

# Vector Capital Management, L.P.

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Vector Capital Management, L.P. and its affiliates (collectively “Vector”). If you have any questions about the contents of this brochure, please contact James Murray at 415-293-5000 or [jmurray@vectorcapital.com](mailto:jmurray@vectorcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Vector Capital Management, L.P. is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## **Item 2: Material Changes**

Vector filed its most recent Form ADV Part 2 in March, 2019. This annual amendment updates the description of the business practices of Vector and its affiliates, including updates to the descriptions of its potential risks and business practices.

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## **Item 4: Advisory Business**

Vector is a middle-market investment firm focused on special situation investments in technology and technology enabled businesses. In addition to public buyouts and acquisitions of private and venture-backed companies, Vector seeks to invest in corporate spin-outs and divestitures, credit recapitalizations and restructurings, minority investments in “bootstrapped” companies, and private investments in public equity. Vector was founded in 1998 by Alexander Slusky and is controlled by Mr. Slusky through his ownership of Vector Capital, LLC, VCM Holdings, Inc., and Vector Capital Group Partners, LLC.

Vector serves as an investment manager and provides discretionary advisory services to several related, privately offered collective investment vehicles, including private investment partnerships and foreign investment companies, together with any respective parallel funds, special purpose, alternate investment or subsidiary investment vehicles (the “Vector Funds”).

The Vector Funds are organized into two core strategies, private equity and credit (the “Equity Funds” and the “Credit Funds”). The Equity Funds primarily pursue private equity investments in technology businesses, including buyouts, spinouts, turnarounds and recapitalizations. The Credit Funds focus on special credit opportunities in middle market companies in the software, hardware, media, telecom, and business services sectors.

The investment activities of the Equity Funds are directed by an investment committee composed of Mr. Slusky and David Fishman, and the investment activities of the Credit Funds are directed by an investment committee composed of Messrs. Slusky, Fishman, and Nick Ghossaini (the “Principals”). In addition to the Principals, there are additional investment professionals comprised of seasoned technology investors who are former CEOs, CFOs, product managers, engineers, lawyers and investment bankers who bring a wealth of investment, operational and financial expertise and experience to Vector and its affiliates (collectively, the “Vector Team”).

Vector provides investment advice to the Vector Funds and not individually to the Investors (“Investors”) in the Vector Funds. Vector has full discretionary authority to purchase or sell investments for the Vector Funds, with certain limited exceptions for approval rights by investors for specific tax or regulatory considerations provided for in the Governing Fund Documents (as defined below).

In providing its services to each Vector Fund, Vector and the Vector Team evaluate, direct and manage the investment and reinvestment of the assets of the fund, and provide reports to investors, in accordance with the terms of a limited partnership agreement and the fund’s confidential offering memoranda, investor subscription agreements, and as applicable side letters or any other governing documents applicable to the fund or Investors (the “Governing Fund Documents”).

Interests in the Vector Funds are privately offered only to qualified investors pursuant to exemptions available under the Securities Act of 1933, as amended (the “Securities Act”), and the regulations promulgated thereunder, and the Vector Funds are not registered with the SEC as investment companies based on specific exclusions from the Investment Company Act of 1940, as amended (“1940 Act”). Typically, interests in the Vector Funds are offered to institutional investors and high net worth individuals.

As of December 31, 2019, Vector managed approximately \$3,707,468,828 of assets on a discretionary basis on behalf of the Vector Funds, net of borrowings, including committed uncalled capital.

## **Item 5: Fees and Compensation**

The Vector Funds are charged asset-based advisory fees by their affiliated general partners. These fees, which are paid to Vector, include management fees based on a percentage of assets under management, carried interest allocations and certain other fees or expenses related to transactions, all in accordance with the Governing Fund Documents. Fees other than carried interest allocations, which are discussed in “*Performance Based Fees and Side-by-Side Management*” (Item 6) are generally payable quarterly in advance and are generally paid after the date payable.

Vector’s management fee is typically in the range of 1.0 to 2.5 percent of third-party investors’ committed capital or capital account. Management fees are prorated for partial periods. Management fees are negotiable, and Vector has the right to waive, reduce or calculate differently, from time to time, all or part of the management fee with respect to one or more investors without waiving, reducing or calculating differently the management fee with respect to other investors. Prepaid fees are deducted from third-party Investors’ accounts quarterly in the case of the Equity Funds, and monthly in the case of the Credit Funds. A pro rata portion of such fees is refunded when necessary. Vector retains flexibility to structure its compensation from investors and expects in certain circumstances to agree to invoice an Investor directly for management fees or other compensation, rather than deducting such amounts from the investor’s capital account(s).

Vector typically receives monitoring and directors’ fees and financing, divestment, and other similar fees in connection with portfolio investments of the Equity Funds as compensation for financial advisory and similar services provided to the Equity Funds’ portfolio companies. With the exception of charges for the Vector Value Creation team (described below), such fees received from portfolio companies of an Equity Fund typically reduce the management fees otherwise payable to Vector by the Vector Fund. The Equity Funds regularly make controlling equity investments in portfolio companies. Vector, as the manager to the Equity Funds, assumes a certain level of control of these portfolio companies through board representation, typically a majority of the board. Through its board representation, Vector is able to influence the determination of service providers to be used by the portfolio companies, as well as the amounts paid to service providers by the portfolio companies. Vector often causes the portfolio companies to select Vector, or an affiliate, to provide

such services. This arrangement creates a conflict between the interests of Vector and the Equity Funds because the value of the Equity Funds' portfolio holdings are diminished by the portfolio company fees paid to Vector. Vector typically mitigates this conflict by offsetting portfolio company fees against management fees that the Equity Funds must otherwise pay to Vector. The Governing Fund Documents of each Equity Fund set forth the extent to which such fees reduce management fees. However, for certain Equity Funds that no longer pay or pay minimal management fees, Vector retains such compensation with no corresponding reduction to management fees. In addition, the Equity Funds portfolio holdings have accrued and unpaid fees that are contractually obligated to be paid in the future which could either offset management fees or be retained by Vector.

For example, Vector typically enters into management services agreements with portfolio companies that provide for payments of monitoring and transaction fees to Vector. These fees are generally offset against management fees that would otherwise be paid by the Equity Funds. Offsets are made only with respect to the Equity Funds' allocable share of an investment. However, in the later years of an Equity Fund the management fees are reduced and the monitoring and transaction fees may be greater than the management fees. Vector has the right to retain such fees with no corresponding reduction to management fees and the amount of such fees could be significant.

Each Vector Fund generally bears or reimburses Vector for all of the expenses relating to its own activities, operations and meetings including, without limitation, fees, costs, expenses, liabilities and obligations directly related to the discovery, investigation, development, making, management, monitoring and disposition of investments (including any such costs and expenses incurred by Vector and any such costs and expenses relating to potential investments that are not consummated); fees and expenses of custodians, consultants, outside counsel and accountants; the cost of insurance; any software or administration solutions used in connection with Vector Fund investments<sup>1</sup>; any taxes; expenses relating to any audit, investigation; and the fees, costs, expenses, liabilities and obligations of any litigation relating to the activities or operation of the Vector Fund and the amount of any judgments or settlements paid in connection therewith, relating to the business, activities and interests of the Vector Fund.

Vector generally bears its own operating expenses incurred in connection with the management of the Vector Funds to the extent those expenses are not borne by the Vector Funds. Such operating expenses include, without limitation, expenditures on account of salaries, wages, travel, entertainment and other expenses of Vector's employees; rentals payable for space used by Vector; accounting services; liability and other insurance premiums (other than premiums, if any, for insurance against liabilities of the type generally covered by the indemnification provisions in the Vector Fund Governing Documents); and membership dues for professional and trade associations of which Vector is or becomes a member.

Vector Funds typically allocate a portion of their investment profits to their affiliated general partners as an incentive for Vector to maximize performance of the fund. These “carried interest” or “performance fee” allocations are typically 15% to 25% for the Vector Funds. Carried interest and performance fee allocations are in addition to any investment that the general partner may have in a Vector Fund. The fact that a significant portion of Vector’s compensation is directly computed on the basis of investment profits generated by Vector Funds may create an incentive for Vector to make investments on behalf of the Vector Funds that are riskier or more speculative than would be the case in the absence of such compensation.

## **Item 6: Performance Based Fees and Side-by-Side Management**

As indicated in Item 5 above, the Vector Funds pay performance-based fees to Vector, including carried interest or incentive allocations, which vary across the Vector Funds. The precise amount of, and the manner and calculation of, carried interest and incentive allocations are detailed in each applicable Vector Fund’s Governing Documents. Performance-based fees differ from one Vector Fund to another and may differ among limited partners in the same Vector Fund.

The existence of performance-based fees may create an incentive for Vector to make more speculative investments on behalf of the Vector Funds than it would otherwise make in the absence of such performance-based arrangement.

In addition, Vector may receive a different level of investment advisory or performance-based fees from different Vector Funds which may present a conflict of interest. Vector may have an incentive to favor Vector Funds from which it receives a higher performance fee in the allocation of investment opportunities or expenses and it may have an incentive to take greater investment risks on behalf of such Vector Funds.

Vector has established safeguards designed to address these potential conflicts of interest. Some Equity Funds have established an Advisory Committee composed of limited partners that review potential conflicts of interest that may arise in Vector’s investment activities on behalf of the Equity Funds.

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

Vector provides discretionary investment advisory services directly to the Vector Funds, subject to any limitations included in the Governing Fund Documents. Vector considers the Vector Funds, not the Investors in the Vector Funds, to be its clients. Investors in the Vector Funds may include high net worth individuals, pension plans (corporate, state and foreign), sovereign wealth funds, endowments, foundations, banks, pooled investment vehicles (e.g., funds-of-funds), trusts, estates or charitable organizations, and corporate or business entities.

The minimum commitment for an Investor in a Vector Fund is outlined in the Governing Fund Documents; however Vector maintains discretion to accept less than the minimum investment threshold. In addition, the Vector Funds may enter into separate agreements, commonly referred to as “side letters”, with certain Investors, to waive certain terms of the Governing Fund Documents, or allow such Investors to invest on terms (including without limitation, those relating to information rights) more favorable than those specifically described in the Governing Fund Documents. Vector has implemented policies and procedures to ensure that any side letters are consistent with its fiduciary duty as a registered investment adviser to all of the Investors in the Vector Funds. Subject to applicable law, Vector does not intend to disclose the terms of such side letter agreements and does not intend to disclose the identities of the Investors that have entered into such agreements. (See Item 11)

Investors in Vector Funds are required to meet certain suitability qualifications. Also, Investors are required to make certain representations when investing in a Vector Fund, including, but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and that (iii) they have the ability to bear the economic risk of an investment in the Vector Fund. Details concerning applicable investor suitability criteria are set forth in the respective Vector Fund’s offering documents and subscription materials, which are furnished to each Investor.

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

***Private Equity.*** The Equity Funds make investments in operating companies through buyouts, spinouts, recapitalizations, and similar transactions involving technology businesses. Vector’s investment strategy is characterized by a willingness to invest in both public and private companies, a focus on special situations and turnarounds, active involvement in portfolio companies, and its ability to apply the Vector Team’s industry expertise across its portfolio.

The Equity Funds pursue investments in businesses that have difficulty accessing traditional sources of capital. These businesses are often in periods of transition or distress and require significant investments of time and capital to maximize their potential value. Special situations require innovative sourcing, rigorous due diligence, financial sophistication and complex structuring. They also require a willingness to stay focused on a potential transaction over many months and sometimes years.

Vector performs analytical due diligence and emphasizes company fundamentals, such as industry positioning, balance sheet strength and discounted cash flows, when valuing potential investments. Vector has established rigorous quantitative and qualitative criteria for its investments. These criteria are designed to help Vector identify opportunities with an emphasis on scalable operations, undervalued assets and the ability to drive operating performance.



***Credit.*** The Credit Funds seek attractive risk-adjusted total returns by pursuing an investment strategy primarily focused on investments in bank loans, debt and debt-related securities of middle market companies in the software, hardware, media, telecom, and business services sectors, but may also invest across a diverse set of industries, sectors and regions. The Credit Funds may also acquire equity interests, including preferred and common, and may seek exposure to equity and credit investments synthetically through derivatives, such as swaps, options, short sales, futures and forwards.

In managing the Credit Funds, Vector is guided by an investment philosophy that stresses risk control and consistency, and that seeks to capitalize on special situations presented by inefficiencies in the credit markets. Its approach to credit investing is rigorous and deeply analytical, with an emphasis on business fundamentals, such as recurring revenue, financial performance, competitive positioning and product strategy.

Vector conducts quantitative analysis and screening of technology, business services, media, and telecom credits to identify attractive opportunities based on trading multiples and relative and absolute price changes to identify promising investment opportunities. Vector then conducts analysis on this universe of potential investments, including enterprise valuations, bankruptcy recovery and liquidation analyses, scenario analyses, stress tests, sensitivity analyses, and business diligence and analyses. Based on this analysis, Vector develops a proprietary model for each credit that includes an upside, base, and downside case, as well as target purchase and sale prices. Based on this analysis, the investment committee determines whether to invest in the credit on behalf of the Credit Funds.

## **Risks**

All investing involves a risk of loss that investors should be prepared to bear. The descriptions contained below are a brief overview of the material risks related to Vector's investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Vector Funds. Please refer to the applicable Governing Fund Documents for more complete information regarding these and other risks associated with an investment in a Vector Fund.

***Cybersecurity Risk.*** Although Vector employs various computer security measures, there can be no guarantee that it would be successful in fending off cybersecurity attacks from viruses, malware, computer hackers or other malicious corruption of its information technology systems. Cybersecurity breaches of the systems of Vector or its service providers (including accountants, custodians, transfer agents and administrators) may cause disruptions to business operations, cause losses due to theft or other reasons, interfere with Funds' net asset value calculations, impede trading, or lead to violations of applicable privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs.

*Public Health Risk.* Certain countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and most recently, the coronavirus. The outbreak of an infectious disease or any other serious public health concern, together with any resulting restrictions on travel or quarantines imposed, could have a negative impact on the economy, and business activity in any of the countries in which the Fund may invest and thereby adversely affect the performance of the Funds' Investments.

### **Investment Risks – General**

*Valuation.* The Vector Funds' portfolios contain numerous illiquid, subordinate, non-traded, or lightly traded investments (which may be held in a variety of countries) for which a traditional fair value would be difficult and prohibitively expensive to determine on a recurring basis. Therefore, private equity funds, like the Vector Funds, customarily use a combination of market based and income based valuation techniques, in accordance with U.S. Generally Accepted Accounting Principles, to determine fair value for each measurement period. Vector's estimates of fair value involves using prices, multiples and other relevant information generated by market transactions involving comparable assets, or discounting future expected cashflows to arrive at a net present value for the assets being valued. The Vector Funds may also rely on valuations they receive from third parties. The fair value of Vector Fund assets includes unrealized gains and losses, and may be adjusted by any follow-on contributions, returns of invested capital or partial realizations, or to reflect any permanent impairment to value as determined by Vector. As such, the estimated fair value of assets will typically vary from actual amounts realized upon the disposition of those assets. There can be no assurances that the fair value determinations, or the assumptions used to make those determinations, will prove to be accurate. Such valuations may turn out to be inaccurate and therefore may affect the calculated returns with respect to such assets.

*Lack of diversification.* The Vector Funds are typically subject to limited or no diversification requirements, and may invest in a limited number of companies, sectors, countries, or regions. The Vector Funds may invest a portion of their assets in privately-held technology companies without histories of profit and stability. These companies may require considerable additional capital to develop technologies and markets, acquire customers and achieve or maintain a competitive position. This capital may not be available at all, or on acceptable terms. Such companies may face intense competition, including competition from established companies with much greater financial and technical resources, more extensive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Portfolio companies may have substantial variations in operating results from period to period and experience failures or substantial declines in value at any stage. To the extent the Vector Funds concentrate their investments in a particular company, sector, country, or region, their investments will become more susceptible to fluctuations in value resulting from adverse business or economic conditions affecting that particular company, country, or region. As a consequence, the aggregate return of the Vector Funds may be adversely affected by the unfavorable performance of one or a small number

of companies, sectors, countries or regions in which the Vector Funds have invested. In certain cases, a Vector Fund may acquire majority or 100% interests in a limited number of portfolio companies, which could further increase the vulnerability of the Fund's portfolio. Currently, the Vector Funds intend to focus their investments in a limited number of sectors, including software, business services, media, telecom, and information technology companies, and any downward trends in such sectors could have a material adverse effect on the Vector Funds' performance.

*Trading Risk.* Vector's trade error policy only requires Vector to reimburse Vector Funds for any losses resulting from Vector's breach of the applicable standard of care. Although Vector endeavors to take the utmost care in implementing investment decisions on behalf of each Vector Fund, trade errors do occur and could have a material adverse impact on the performance of all Vector Funds.

*Leverage.* The Vector Fund's investments may include portfolio companies with capital structures that include significant leverage. These companies may be subject to restrictive financial and operating covenants. The leverage may impair these companies' ability to finance their future operations and capital needs. The leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the portfolio companies or their industries. While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk.

*Subscription Lines.* The Vector Funds are permitted to enter (and the Equity Vector Funds have entered) into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Vector Fund's investments). Vector Fund-level borrowing subjects investors to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant general partner's right to call capital from the investors, investors may be obligated to contribute capital on an accelerated basis if the Vector Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any investor claim against the Vector Fund would likely be subordinate to the Vector Fund's obligations to a subscription line's creditors.

In addition, Vector Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Vector Fund's investors and the terms of the Governing Fund Documents, it may be higher than the interest rate an investor could obtain individually. To the extent a particular investor's cost of capital is lower than the Vector Fund's cost of borrowing, Vector Fund-level borrowing can negatively impact an investor's overall individual financial returns even if it increases the Vector Fund's

reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Vector Fund-level borrowing typically delays the need for investors to make contributions to a Vector Fund, which in certain circumstances enhances the relevant Vector Fund's internal rate of return calculations and thereby may be deemed to benefit the marketing efforts of Vector. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors, as to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither the relevant Vector Fund nor investors generally will be compensated for providing the relevant guarantees or being subject to the related costs, expenses and/or liabilities.

A credit agreement may contain other terms that restrict the activities of a Vector Fund and the investors or impose additional obligations on them. For example, a subscription line may impose restrictions on Vector's ability to consent to the transfer of an investor's interest in the Vector Fund. In addition, in order to secure a subscription line, Vector may request certain financial information and other documentation from investors to share with lenders. Vector will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more investors.

Vector Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to Vector Fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then current amount outstanding under a subscription line could cause short-term liquidity concerns for investors that would not arise had Vector called smaller amounts of capital incrementally over time as needed by a Vector Fund. This risk would be heightened for an investor with commitments to other Vector Funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the investor to meet the accumulated, larger capital calls at the same time. A Vector Fund may also utilize Vector Fund-level borrowing when Vector expects to repay the amount outstanding through means other than investor capital, including as a bridge for equity or debt capital with respect to an investment. If the Vector Fund ultimately is unable to repay the borrowings through those other means, investors would end up with increased exposure to the underlying investment, which could result in greater losses.

*Risks associated with bankruptcy cases.* The Vector Funds may invest in financially troubled companies and companies either currently in, or that may enter into, Chapter 11 bankruptcy or insolvency proceedings. Many of the events within bankruptcy or insolvency proceedings are adversarial and are often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that bankruptcy courts would decide favorably toward, or consistent with the interests of, the Vector Funds. Furthermore,

there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and/or functional operating control of a debtor.

As the duration of bankruptcy cases can be only roughly estimated, the reorganization process can involve substantial legal, professional, and administrative costs to a company and/or the Vector Funds, and is subject to unpredictable and lengthy delays. In addition, during the process a company's competitive position may erode, key management may depart, and the company may not be able to invest adequately. In some cases, a company may not be able to reorganize and may be required to liquidate assets. Decisions by Vector to invest in the debt of such companies may not be protective of the Vector Funds' economic interests, as the debt of companies in the process of financial reorganization generally will not pay current interest, may not accrue interest during reorganization, and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

There exists a significant risk that the Vector Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, a class. In addition, certain administrative costs and claims (for example, claims for taxes) that have priority by law over the claims of certain creditors may be quite high.

The Vector Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction or forfeiture by the Vector Funds.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

*Competition.* Identifying and completing attractive private equity and debt investments securities is highly competitive, reducing the number of investment opportunities available to a Fund and adversely affecting the terms upon which investments can be made. Vector will be competing with other similar investors and with financial institutions for the acquisition of investments. There can be no certainty that Vector will be able to identify and complete a sufficient number of attractive Fund investments to meet Fund investment objectives or enable the full amount of capital committed to a Fund to be invested.

*Due Diligence.* Although Vector makes every effort to conduct appropriate due diligence prior to making an investment, the due diligence process is subjective and may be required to be undertaken on an expedited basis in order to take advantage of available investment opportunities. Additionally, a Fund may be relying on limited resources available to it in the due diligence process, including information provided by the target of the investment and third-party consultants, legal advisers, accountants and investment banks. As a result, the due diligence investigation may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating an investment opportunity.

*Exit Opportunities.* Due to the illiquid nature of some of the positions which the Vector Funds may acquire, Vector is unable to predict with confidence what the exit strategy will ultimately be for any investment or that one will be available at an attractive price, or at all. Exit strategies which appear to be viable or profitable when an investment is initiated may be precluded or unprofitable by the time the investment is ready to be realized due to market, economic, legal, political or other factors.

*Economic & political risks.* To the extent the Vector Funds make investments in companies with headquarters, or substantial assets, outside of the United States, such investments may be subject to additional economic and political risks. Governments of many foreign countries have exercised and continue to exercise substantial influence over many aspects of the private sector. Accordingly, future government or military actions could have a significant effect on the economic environment in such countries, which could affect the availability, purchase price, and returns of portfolio investments of companies affected by such governments.

*Tariffs.* The imposition of tariffs can have unintended consequences. They can make domestic industries less efficient by reducing competition. They can hurt consumers by driving prices up and can generate tensions by favoring certain industries over others, as well as certain regions. Tariffs could impact portfolio management.

*Foreign currency & exchange rate risks.* Fund assets and income of investments made outside the United States may be denominated in various currencies. Contributions and distributions, however, will be denominated in U.S. dollars. As a result, the return of the Funds on any non-US investment may be adversely affected by fluctuations in currency exchange rates, any future imposed devaluations of local currencies, inflationary pressures, and the success of the investment itself. As a general policy, the Funds do not intend to engage in hedging against currency risk. In addition, the Funds may incur costs in connection with conversions between various currencies.

*Effect of general economic and market conditions on the Vector Funds' activities; uncertain environment.* The success of the Vector Funds' activities will be affected by general economic and market conditions such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in law (including laws relating to taxation of the Vector Funds'

investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of financial instruments' prices and the liquidity of the Vector Funds' investments. Volatility or illiquidity could impair the Vector Funds' profitability or result in losses. The Vector Funds may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

The current global economic and political climate continues to be one of uncertainty. A climate of uncertainty may reduce the availability of potential investment opportunities and increase the difficulty of modeling market conditions, reducing the accuracy of Vector's financial projections. Furthermore, such uncertainty may have an adverse effect upon the companies in which the Vector Funds make investments. Unpredictable or unstable market conditions may also make it more difficult for the Vector Funds to exit and realize value from its investments. The current political environment could also create additional regulatory burdens.

It is important to understand that the Vector Funds could incur material losses even if Vector reacts quickly to difficult market conditions, and the Vector Funds may suffer material adverse effects from broad and rapid changes in market conditions.

*Privacy and Data Protection Law Compliance Risk.* The adoption, interpretation and application of consumer protection, data protection and/or privacy laws and regulations ("Privacy Laws") in the United States, Europe and elsewhere could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned business activities of Vector, the Vector Funds and/or their portfolio companies, and increase compliance costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws by any such entity or their service providers could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Fund performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for Vector, the Vector Funds and/or their portfolio companies, are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

For example, California has passed the California Consumer Privacy Act of 2018, and the EU has enacted the General Data Protection Regulation (EU 2016/679), each of which broadly impacts businesses that handle various types of personal data, potentially including private fund managers and their funds and investments. Such laws impose stringent legal and operational obligations on regulated businesses, as well as the potential for significant penalties.

Other jurisdictions, including other U.S. states, have proposed or are considering similar Privacy Laws, which if enacted could impose similarly significant costs, potential liabilities and operational and legal obligations. Such Privacy Laws and regulations are expected to vary from jurisdiction to

jurisdiction, thus increasing costs, operational and legal burdens, and the potential for significant liability for regulated entities, which could include Vector, the Vector Funds and/or their portfolio companies.

*Limited Access to Information.* Investors' rights to information regarding a Fund or Vector generally will be specified, and in many cases strictly limited, by the Governing Fund Documents. In particular, it is anticipated that Vector will obtain certain types of material information from or relating to a Vector Fund's investments that will not be disclosed to investors because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of Vector's control. Decisions by Vector or its affiliates to withhold information may have adverse consequences for Investors in a variety of circumstances. For example, an investor that seeks to transfer its interest in a Vector Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for an investor to monitor Vector and its performance. Additionally, it is anticipated that investors that designate representatives to participate on a Vector Fund's advisory board generally may, by virtue of such participation, have more or earlier information about a Vector Fund and its investments in certain circumstances than other investors. Investors generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the relevant Vector Fund succeeds in asserting confidentiality for requested documents and other materials, and Vector reserves the right to withhold certain information from investors subject to such laws for reasons relating to Vector's public reputation, business strategy or other reasons.

*Inside information; inability to vote certain positions.* From time to time, Vector may be in possession of material, non-public information concerning the issuer of securities in which a Vector Fund has invested, or in which it intends to invest. The possession of such information may limit the ability of a Vector Fund to buy or sell such securities or other instruments. Accordingly, a Vector Fund may be required to refrain from buying or selling such securities or other instruments at times when Vector might otherwise wish such Vector Fund to buy or sell such securities or other instruments even if such information was obtained in the context of investment activities of other funds or accounts managed or advised by Vector. In addition, as a result of voting agreements or other arrangements relating to certain issuers, securities or instruments in which a Vector Fund is invested, Vector may also be subject to restrictions on their ability to vote or take other actions with respect to such issuers or securities. In such situations, Vector may not be able to vote or take other actions with respect to such issuers or securities in the manner that it otherwise would believe to be in the best interests of the Vector Funds.

### **Investment Risks– Equity Funds**

*Investments in unseasoned companies.* The Equity Funds may invest a portion of assets in privately-held, technology companies without histories of profit and stability. These companies may require considerable additional capital to develop technologies and markets, acquire customers and achieve



or maintain a competitive position. This capital may not be available at all, or on acceptable terms. Such companies may face intense competition, including competition from established companies with much greater financial and technical resources, more extensive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Typically, although the Equity Funds may be represented by at least one person associated with Vector on a portfolio company's board of directors, each portfolio company will be managed on a day-to-day basis by its own officers(who generally will not be affiliated with Vector). Portfolio companies may have substantial variations in operating results from period to period and experience failures or substantial declines in value at any stage.

*Buyouts, spinouts, divestitures, take-private investments.* The Equity Funds intend to invest a significant portion of their assets in buyouts, spinouts, divestitures, take-private transactions, turnarounds and corporate restructurings. Such investments are usually made in distressed companies with troubled operations, organization, management, products or services. Such portfolio companies are generally mature and may have had a history of substantial negative operating results. As a result, the Equity Funds will likely be required to invest substantial amounts of capital and time in such entities. The Equity Funds would make such investments under the assumption that Vector will be able to assist with the turnaround of such companies. There is no guarantee that the Equity Funds will have sufficient capital to support such portfolio companies or that Vector will possess, or properly use, the skills or resources necessary to achieve a positive result. In addition, if Vector is unable to effectively assist such distressed companies, there is significant risk that the Equity Funds will not be able to recoup any of its investment in such entity. Furthermore, such investments generally require a considerable amount of Vector's time and human capital. As such, the period within which a gain, if any, would be realized from such investments may be considerably longer than other investments.

*PIPE investments.* The Equity Funds may also make investments in the securities of portfolio companies that have gone public and in the securities of other publicly traded companies. Such public company securities may be thinly traded, relatively illiquid or may cease to be publicly traded after the Equity Funds invest. These investments may also be in PIPE investments (i.e., private investments in public equities) that the Equity Funds will generally not be able to sell or distribute unless the securities are registered under applicable securities laws or an exemption from such registration is available. In addition, since the Equity Funds may take large ownership positions as part of PIPE transactions, even after the securities are saleable, it may take a significant period of time for them to be sold or distributed in an orderly manner during which time profit could have otherwise been realized or loss avoided, and in some cases the Equity Funds may be prohibited by contract or law from selling such public company securities for a period of time. In addition, the Equity Funds' sales of thinly traded securities could depress the market value of such securities. These circumstances or events could reduce the Equity Funds' profitability. Disposition of the Equity Funds' public company investments may result in distributions-in-kind to Limited Partners.

*Availability of investment capital.* Investments in both growing and distressed companies often require a large initial investment with a commitment of continued financial support. If an investor does not have funds available to participate in subsequent rounds of financing, that shortfall may have a significant negative impact on both the portfolio company and the value of such investor's original investment. Although it will be the Equity Funds' policy to maintain sufficient liquidity to allow it to participate in follow-on rounds of financings, the Equity Funds may not intend to provide all necessary follow-on financing. In such cases, third-party sources of financing will be required. There is no assurance that such additional sources of financing will be available, or, if available, will be on terms beneficial to the Equity Funds.

*Lack of liquidity within investment portfolio.* The marketability and value of each of the Equity Funds' investments will depend upon many factors beyond Vector's control. Generally, the investments made by the Equity Funds will be illiquid and difficult to value, and there will be little or no collateral to protect an investment once made. At the time of the Equity Funds' investment, a portfolio company may lack one or more key attributes (e.g., operational stability, consistent profitability, or management team) necessary for success. There may be no readily available market for the Equity Funds' investments, and the disposal of a portfolio investment by the Equity Funds may be prohibited or delayed many years from the date of initial investment for legal, contractual and/or regulatory reasons. The public market for software and information technology companies is extremely volatile. Such volatility may adversely affect the development of portfolio companies, the ability of the Equity Funds to dispose of investments, and the value of investment securities on the date of sale or distribution by the Funds.

*Risks of certain dispositions.* In connection with the disposition of an investment in a portfolio company or otherwise, the Equity Funds may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Equity Funds.

*Non-controlling investments.* The Equity Funds may hold a non-controlling interest in certain portfolio companies and, therefore, may have a limited ability to protect its position in such portfolio companies. However, as a condition to an investment in a portfolio company, it is expected that appropriate rights generally will be sought to protect the Equity Funds' interests to the extent possible. There can be no assurance that such minority shareholder rights will be available.

*Controlling investments.* The Equity Funds may own a majority of a portfolio company and be able to elect one or more of its directors. With respect to an investment in a distressed company, Vector may elect to insert certain of its employees or affiliates into key management positions within such

company to assist in the entity's turnaround. As a result, the Equity Funds may be viewed as controlling such a portfolio company, or being a controlling shareholder. To the extent the valuation of such a portfolio company decreases, the Equity Funds may be exposed to lawsuits by discontented minority shareholders. Even if such lawsuits prove to be without merit, the Equity Funds may be required to expend significant resources defending itself and its affiliates.

### ***Investment Risks – Credit***

The Credit Funds may invest in certain debt investments, which can create various risks for the Funds. For example, debt investments will typically not provide the holders with any governance rights, and so the Credit Fund's ability to influence the success of such investment may be significantly limited; further the market for selling debt may not be as liquid as the market for selling public equity securities, which may impair the ability of a Fund to sell the investment at the best time. The Credit Fund's investment may be in debt that is subordinate to other outstanding indebtedness of a portfolio company, which exacerbates the risk that the value of the investment will be impaired if the portfolio company does not perform. Finally, one of the fundamental risks associated with the Funds' debt investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due.

*Investments in Distressed Debt.* The Credit Funds may invest in distressed debt securities and instruments. Investments in distressed debt securities and instruments are inherently speculative and are subject to a high degree of risk. Companies experiencing financial distress are often those operating at a loss or with substantial variation in operating results from period to period. Distressed companies may have the inability to service their debt obligations during an economic downturn or periods of rising interest rates, may not have access to more traditional methods of financing and may be unable to repay debt by refinancing. The value of distressed debt securities and instruments tends to be more volatile and may have an increased price sensitivity. Distressed debt securities and instruments are often unsecured and may be subordinated to senior debt.

*Priority of Credit Investments.* The Credit Fund may invest in a variety of different types of structured equity and debt, including senior secured loans. If the Credit Fund makes a senior secured loan to a portfolio entity, it generally shall take a security interest in the available assets of the portfolio entity. However, there is a risk that the collateral securing the Fund's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio entity to raise additional capital.

The Credit Fund may also invest in second lien or other subordinated loans (including "mezzanine" loans). In the event of a loss of value of the underlying assets that collateralize the loans, the subordinate portions of the loans may suffer a loss prior to the more senior portions suffering a loss.

The Credit Fund may invest in unsecured loans which are not secured by collateral. In the event of default on an unsecured loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible that no collateral value would remain for an unsecured holder and therefore result in a loss of investment to the Fund. Because unsecured loans are lower in priority of payment to secured loans, they are subject to the additional risk that the cash flow of the borrower may be insufficient to meet scheduled payments after giving effect to the secured obligations of the

borrower. Unsecured loans generally have greater price volatility than secured loans and may be less liquid.

*Fixed income securities and loans.* The Credit Funds will invest in bonds or other fixed income securities of U.S. and non-U.S. issuers, including bank debt, bonds, notes, debentures and commercial paper, as well as derivatives thereon. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Credit Funds invest may change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities and bank loans can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability or soundness of economic policies. Fixed income securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

*Bank loans.* The Credit Funds' investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Vector to directly enforce its clients' rights with respect to participations. In analyzing each bank loan, Vector compares the relative significance of the risks against the expected benefits of the investment.

Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

*Low quality distressed credit.* There is no minimum credit standard that is a prerequisite to the Credit Funds' investment in any security. The Credit Funds may invest in securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or that are involved in bankruptcy or reorganization proceedings. Although these securities may offer the potential for high returns, they also may involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by U.S. state and federal laws and foreign laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the U.S. Bankruptcy Court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject

to abrupt and erratic price movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (*e.g.*, due to failure to obtain requisite approvals), will be delayed (*e.g.*, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Credit Funds of the security in respect to which such distribution was made.

*Participation on Creditors' Committees.* Vector employees may serve on committees formed by creditors ("Creditors' Committees") to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. Vector may also seek to negotiate directly with debtors with respect to restructuring issues. Even if Vector chooses to join a Creditors' Committee, there can be no assurance that it would be successful in obtaining results favorable to clients in such proceedings, and clients may incur significant legal fees and/or other expenses in attempting to do so, as Creditors' Committees generally consist of many participants, each of which attempts to obtain an outcome that is in its individual best interests. As a result of Vector's service on such Creditors' Committees, Vector may be deemed to have duties to other creditors represented by the Creditors' Committees, which might thereby expose the Credit Funds to liability to such other creditors who disagree with Vector's actions.

Vector employees may serve on Creditors' Committees or other groups to ensure preservation or enhancement of the Credit Funds' position as a creditor. A member of any such Creditors' Committee or group may owe certain obligations generally to all parties similarly situated that the Creditors' Committee represents. If Vector concludes that its obligations owed to the other parties as a Creditors' Committee or group member conflict with its duties owed to the Credit Funds, it will resign from that Creditors' Committee or group, and the Credit Funds may not realize the benefits, if any, of Vector's service on the Creditors' Committee or group. Additionally, if the Credit Funds are represented on a Creditors' Committee or group, they may be restricted or prohibited under applicable law from disposing of investments in the subject company while they continue to be represented on such Creditors' Committee or group.

*"Widening" risk.* For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Credit Funds invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

*Derivatives.* The Credit Funds may invest in complex derivative instruments that seek to modify or replace the investment performance of particular securities or other investments on a leveraged

or unleveraged basis. These instruments generally have counterparty risk and may not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the investor. These investments are all subject to additional risks that can result in a loss of all or part of an investment, in particular, interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity. Derivatives may have leverage embedded in them that can substantially magnify market movements and result in losses greater than the amount of the investment. Some of the markets in which the Credit Funds may effect derivative transactions are OTC or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Credit Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a credit or liquidity problem with the counterparty (See “—Counterparty Risk,” below).

*Options.* The Credit Funds may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions) for the Credit Funds, and when it writes options it may do so on a “covered” or an “uncovered” basis. A call option is “covered” when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Credit Funds’ options transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Credit Funds have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Credit Funds may enter into.

When the Credit Funds buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, would result in a total loss of the Credit Funds’ investment in the option (including commissions). When the Credit Funds sell (write) an option, the risk can be substantially greater than when they buy an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. Theoretically, the risk is unlimited unless the option is “covered.”

*Credit default swap agreements.* The “buyer” in a credit default contract (a “credit default swap agreement” or “CDS”) is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the reference obligation. The contingent payment may be a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Credit Funds may be

either a buyer or seller in the transaction. If the Credit Funds are a buyer and no credit event occurs, the Credit Funds may lose its investment (or premium) and have no recovery. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Credit Funds receive a fixed rate of income throughout the term of the CDS, which typically is between one month and five years, provided that no credit event occurs.

Credit default swaps involve greater risks than if the Credit Funds had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Credit Funds.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely affect the Credit Funds' ability to otherwise productively deploy any capital that is committed with respect to such contracts.

*Counterparty risk.* Some of the markets in which the Credit Funds may effect transactions are OTC or "interdealer" markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such "over-the-counter" transactions. This exposes the Credit Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Credit Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Credit Funds has concentrated its transactions with a single or small group of counterparties. Vector is not restricted from dealing with any particular counterparty or from concentrating any or all of the Credit Funds' transactions with one counterparty. Moreover, Vector has no formal credit function which evaluates the creditworthiness of the Credit Funds' counterparties. The ability of the Credit Funds to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Credit Funds.

*Illiquid investments; special investments.* The Credit Funds may make investments that are subject to legal or other restrictions on transfer or for which no liquid market exists, such as private placements. Illiquidity increases risk and volatility and may make it impossible to close out positions against which the market is moving or to realize such positions' value at the time of sale.

Vector may designate certain of the Credit Funds' illiquid investments as Special Investments, and place them in Special Investment Accounts, which the Credit Funds generally will account for separately until liquidated or marked to market, which may be for a period of several years.

*Short selling.* The Credit Funds may engage in short selling as part of its investment strategies. A short sale involves the sale of a security that a client does not own in the hope of purchasing the same security at a later date at a lower price. To make delivery to the buyer, the client must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security. The client realizes a profit or a loss as a result of a short sale if the price of the security decreases or increases, respectively, between the date of the short sale and the date on which the client covers its short position (*i.e.*, purchases the security to replace the borrowed security). A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss.

*Highly volatile markets.* The prices of securities and derivative instruments, including futures and options prices, may be highly volatile. Price movements of securities, forward contracts, futures contracts and other derivative contracts in which the Credit Funds may invest are influenced by, among other things: interest rates; changing supply and demand relationships; trade, fiscal, monetary and exchange control programs and policies of governments; and U.S. and international political and economic events and policies. In addition, governments from time to time intervene, directly and/or by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Credit Funds also is subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses.

*Other hedging strategies.* The Credit Funds, directly or indirectly, may opt to use a variety of financial instruments such as derivatives, options, swaps, caps and floors and forward contracts, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Credit Funds' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect the Credit Funds' unrealized gains in the value of the Credit Funds' investment portfolio, (iii) facilitate the sale of any such investments, (iv) establish a position as a temporary substitute for other securities, (v) enhance or preserve returns, spreads or gains on any investment in the Credit Funds' portfolio, (vi) hedge the interest rate or currency exchange rate on any of the Credit Funds' liabilities or assets, (vii) protect against any increase in the price of any securities the Credit Funds anticipates purchasing at a later date or (viii) for any other reason that Vector deems appropriate.

Vector is not required to attempt to hedge portfolio positions in the Credit Funds and, for various reasons, may not do so. While the Credit Funds may enter into hedging transactions in seeking to reduce risk, such transactions may result in a poorer overall performance for the Credit Funds than



if it had not engaged in any such hedging transaction. For a variety of reasons, Vector may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Credit Funds from achieving the intended hedge or expose the Credit Funds to risk of loss. The success of the hedging strategy of the Credit Funds is subject to Vector's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Credit Funds' hedging strategy is also subject to Vector's ability to recalculate continually, readjust and execute hedges in an efficient and timely manner. Moreover, it should be noted that the portfolio always will be exposed to certain risks that cannot be hedged, such as certain credit risk (relating both to particular securities and counterparties with respect to which CDS protection is unavailable), "liquidity" risk and "widening" risk.

## Item 9: Disciplinary Information

Neither Vector nor its employees have been involved in any legal or disciplinary events in the past ten years that would be material to an investor's or a prospective investor's evaluation of Vector or its personnel.

## Item 10: Other Financial Industry Activities and Affiliations

Vector is affiliated with a group of entities (identified below) that provide investment advisory and other services to the Vector Funds (see Schedule R for "Relying Advisors").

Vector Capital Partners V, L.P.	Serves as general partner to Vector Capital V, L.P. and Vector Entrepreneur Fund V, L.P.
Vector Capital Partners IV, L.P.	Serves as general partner to Vector Capital IV, L.P.
Vector Capital Partners III, L.P.	Serves as general partner to Vector Capital III, L.P., Vector Entrepreneur Fund III, L.P., VZB SafeNet Investors, L.P., and VP Stealth Investors, L.P.
VCP Credit, LLC	Serves as general partner to Vector Capital Credit Opportunity Fund, L.P., Vector Capital Credit Opportunity Offshore Fund, Ltd., Vector PRW Co-Invest, L.P. and Vector MM Co-Invest, L.P.
Vector Capital Partners II/III Extension, L.P.	Serves as the general partner to Vector Capital II/III Extension, L.P.

Employees of Vector typically serve as directors of Vector Fund portfolio companies and, in that capacity, will be required to make decisions in the best interests of such portfolio companies and

their shareholders. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, decisions that may be in the best interests of the portfolio company may not be in the best interests of the Vector Funds, and vice versa. In these situations, there will be conflicts of interest between such individual's duties as an employee of Vector and their duties as a director of such portfolio company. Vector addresses such conflicts on a case-by-case basis, with the assistance of the Advisory Committees of the Vector Funds.

Although Vector generally does not permit employment for compensation separate from employment with Vector, the Principals and the rest of the Vector Team may engage in certain outside business activities, such as service on a board of directors, which also may result in conflicts of interest. Pursuant to Vector's Code of Ethics (the "Code"), such activities are subject to the approval of its Chief Compliance Officer, which approval will only be granted on a case-by-case basis subject to a review of: (i) potential conflicts of interest; (ii) disclosure obligations; and (iii) any relevant regulatory issues. An employee that subsequently becomes aware of a material conflict of interest that was not disclosed when approval was granted must promptly report the conflict to Vector.

Vector personnel involved in solicitation activities on behalf of the Credit Funds may receive commissions or similar compensation in connection with such efforts. A potential conflict of interest exists, as the receipt of commissions may provide an incentive to recommend investment products based on commissions.

Vector Value Creation ("VVC") employees are Vector's employees and, accordingly, Vector has an incentive to cause portfolio companies to pay for as much of the VVC compensation, benefits and taxes as possible because Vector is responsible for any VVC expenses that are not reimbursed by portfolio companies. By way of example, Vector has an incentive to cause portfolio companies to keep VVC actively working on projects for portfolio companies even if the expected value of some projects might not justify the cost, and an incentive to cause portfolio companies to engage the VVC for projects rather than other Vector employees whose costs may not be reimbursed by portfolio companies, and does not have an incentive to cause portfolio companies to pay a little as possible for projects performed by the VVC.

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

Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended ("Advisers Act"), Vector has established the Code which sets forth standards of ethical conduct for employees and is designed to address and avoid potential conflicts of interest. Among other things, the Code establishes guidelines for dealing with clients ethically, making personal trading and investments, and appropriately managing conflicts of interest. The Code is applicable to the Vector Team, and

all other employees of Vector and certain independent contractors. A copy of the Code is available upon request.

*Employee Trading.* Vector and Vector employees may purchase and sell securities for their own accounts, subject to restrictions and reporting requirements set forth in the Code and Vector's fiduciary duty to its clients. Vector prohibits Vector employees from purchasing or selling securities that are held by the Vector Funds; requires pre-clearance before purchasing or selling securities ; requires periodic reporting of personal securities transactions and holdings; and requires prompt internal reporting of Code violations. Vector endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity.

Vector also generally prohibits employees from purchasing or selling public securities of companies about which Vector may have material non-public information. Such companies will appear on a "restricted list." Employees may not purchase or sell any securities of any company on the restricted list.

*Vector and Employee Investments in Vector Funds.* The general partner will typically be committed to contribute 2% to 4% of the capital of each Equity Fund . In addition, certain employees may be permitted to invest an additional amount in the Equity and Credit Funds or in particular investments by the Equity Funds. Vector must seek the approval of the relevant Advisory Committee of an Equity Fund prior to making principal investments that might reasonably be viewed as investment opportunities for such Equity Fund.

*Allocation of Investments Among Vector Funds.* From time to time, Vector may determine that it is reasonable and appropriate to allocate investment opportunities among Vector Funds and members of the Vector Team. Such allocations can create conflicts of interest among the Vector Funds and between Vector and the Vector Funds.

Vector has adopted written policies and procedures relating to the allocation of investment opportunities among Vector Funds and members of the Vector Team intended to address these conflicts of interest. This policy requires that when making allocation decisions among Vector Funds, Vector must consider numerous factors with respect to each eligible Vector Fund including: (i) investment objectives and strategies of the relevant Vector Fund; (ii) size of the investment relative to remaining callable capital; (iii) future capital needs of the underlying portfolio company; (iv) planned duration of the investment relative to the remaining life of the Fund; (v) legal and regulatory restrictions; (vi) and other considerations relevant at the time.

Furthermore, an Advisory Committee has been established for each Equity Fund to address potential conflicts of interest between Vector and the Vector Funds on the Vector Funds' behalf. Vector must seek the approval of the relevant Advisory Committee of a Vector Fund prior to: (i) investing, on behalf of one Vector Fund, in companies that are owned by another Vector Fund; and (ii) making

principal investments that might reasonably be viewed as investment opportunities for the Equity Funds. The Advisory Committees have approved guidelines for purchases of debt securities by Vector Funds. Conditions were outlined that must be adhered to when a Fund wishes to purchase debt securities where another fund owns equity securities of that same company. Additionally, there are guidelines to follow in the case of purchasing debt securities of a company across Vector Funds. An Advisory Committee for the Credit Funds has not been established.

*Co-Investment Opportunities.* To the extent that a particular investment opportunity exceeds the desired allocation to the Vector Funds in the aggregate in view of the factors above, Vector may offer co-investment opportunities to Vector Fund investors, affiliates, or third parties. Vector decides whether and to whom to offer co-investment opportunities. In general, no Vector Fund, affiliate, or third party has a right to participate in any co-investment opportunity. However, Vector acknowledges that certain limited partners have expressed an interest in making co-investments. Co-investors will typically invest in portfolio companies at the same time and price and on the same terms as the participating Vector Funds to the extent practicable. Vector may charge management or performance related compensation for its services to co-investors.

In allocating co-investment opportunities among potential co-investors, Vector considers a wide range of factors, including:

Vector's evaluation of the size and financial resources of the potential co-investor, including their commitment to the Equity Fund considering the investment, and Vector's perception of the ability of that potential co-investor to efficiently and expeditiously participate in the investment opportunity, in particular when the investment opportunity is time-sensitive;

Vector's evaluation of its experiences and relationship with the potential co-investor, such as their willingness or ability to respond promptly and affirmatively to potential investment opportunities previously offered by Vector;

Vector's evaluation of the extent to which allocating investment opportunities to a potential co-investor will help establish or strengthen relationships that may provide indirectly longer-term benefits to current or future Equity Funds.

The appropriate allocation among Vector Funds and co-investors of expenses and fees generated in the course of evaluating potential investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, generally will be determined by agreement among Vector and the potential co-investors.

*Side Letters.* Vector has entered into side letter arrangements with certain Fund investors providing such investors with different or preferential rights or terms without the approval or vote of any other investors. The side letter would alter or supplement the terms of the Governing Documents or the subscription agreements and may be more favorable to such investors than those applicable to other

investors. Such side letter arrangements may include information rights, co-investment rights, tax considerations, investment restrictions, and liquidity or transfer rights.

*Performance Based Fees.* Performance-based fees may create an incentive for Vector to invest Funds in investments that are riskier or more speculative than would be the case if Vector were compensated solely based on a flat percentage of capital under management.

Because there is a fixed investment period after which capital from investors in certain Equity Funds may only be drawn down in limited circumstances and because management fees are, at certain times during the life of the Equity Funds, based upon the cost of the remaining investments of the Equity Fund, Vector may have an incentive to deploy capital when it may not otherwise have done so.

In addition, the carried interest and incentive allocations to the Equity Funds and the Credit Funds are calculated based on values that include unrealized appreciation. Any securities for which market quotations are not readily available will be valued by or at the direction of Vector and using a valuation method that involves Vector's discretion. Accordingly, Vector may have an incentive to exercise this discretion to place a higher value on these investments than if Vector was not entitled to a carried interest or other incentive allocation.

*Valuation.* The Equity Funds and Credit Funds may hold securities and financial instruments that do not have readily available market quotes. Vector will value such securities and financial instruments in good faith at fair value based on various factors, including any external pricing sources, recent trading activity, or other information aimed at a relative value assessment process that incorporates, among other factors in the discretion of the Vector and the General Partner, current market conditions, position size, trends and prices. Such valuations may vary from similar valuations performed by independent third parties for similar types of securities and financial instruments. Inaccurate valuations may, among other things may affect the net asset values at which interests are issued and withdrawn in the Credit Funds and may affect the amount of carried interest or incentive allocation received by Vector. Higher valuations generally result in higher carried interest and incentive allocations and may be beneficial in marketing the Vector Funds.

*Vector Value Creation ("VVC").* VVC is a group of Vector employees that are specifically focused on providing operational efficiencies to portfolio companies. The consulting services provided by the VVC to portfolio companies would otherwise be provided by third party service providers. The costs to Vector of providing the services of the VVC are borne by the portfolio companies and payments by the portfolio companies to Vector for the services of the VVC do not reduce the management fee of the Equity Funds. Maintaining the VVC may create a conflict of interest between Vector and the Equity Funds and portfolio companies because Vector may be incentivized to encourage the portfolio companies to engage the VVC to perform services when the portfolio companies might not otherwise engage a third party and the VVC may charge the portfolio

companies more for such services than what an unaffiliated third party may charge. Please refer to Item 10 for a further discussion of the conflict of interest posed by the VVC

*Allocation of Expenses.* Vector often incurs expenses on behalf of more than one Vector Fund. For example, Vector may incur diligence expenses for an investment proposed to be made by more than one Vector Fund. Vector allocates such expenses among the Funds in a manner that it believes is fair and equitable taking into consideration, among other things, the relative amount expected to be invested by each Fund in the proposed investment and the relative capital commitments of the Vector Funds. Vector may have a conflict in making these allocations because, among other things, the Vector Funds may have different performance fees or some may have no performance fee. In addition, Vector may earn a higher performance fee from allocating more expenses to certain Vector Funds than others because of the historical performance of the Vector Funds.

A passive minority interest in Vector is owned by an investor group (the “Group”) that is otherwise unaffiliated with Vector. The Group will be entitled to share in Vector’s management fees, carried interest and will participate in Vector’s capital commitment to certain funds managed or advised by Vector. The Group may hold other equity and financial interests in certain other investment advisors unaffiliated with Vector. Neither the Group nor any of its members has authority over the day-to-day operations or investment decisions of Vector as they relate to the Vector Funds, although the Group has negotiated certain minority protection and consent rights in connection with its investment in Vector.

## **Item 12: Brokerage Practices**

In selecting brokers, banks and dealers to effect investment transactions for the Vector Funds, Vector may consider such factors as price, the ability of the brokers, banks and dealers to effect transactions, their facilities, confidentiality practices, reliability and financial responsibility, as well as any products or services provided, or expenses paid, by such brokers, banks and dealers. Products and services may include research items used by Vector in making investment decisions. Such “soft dollar” benefits may cause Vector to execute a transaction with a specific broker, bank or dealer even though it may not offer the lowest transaction fees.

Vector has no formal arrangements with specific brokers, banks or dealers to receive any soft dollar benefits in exchange for brokerage commissions from Vector Fund transactions. However, brokers or dealers may be selected who provide research reports and services to Vector, including: proprietary broker-dealer company research and analyses; oral and written reports, statistics and advice about the economy, industries and individual securities’ or company investment opportunities; opportunities to confer with company management; reports on underwriting activity, bank rates, loan defaults, loan new issuance volumes and other capital markets statistics; all of which may be attractive for one or more Vector Funds. In accordance with Section 28(e) of the Securities Exchange Act of 1934, broker-dealers providing such services may be paid commissions on transactions for Vector Funds in excess of those that other broker-dealers not providing such

services might charge so long as Vector determines in good faith the amount of commissions is reasonable in relation to the value of the brokerage and research services provided, taking into account all of the accounts over which Vector exercises investment discretion. Recognizing the value of the brokerage and research services provided, Vector may allow a brokerage commission in excess of that which another broker might have charged for effecting the same transaction.

Vector will periodically evaluate the overall reasonableness of the brokerage commissions paid to broker-dealers with respect to Vector Fund transactions by, among other things, seeking to compare such commissions with the commission rates being charged by other comparable broker-dealers. Vector will also periodically review the past performance of the broker-dealers with whom it has placed orders to execute Vector Fund transactions in light of the value of the services discussed above.

Vector may aggregate certain purchases or sales of securities or loans in order to obtain a more favorable pricing arrangement based on volume.

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

***Oversight and Monitoring.*** The investment portfolios of the Equity Funds are generally private, illiquid and long-term in nature. Vector's review of them is not directed toward a short-term decision to dispose of securities. However, Vector closely monitors the performance and operations of the portfolio companies of the Vector Funds and generally maintains an ongoing oversight position in such portfolio companies. In particular, one or more members of the Vector Team typically maintains board positions with each portfolio company, and the Vector Team meets regularly to discuss the historical and projected performance of the portfolio companies, as well as economic developments, industry outlook and other issues that might affect the portfolio companies.

With respect to investments made by the Credit Funds, such as investments in bank loans, financings, originations related credit and existing positions are continually reviewed and analyzed by the investment team and investment committee for the Credit Funds.

***Reporting.*** Vector generally does not provide formal written reports to any Vector Funds. However, the Vector Funds typically provide quarterly and annual reports to all Investors in the Vector Funds in accordance with the terms of the applicable Governing Fund Documents. Certain Vector Funds also provide audited financial statements annually.

New Investors in Vector Funds are provided with a copy of this brochure before making an initial investment or commitment to a Vector Fund.

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

As discussed in “*Fees and Compensation*,” Vector Team members who serve on the boards of directors of portfolio companies of a Vector Fund may receive cash compensation, options or restricted stock in their capacity as directors. Pursuant to the Governing Fund Documents, such fees and other benefits paid by portfolio companies will be applied to reduce the management fees otherwise payable by the Vector Funds. Reference Item 5 – Fees and Compensation for additional disclosure.

Vector may retain third-party brokers, solicitors or finders. The fees and expenses payable to any such brokers, solicitors or finders will not be borne by the Investors of the Vector Fund, but will instead be borne by Vector or the affiliate general partner, either directly or indirectly through an offset against the management fees, carried interest or otherwise.

## **Item 15: Custody**

Vector uses unaffiliated, third-party qualified custodians to hold the assets of the Vector Funds in a manner that it believes complies with current SEC standards and guidance. These qualified custodians maintain the assets of the Vector Funds in a manner that segregates them from assets of other clients of the custodian.

The assets of certain Vector Funds are subject to a year-end audit by an independent accounting firm in accordance with generally accepted accounting standards. The audited financial statements are then provided to the Investors in the Vector Funds within 120 days of the end of the fiscal year. In lieu of a year-end audit, certain Vector Funds undergo a surprise independent verification of the funds and rely on the “audit exemption” under the Advisers Act custody rule (*i.e.*, Rule 206(4)-2(b)(4)). Investors in these Funds will receive account statements from the Funds’ custodians. In those cases, the investor should review the statement to ensure accuracy.

## **Item 16: Investment Discretion**

Pursuant to the Governing Fund Documents of each Vector Fund, Vector generally has discretionary authority to perform the day-to-day investment operations of the Vector Funds. Vector has full discretionary authority to purchase or sell investments for the Vector Funds, with certain limited exceptions for approval rights by its Investors for specific tax or regulatory considerations, as dictated by the Governing Fund Documents.

## **Item 17: Voting Client Securities**

Vector has authority to vote public company equity and debt securities and other debt instruments (*e.g.*, loans) held by Vector Funds, and therefore has adopted policies and procedures that it believes are reasonably designed to comply with the requirements of the



Advisers Act. The proxy voting policies and procedures reflect Vector's commitment to vote such instruments in a manner consistent with the best interests of the Vector Funds.

Vector votes all proxies with the intent of maximizing the long term economic value of the relevant Vector Funds' holdings. Vector's proxy voting policy is designed to prevent proxy voting decisions from being influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the general policy of Vector to vote or to give consent on all matters presented to security holders in any proxy, and its policies and procedures have been designed with that principle in mind. However, Vector Capital may abstain on any particular vote or otherwise withhold its vote or consent on any matter if, in the judgment of certain Vector Team members, the costs associated with voting such proxy outweigh the benefits to the applicable Vector Funds or if the circumstances make such an abstention or withholding otherwise advisable and in the best interest of the applicable Vector Funds.

Vector's Chief Compliance Officer is responsible for monitoring proxy decisions for any actual or perceived conflicts of interest. All proxy voting decisions require a mandatory conflicts of interest review by the Chief Compliance Officer, which includes consideration of whether Vector or any investment professional or other person recommending how to vote the proxy has an interest in how the proxy is voted that may present a conflict of interest. When the Chief Compliance Officer deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts.

A copy of Vector's written proxy voting policies and procedures, as well as a record of how Vector has voted in the past, will be maintained and available for review upon written request.

## **Item 18: Financial Information**

Item 18 is not applicable to Vector

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

Item 19 is not applicable to Vector