement. An affiliate of PEM LLC, the General Partner of a Private Investment Fund, generally receives a carried interest in a Private Investment Fund which is based on the portfolio's return. The carried interest, which may be considered a performance fee, is structured to comply with Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Private Investment Funds invest on a long-term basis. Accordingly, carried interest and management fees are earned throughout the term of a Private Investment Fund and investors are generally not permitted to withdraw or redeem interests in a Private Investment Fund.

In addition, PEM LLC with respect to certain clients, charges only a flat fee or an asset based fee. Performance-based fee arrangements create an incentive for PEM LLC to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. PEM LLC has procedures designed and implemented to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients. Among other things, PEM LLC maintains an allocation policy to mitigate the risk posed by incentive-based compensation arrangements. PEM LLC also maintains a Code of Ethics that sets forth certain requirements under the Advisers Act as well as PEM LLC's policies designed to further mitigate risks posed by potential conflicts of interest.



## **Item 7 – Types of Clients**

PEM LLC provides portfolio management services to Private Investment Funds and corporate pension and profit-sharing plans.

Investment in a Private Investment Fund generally requires a minimum capital commitment, which currently ranges from \$5 million up to \$50 million, depending on the particular Private Investment Fund, which may be waived by PEM LLC in its discretion. The General Partner of the Private Investment Fund generally will also make a commitment to the Private Investment Fund in an amount equal to or greater than a certain percentage of the aggregate commitments of the limited partners of such Private Investment Fund (generally 0.5%-1.0%). Such General Partner's commitment may be made or increased on terms that are different from those of the Private Investment Fund's limited partners, including without limitation, different arrangements with respect to the payment of interest and certain fees.

Separate account client services generally require a minimum account size of \$100 million, which may be waived by PEM LLC in its discretion.

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

Investing in securities involves risk of loss that clients should be prepared to bear. The method of analysis used by PEM LLC is driven by fundamental research derived from both internal and external sources. These sources include, but are not limited to, research provided by institutions and the financial community, internally-generated analysis of potential investment opportunities, industry and trade publications, rating and other services, as well as meetings with management of potential portfolio companies and related due diligence. PEM LLC may seek management rights for the benefit of the fund in connection with investments, including board or observer rights.

### Methods of Analysis and Investment Strategies

As stated above, PEM LLC provides investment advice to Private Investment Funds and other clients, with different investment objectives, policies and strategies. PEM LLC analyzes potential investments with respect to the Private Investment Funds as follows:

#### Performance Direct Investments I, L.P., Performance Direct Investments II, L.P. & Performance Direct Investments III, L.P. (together the “Performance Direct Investments”)

In screening potential investments for the Performance Direct Investments, PEM LLC analyzes the potential investment using a number of factors, including:

- target company strategy
- attractiveness of industry
- historical financial results
- quality of management
- board composition
- revenue and cash flow growth potential
- competition
- size of investment
- valuation

Potentially attractive opportunities are then subjected to due diligence review by PEM LLC, using both internal and external sources. Potential investments which are given preliminary approval are subject to final approval following review of, among other factors:

- projected return on investment
- industry attractiveness
- company’s relative position in its industry
- valuation of company
- management team depth and experience
- type of security offered
- alignment of interest with the deal sponsor.

The investment strategy for the Performance Direct Investments seeks to achieve a portfolio diversified across a number of target business sectors with concentrated investments particular to certain sectors permissible.

#### Single-Client Single-Investment Direct Investment Opportunities

With respect to certain non-discretionary clients who are seeking to invest directly in only one portfolio company, PEM from time to time may set up a single-client investment fund.

In screening potential investments for such single-client investment funds, PEM LLC analyzes the potential investment using a number of factors, including:

- target company strategy
- attractiveness of industry
- historical financial results
- quality of management
- board composition
- revenue and cash flow growth potential
- competition
- size of investment
- valuation

Potentially attractive opportunities are then subjected to due diligence review and approval by the underlying investor.

Performance Global Fund of Funds I, L.P. (“Global Fund of Funds”), Performance Buyout Fund of Funds, L.P. (“Buyout Fund of Funds”), Performance Buyout Fund of Funds II, L.P. (“Buyout Fund of Funds II”) & Performance Buyout Fund of Funds II Parallel, L.P. (“Buyout Fund of Funds II Parallel”)

In screening investments for Global Fund of Funds, Buyout Fund of Funds, Buyout Fund of Funds II and Buyout Fund of Funds II Parallel, PEM LLC focuses on its established relationships with private equity managers, the experience of its investment personnel in private equity investing and analyzes potential investments based upon the following factors:

- management team
- transaction sourcing
- investment strategy
- prior performance history
- terms and conditions

Potential investments may be sourced from fund sponsors, limited partner relationships, placement agents or financial intermediaries. These funds are closed to new investors.

Performance Venture Capital, L.P., Performance Venture Capital II, L.P., Performance Venture Capital III, L.P. & Performance Venture Capital IV, L.P. (together the “Performance Venture Funds”)

In screening investments for the Performance Venture Funds, PEM LLC focuses on its established relationships with venture capital fund managers and the experience of its investment personnel in venture capital fund investing and analyzes potential investments using a number of factors, including:

- management team’s venture capital experience
- domain expertise
- extent of management team’s personal networks
- investment process
- size, diversity and reputation of the management team

Potential investments may be sourced from the investment team’s existing relationships, general partner relationships, placement agents or financial intermediaries. These funds are closed to new investors.

Performance Opportunities Fund, L.P. (“Opportunities Fund”)

In screening investments for Opportunities Fund, PEM LLC focuses on its existing relationships with distressed securities fund managers and the experience of its investment personnel in distressed and turnaround fund investing and analyzes potential investments using a number of factors, including:

- management team’s distressed and turnaround experience
- domain expertise
- investment strategy
- extent of management team’s personal networks
- prior performance history

Potential investments may be sourced from the investment team’s existing relationships, general partner relationships, placement agents or financial intermediaries. This fund is closed to new investors.

EFFEM Master Fund, L.P. (“EFFEM Fund”)

There is no single method of sourcing for the investments in EFFEM Fund; the EFFEM Fund will invest substantially all of its assets in one or more of the following Private Investment Funds, as directed by the limited partners: Performance Buyout Fund of Funds, L.P., Venture Fund I, Venture Fund II and Direct Fund II. EFFEM Fund only invested in Buyout Fund of Funds, Venture Fund I, Venture Fund II and Direct Fund II. This fund is closed to new investors.

EFFEM Master Fund II, L.P. (“EFFEM Fund II”) & EFFEM Master Fund II Parallel, L.P. (“EFFEM Fund II Parallel”)

There is no single method of sourcing for the investments in EFFEM Fund II or EFFEM Fund II Parallel; EFFEM Fund II and EFFEM Fund II Parallel will invest substantially all of their assets in one or more of the following Private Investment Funds, as directed by the limited partners: Performance Buyout Fund of Funds II, L.P., Venture Fund III, Direct Fund III, and such other private investment funds that the adviser deems appropriate in accordance with the investment objectives of EFFEM Fund II. EFFEM Fund II only invested in Buyout Fund of Funds II, Buyout Fund of Funds II Parallel, Venture Fund III and Direct Fund III. EFFEM Fund II is closed to new investors.

Performance EFFEM PE Fund, L.P. (“EFFEM PE Fund”)

In screening investments for EFFEM PE Fund, PEM LLC focus’ is on building a well diversified portfolio of private equity investments from its established relationships with fund managers and the experience of its investment personnel in fund investing as well as co-investments. PEM LLC analyzes potential investments using a number of factors, including:

- management team’s experience
- domain expertise
- extent of management team’s personal networks
- investment process
- size, diversity and time diversity across asset sectors including buyout, venture, international and distressed

Potential investments may be sourced from the investment team’s existing relationships, general partner relationships, placement agents or financial intermediaries.

EFFEM PE Fund is part of a series structure and the same method of analysis is used by PEM LLC for each series.

Material Risks Involved in Each Significant Investment Strategy or Method of Analysis

This section provides information on the material risks that may apply to a client portfolio depending on its investment strategy. The offering materials, disclosure documents and/or governing documents of each Private Investment Fund will typically include a more detailed summary of material risks applicable to such fund and its investment strategy and structure and should be read in conjunction with the risks below.

PEM LLC invests on behalf of its clients, including the Private Investment Funds, in various investments, including private equity, venture capital, and distressed investments. The business of identifying, completing and realizing on attractive distressed investments is competitive and involves a high degree of uncertainty. Some competitors in the business will have access to greater

resources. Identification of attractive investment opportunities in private equity or venture capital is difficult and involves a high degree of uncertainty. Similarly, even if an attractive investment opportunity is identified, there is no certainty that PEM LLC's clients or funds will be permitted to invest in such opportunity (or invest in such opportunity to the fullest extent desired). Accordingly, there can be no assurance that PEM LLC will be able to identify and complete attractive investments in the future or that it will be able to invest fully.

Investments in securities issued by privately held companies involve the risk that operating results in a specified period will be difficult to predict. Such investments involve a high degree of business or financial risk that can result in substantial losses. These investments may be start-ups or in an early stage of development, may be distressed or have operating losses or significant variations in operating results and may be engaged in a rapidly changing business or sensitive to changing market conditions with products subject to a substantial risk of obsolescence.

Venture capital funds' investments focus on companies that are in relatively early stages of development. In general, financial and operating risks confronting these companies can be significant. Accordingly, venture capital investing inherently involves a high degree of risk. It is possible for an investor in a venture capital fund or separate account to lose its entire principal. In addition, the timing of any profit realization is uncertain.

Distressed investing focuses on companies that are experiencing substantial financial or business difficulties, including companies facing special competitive or product obsolescence problems or that are involved in bankruptcy or other reorganization and liquidation proceedings. Financial and operating risks confronting these companies can be significant. Investments in these companies are subject to investment-specific price fluctuations. In addition, companies undergoing reorganization are unusually vulnerable to adverse industry developments, including new regulation, increased competition, increased bargaining power of the suppliers and overall macro-economic changes such as a slowdown of the economy or exchange rates that favor competitors from foreign countries. Bankruptcy or other insolvency proceedings are highly complex and may result in unpredictable outcomes.

To the extent PEM LLC invests in funds managed by other fund managers, PEM LLC will not have an active role in the day-to-day management of the funds in which PEM LLC invests. Moreover, PEM LLC will typically not have the opportunity to evaluate the specific investments made by any fund in which it is investing. Accordingly, the returns of the PEM LLC fund or its clients will primarily depend on the efforts and performance results obtained by the investment fund managers and other investment personnel of these funds and could be substantially adversely affected by the unfavorable performance of, or an inability to retain, such investment fund managers.

PEM LLC depends on the security and reliability of its information and communications technology, systems, and networks and, as such, could face a cybersecurity attack or incident that may adversely impact PEM LLC or its clients. Cybersecurity attacks include, but are not limited

to: unauthorized access to digital systems, networks, or devices containing client, financial, and other data and information; operational or other disruptions causing the inability to access electronic systems; infection from computer viruses or other malicious software; and misappropriation and release of confidential information. A cybersecurity attack could result in the loss or theft of proprietary information or data, damage to a computer or network system, or costs associated with system repairs. Such attacks could cause PEM LLC accounts to incur regulatory penalties, reputational damage, additional compliance costs, or financial loss. Similar incidents could affect companies in which PEM LLC invests, service providers, and other financial institutions and parties.

#### Risks Related to the Economy and the Markets

An epidemic outbreak and reactions to such an outbreak could cause uncertainty in markets and businesses, including PEM's business, and may adversely affect the performance of the global economy, including causing market volatility, market and business uncertainty and closures, supply chain and travel interruptions, the need for employees and vendors to work at external locations, and extensive medical absences. PEM has policies and procedures to address known situations, but because a large epidemic may create significant market and business uncertainties and disruptions, not all events that could affect PEM's business and/or the markets can be determined and addressed in advance."

**Item 9 – Disciplinary Information**

None.



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

From time to time, advisory personnel of PEM LLC may, on behalf of the advisory firm, serve on a portfolio company's board of directors or otherwise act to influence management of portfolio companies. Advisory personnel may also serve on the advisory board of a Private Investment Fund in which clients have invested. Any purchase of securities by PEM LLC advisory personnel in portfolio companies or private funds is subject to the PEM LLC Code of Ethics discussed below.

Certain affiliates of one or more PEM LLC clients have subsidiaries that are banks or other financial institutions that issue various equity and fixed income securities, including certain securities of certain pooled investments. Subject to applicable laws, external managers in which PEM LLC clients invest may purchase such securities for the accounts of such managers' clients, including on behalf of PEM LLC clients. Any such purchase presents a conflict for PEM LLC and/or such external managers because PEM LLC clients and their affiliates may benefit from such purchases. Allocations to managers are made in a manner consistent with PEM LLC's allocation policies, which are discussed in greater detail below in Item 11. In addition, PEM LLC Covered Persons (as defined in Item 11) are subject to PEM LLC's Code of Ethics and other policies and procedures that are designed to prevent misuse of information or otherwise disadvantage PEM LLC's clients.

Certain PEM LLC investment products and opportunities may be restricted by capacity limits from accepting capital. In certain instances PEM LLC and other PEM LLC clients have agreed in a Private Investment Fund's governing documents to allocate a fixed percentage of such capacity for clients of the Former Affiliate. PEM LLC's policy is to allocate opportunities for its clients on a fair and equitable basis.

The PEM LLC Investment Committee, comprised of the PEM LLC Chief Investment Officer, the PEM LLC Chief Operating Officer and the managing directors identified in Item 13, below, will source and approve private market investments for PEM LLC clients, and determine client allocations consistent with PEM LLC's client investment allocation policies discussed below in Item 11. In addition, PEM LLC has adopted policies and procedures that seek to ensure that any fee offsets resulting from Portfolio Fees received by PEM LLC are allocated on a fair and equitable basis among PEM LLC clients. See Item 5, above, for additional information about those Portfolio Fee offsets.

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

As required by the Advisers Act and the rules thereunder, PEM LLC has adopted a Code of Ethics (the “Code of Ethics”) which sets forth certain standards for PEM LLC employees and certain other persons subject to the PEM LLC Code of Ethics (“Covered Persons”), including an obligation to comply with certain laws; avoidance and notification of conflicts of interest; standards with respect to the disclosure of confidential information; and standards with respect to the misuse of material non-public information. PEM LLC also maintains other policies and procedures as part of its Compliance Program. The Code of Ethics is summarized below, but such summary is qualified by reference to the full text of the Code of Ethics which is available upon written request to PEM LLC, Attention: Chief Compliance Officer, 5 Greenwich Office Park, Third Floor, Greenwich, CT 06831 or by contacting the Chief Compliance Officer at the phone number or e-mail address indicated in Part 1, Item 1 of this Form ADV.

The PEM LLC Code of Ethics includes provisions regarding transactions in certain securities, contracts and other investments (“Reportable Securities”) by Covered Persons. The PEM LLC Code of Ethics, among other things, restricts the purchase and sale by Covered Persons for their own accounts of Reportable Securities that have been or are in the process of being purchased or sold for client accounts. Covered Persons are required to provide initial and annual reports of holdings of Reportable Securities and quarterly reports of transactions involving Reportable Securities.

PEM LLC or its Covered Persons may come into possession from time to time of material non-public or other confidential information about companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. PEM LLC or its Covered Persons are 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 PEM LLC and will comply with all applicable legal and regulatory requirements in this respect.

PEM LLC may recommend the purchase or sale of securities or other assets for client accounts in which one or more officers, directors or employees (and members of their families) of PEM LLC or its members (“affiliated persons”), directly or indirectly, has a position or interest (including through an investment in one or more private equity funds), or which an affiliated person buys or sells for himself or herself. These transactions also may include trading in securities or other assets in a manner that differs from, or is inconsistent with, the advice given to clients of PEM LLC. In certain instances, an investment may be sold to, or purchased by, a client in which PEM LLC or an affiliate has an interest, such as a Private Investment Fund, including when officers or managing directors of PEM LLC hold an interest in the General Partner of the Private Investment Fund.

Various clients of PEM LLC may invest on a side-by-side basis with Private Investment Funds. PEM LLC seeks to allocate investments among PEM LLC, the Private Investment Funds and other PEM LLC clients on a fair and equitable basis, pursuant to such procedures as are detailed in PEM LLC's client investment allocation policies, private offering materials for a Private Investment Fund and/or the governing documents for such Private Investment Fund. Private Investment Funds may be established for a single investor which may or may not be a separate account client. In certain instances PEM LLC and other PEM LLC clients have agreed in a Private Investment Fund's governing documents to allocate a fixed percentage of such capacity for clients of the Former Affiliate. Potential and actual conflicts of interest may arise when a client (including a Private Investment Fund) has different investment characteristics, considerations (including regulatory, tax or contractual restrictions) or guidelines than other clients or when deal allocation is limited. PEM LLC's policy is to allocate opportunities for its clients on a fair and equitable basis.

PEM LLC's activities, including investment activities among the various funds, may present potential conflicts of interest regarding allocation of their time, services or other functions to the respective funds' activities. For example, conflicts of interest may be present where PEM LLC may have an incentive to allocate more or less of certain investment opportunities to Private Investment Funds depending on whether, and the extent to which, officers or managing directors of PEM LLC hold an interest in the General Partner of such Private Investment Funds. PEM LLC has procedures designed and implemented to ensure that all clients are treated fairly and equitably, and to prevent these conflicts from influencing the allocation of investment opportunities among clients. Among other things, PEM LLC maintains an allocation policy to mitigate these risks. The allocation policy is designed to ensure that the management of client assets is governed by the principles of fair and equitable allocation of investment opportunities and by acting solely in the best interest of the client. The allocation policy applies to all client accounts managed or advised by PEM LLC and is to be applied on a consistent basis. PEM LLC's compliance group has established a comprehensive quarterly allocation review process to provide assurance that the allocation of investment opportunities is appropriately authorized, performed in accordance with relevant policy and aligned with the principles of fair and equitable treatment of clients. PEM LLC also maintains a Code of Ethics that sets forth certain requirements under the Advisers Act as well as PEM LLC's policies designed to further mitigate risks posed by potential conflicts of interest.

In addition, potential and actual conflicts of interest may arise when a client (including a Private Investment Fund) has different investment characteristics, considerations (including regulatory, tax or contractual restrictions) or guidelines than other clients or when deal allocation is limited. PEM LLC's policy is to allocate opportunities for its clients on a fair and equitable basis and to act in the best interest of its clients.

## **Item 12 – Brokerage Practices**

### Investment or Brokerage Discretion

The General Partner of a Private Investment Fund, an affiliate of PEM LLC, may distribute securities to partners in the Fund or sell such securities. If the General Partner sells publicly traded securities for a Private Investment Fund or other clients, it will use the services of a third party broker, subject to PEM LLC's Trading Procedures.

### Brokerage

In selecting a broker to execute client transactions for which PEM LLC provides discretionary management, a variety of factors are considered, including: (i) prompt execution of orders, (ii) the reliability, integrity, financial condition and execution capability of the firm being considered for effecting transactions in light of the size and difficulty of executing the order, (iii) the price and (iv) the capabilities of firms to supply research services. PEM LLC 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. Although PEM LLC generally seeks competitive commission rates, it will 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. In selecting brokers for restricted securities, PEM LLC will often use a market maker or other broker PEM LLC believes can efficiently and promptly work with the issuer and its transfer agent to remove restricted legends and sell the securities under Rule 144 or otherwise as permitted.

PEM LLC does not anticipate engaging in transactions that will generate brokerage commissions and to the extent that it uses brokerage, it is PEM LLC's general policy not to make use of soft dollars to purchase third party research in the conduct of its business. Further, PEM LLC will not participate in client directed brokerage or commission recapture programs.

### Trading Procedures

PEM LLC provides investment management services to Private Investment Funds through investments in private equity. Consequently, PEM does not conduct a large volume of trades in public securities. Once a private equity investment has been realized, PEM LLC may receive distributions of public securities at which time the Company arranges for an orderly liquidation of such positions. For such liquidations of public securities, PEM LLC uses the services of a third party broker to provide trading desk services for transactions in publicly traded securities or other public markets transactions in accounts managed by PEM LLC. For the assets under which the Company has discretion, a PEM LLC employee, with formal authority, determines the order instructions for an orderly liquidation and established oversight to ensure the accuracy of such

orders and related processes. Compliance maintains a Restricted Issuers List to ensure oversight of personal and client trades.

PEM LLC complies with the recordkeeping requirements of Rule 204-2 of the Advisers Act including documentation of trade orders and other transactions executed on a client's behalf. The Chief Compliance Officer randomly selects and reviews trade orders to ensure compliance with the Advisers Act requirements applicable to trade records and other internal control policies.

## **Item 13 – Review of Accounts**

### In General

PEM LLC periodically reviews all of its client accounts. Compliance conducts semi-annual reviews to confirm that the investment professionals have completed their review of investment managers acting as general partners of the underlying investments in the Private Investment Funds' portfolios. Compliance issues a report to management regarding the status of such reviews. The specific interval for such reviews is a function of the particular investment strategy. PEM LLC reviews the performance of the client accounts as well as the holdings of the accounts to ensure the portfolio conforms to the clients' respective investment objectives and policies. These reviews are conducted by PEM LLC's Managing Directors.

### Private Investment Fund Reviews

Investments made by Private Investment Funds are generally long-term in nature and illiquid. Accordingly, the review process is generally not directed toward short-term sell decisions. PEM LLC will review all investments made by a Private Investment Fund at the time of investment and on a periodic basis (generally quarterly). A review will be made at the time of investment to ensure that the investment is in compliance with the investment objective and the investment restrictions of a Private Investment Fund. Special reviews may be triggered by significant changes in the market for particular securities or other assets or overall market conditions.

### Separate Account Review and Reviewers

Client accounts are reviewed on a periodic basis (generally quarterly or semi-annually, depending on the type of assets and the frequency of portfolio activity) by the investment team. The review focuses on the performance of the accounts and, when appropriate, the performance of the accounts relative to predetermined market indices. For some clients, this review includes an analysis of whether the asset mix continues to be appropriate. Decisions regarding changes in investment policies may result from these periodic reviews. Special reviews, not conforming to the periods described above, can be triggered by significant changes in the market for particular securities or overall market conditions.

### Reporting to Clients

Each Private Investment Fund distributes written reports to investors as provided in the governing documents, generally quarterly unaudited and annual audited information. For a Private Investment Fund established for a single client, additional reports may be provided as requested by the client.

PEM LLC will prepare written portfolio performance reports for separate account clients on a quarterly basis, unless otherwise requested by a client. Additional information with respect to

client accounts is made available pursuant to agreement with the clients or upon request from the client.

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

From time to time, PEM LLC enters into solicitation arrangements with placement firms, pursuant to which PEM LLC compensates such firms for client referrals that result in the provision of investment advisory services by PEM LLC. Compensation under these solicitation arrangements is determined by means of an asset-based fee and/or a fixed retainer fee payable periodically for a certain period of time. Retainer fees are typically payable monthly, and can be paid for periods ranging from one year to the full length of the agreement. Solicitation fees to date range from 0.45 to 1% percent of investor capital commitments. Such fees are paid by PEM LLC and do not result in additional costs to the investors. In addition, under certain conditions, PEM LLC may be entitled to rebates or offsets with respect to such retainer and/or solicitation fees. From time to time, PEM LLC may enter into additional solicitation arrangements and may compensate persons, including principals and employees for client referrals. All such payments with respect to separate account clients will comply with Rule 206(4)-3 of the Advisers Act.

As noted in Item 5, PEM LLC (or the general partner of a fund managed by PEM LLC) may also receive Portfolio Fees directly or indirectly from Portfolio Companies. Portfolio Fees include: (i) directors' fees received by PEM LLC (or a fund's general partner) or its employees; (ii) PEM LLC's (or such fund's) pro rata portion of break-up fees received by PEM LLC (or such fund's general partner), or its employees; and (iii) consulting, commitment, advisory, monitoring and similar fees received by PEM LLC (or such fund's general partner) or its affiliates in respect of services provided to portfolio companies and investments made by PEM LLC (or such fund), in each case excluding any portion of those fees attributable to parallel and similar vehicles. Any such Portfolio Fees received by PEM LLC (or the general partner of a fund managed by PEM LLC) will be used to offset the advisory fees payable by the applicable PEM LLC discretionary fund and separate account clients. For the avoidance of doubt, any such fees received in respect of a parallel vehicle, side-by-side investment or similar vehicle or investment are not Portfolio Fees and will not be offset against PEM LLC's advisory fee.



## **Item 15 – Custody**

PEM LLC's separate account clients and Private Investment Funds generally maintain custody arrangements through independent qualified custodians. However, PEM LLC or a related person may in some circumstances be deemed to have "custody" (as defined in Rule 206(4)-2 under the Advisers Act (the "Rule")) of client securities and funds, even though it does not actually maintain client assets. The Private Investment Funds have selected as their qualified custodian Bank of America Merrill Lynch, San Francisco, California, United States.

Advisory clients with respect to which PEM LLC or a related person has been deemed to have "custody" under the Rule receive audited financial statements on an annual basis within 120 days of the end of the Fund's fiscal year (for direct investment funds) and within 180 days of the end of the Fund's fiscal year (for Funds operating as fund of funds). PEM LLC also provides clients with unaudited financial statements on a quarterly basis. PEM LLC urges clients to compare account statements prepared by PEM LLC with their custodian statements and to contact PEM LLC in the event of any discrepancies.

**Item 16 – Investment Discretion**

PEM LLC accepts discretionary authority to manage securities only to the extent that it is an investment adviser to the Private Investment Fund providing such authority. Such authority is limited by the relevant fund's governing documents. PEM LLC typically receives discretionary authority, including a power of attorney, through the limited partnership agreement constituting the Private Investment Fund. In all cases, such discretion is exercised in a manner consistent with the stated investment objectives for the particular Private Investment Fund. In other respects, this Item is not applicable to PEM LLC.

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

### Proxy Voting Policies and Procedures

PEM LLC clients cannot direct or influence PEM LLC's vote in any instances in which PEM LLC is required to vote a proxy. PEM LLC has adopted proxy voting policies and procedures (the "Procedures") pursuant to the Advisers Act. The Procedures are summarized below, but such summary is qualified by reference to the full text of the Procedures which are available upon written request to PEM LLC, Attention: Chief Compliance Officer, 5 Greenwich Office Park, Third Floor, Greenwich, CT 06831 or by contacting the Chief Compliance Officer as indicated in Part 1, Item 1 of this Form ADV. PEM LLC clients may obtain information regarding how their proxies were voted by contacting the Chief Compliance Officer.

Each Managing Director or responsible investment professional employed by PEM LLC has the authority to vote proxies in accordance with the Procedures and is responsible for submitting the proxy votes on PEM LLC's behalf in a timely manner. Proxies are evaluated and voted solely in the best interest of PEM LLC's clients, giving due regard to precedent and criteria that have been developed by PEM LLC for evaluating and voting proxies (the "Guidelines"). A Proxy Voting Coordinator (the "PVC") is responsible for, among other things, oversight and administration of proxy voting on behalf of PEM LLC's clients. The PVC will periodically report to the Chief Compliance Officer of PEM LLC regarding the administration of the Procedures and will recommend any changes deemed appropriate.

PEM LLC may have a conflict of interest in voting a particular proxy. A conflict of interest could arise, for example, as a result of a business relationship with a company, or a direct or indirect business interest in the matter being voted upon, or as a result of a personal relationship with corporate directors or candidates for directorships.

In addition, from time to time, a Private Investment Fund managed by PEM LLC may receive a proxy or consent request from an underlying fund in which the Private Investment Fund invests, requesting the Private Investment Fund to vote its interests on certain matters including, but not limited to, delaying the final close of the underlying fund, extending the underlying fund's investment period, and/or extending the term of the underlying fund. PEM LLC may be subject to certain potential conflicts of interest when voting such a proxy or consent. For example, PEM LLC receives fees based on the assets of each Private Investment Fund. When PEM LLC votes on matters that result in an increase in Private Investment Fund assets or an extension of the underlying fund's term, PEM LLC may receive additional fees as a result of the vote. Moreover, accommodating a request from an underlying fund may make it more likely that the underlying fund sponsor will admit new Private Investment Funds sponsored by PEM LLC to future master funds managed by the underlying fund's sponsor.

Whether a relationship creates a material conflict of interest will depend upon the facts and circumstances. In the event a Managing Director or responsible investment professional monitoring a particular proposal determines that it is in a client's best interest to vote in a manner other than in accordance with the Guidelines, or otherwise believes there is a potential conflict of interest, the matter will be referred to the PVC for review. If the PVC determines that such matter involves a potential conflict of interest resulting from a significant business relationship or significant personal or family relationship, the PVC will present the matter to a Conflicts

Committee established by PEM LLC pursuant to the Procedures; as to any other matter, the PVC shall determine whether the matter should be presented to the Conflicts Committee. The Conflicts Committee is comprised of three members: the PVC; the Chief Compliance Officer of PEM LLC; and an additional executive officer of PEM LLC (such as the Chief Financial Officer or Chief Investment Officer). In the event that the Conflicts Committee determines that PEM LLC has a conflict of interest with respect to a proxy proposal, the Conflicts Committee will also determine whether the conflict is “material” to that proposal. The Conflicts Committee may determine on a case-by-case basis that a particular proposal does not involve a material conflict of interest. To make this determination, the Conflicts Committee must conclude that the proposal is not directly related to a conflict between PEM LLC’s interests and those of its client.

If the Conflicts Committee determines that a conflict is not presented, or that a conflict is not material, then PEM LLC may vote the proxy in accordance with the recommendation of the Managing Director or responsible investment professional. In the event the Conflicts Committee determines that PEM LLC has a material conflict of interest with respect to a proxy proposal, the Conflicts Committee will make a recommendation with respect to how to vote on such proposal. PEM LLC will vote on the proposal in accordance with the recommendation of the Conflicts Committee.

**Item 18 – Financial Information**

This Item is not applicable to PEM LLC.

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

This Item is not applicable to PEM LLC.