

**Item 1. Cover Page**



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**This brochure provides information about the qualifications and business practices of Arrowhead Investment Management LLC. If you have any questions about the contents of this brochure, please contact us at (203) 485-0700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Arrowhead Investment Management LLC also is 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**

We are required to inform investors of material changes to this brochure. There have been no material changes since our last amendment filed February 2020.

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

For purposes of this brochure, “Arrowhead” means Arrowhead Investment Management LLC, a Delaware limited liability company, together (where the context permits) with its affiliates that provide advisory services to and/or receive advisory fees from the Funds (as defined below). Such affiliates may or may not have identical ownership, but are under common control with Arrowhead. These affiliates may be formed for tax, regulatory or other purposes in connection with the organization of the Funds, or may serve as General Partners of the Funds.

Arrowhead provides investment supervisory services to investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). As of the date of this brochure, Arrowhead Mezzanine, LLC, an affiliate of Arrowhead, serves as the investment manager for Gleacher Mezzanine Fund II, L.P. (“Fund II”), and Arrowhead serves as the investment manager for Arrowhead Capital Fund III, LP (“Fund III”, collectively with Fund II, the “Main Funds”). In addition, Arrowhead serves as the sub advisor to a separately managed accounts that have been established in connection with the formation of Fund III (the “SMA”). Arrowhead may in the future advise other pooled investment vehicles and separately managed accounts in addition to those listed herein.

Arrowhead may also, from time to time, establish, on a transaction-by-transaction basis, certain investment vehicles, through which certain persons may invest alongside one or more Main Funds in a particular investment opportunity (each such vehicle, a “Co-Investment Vehicle”). As a general matter, each such Co-Investment Vehicle is contractually required, as a condition of its investment, to exit its investment in the particular investment opportunity at substantially the same time and on substantially the same terms as the applicable Main Fund(s) that are also invested in that investment opportunity.

Additionally, Arrowhead may also organize and serve as General Partner (or in an analogous capacity) to (i) alternative investment vehicles (each, an “Alternative Investment Vehicle”) organized to address, for example, specific tax, legal, business, accounting or regulatory-related matters that may arise in connection with a transaction or transactions, and/or (ii) parallel investment vehicles, which may include any managed accounts and other separate accounts managed by Arrowhead that invest side-by-side with one or more of the Main Funds and that contain terms and conditions substantially similar to those of the Main Funds, including the SMA (each, a “Parallel Fund”).

The Main Funds, Co-Investment Vehicles, Parallel Funds and Alternative Investment Vehicles are collectively referred to as the “Funds.” Although Co-Investment Vehicles are collectively referred to in this brochure as Funds, some or all Co-Investment Vehicles may not be clients of Arrowhead.

The Funds make primarily long-term mezzanine debt and equity-related investments. Arrowhead’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Funds, managing and monitoring the performance of such investments and disposing of such investments.

Arrowhead may serve as the investment adviser or General Partner to the Funds in order to provide such services.

Arrowhead provides investment supervisory services to each Fund in accordance with the limited partnership agreement (or analogous organizational document) of such Fund.

Investment advice is provided directly to the Funds (other than certain Co-Investment Vehicles), subject to the discretion and control of the applicable General Partner, and not individually to the investors in the Funds. Services are provided to the Funds in accordance with the Advisory Agreements with the Funds and/or organizational documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the organizational or offering documents of the applicable Fund and/or side letter agreements negotiated with investors in the applicable Fund.

The principal owners of Arrowhead are Mary Gay, Elliot Jones, Craig Pisani and Gerald Parsky. As of December 31, 2019, Arrowhead manages approximately a total of \$330 Million.

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

As compensation for investment supervisory services rendered to the Main Funds, Arrowhead receives from each such Fund and separately managed account an advisory fee (each, an “Advisory Fee”). Advisory Fees paid by a Main Fund are indirectly borne by investors in such Main Fund.

In addition, Arrowhead and its affiliates may perform management, advisory, and other services (“Related Services”) for, and receive fees from, actual or prospective portfolio companies or other investment vehicles of the Funds. These fees may be substantial. Although these fees are in addition to the Advisory Fees, Arrowhead will in some circumstances reduce the amount of Advisory Fees paid by the applicable Fund in connection with the receipt of such fees to the extent attributable to a Fund’s investment in a portfolio company. The amount and manner of such reduction is set forth in the Advisory Agreement and/or organizational documents of the applicable Fund. As some Funds do not pay Advisory Fees, any such reduction will not benefit such Funds. Additionally, a portfolio company may reimburse Arrowhead for expenses (including without limitation travel expenses, which may include expenses for chartered or first class travel) incurred by Arrowhead in connection with its performance of services for such portfolio company, and such reimbursements are not subject to the sharing arrangements described above.

Fund II pays an annual management fee (the “Fund II Management Fee”) payable quarterly in advance equal to 1.25% per annum, less the General Partner’s participation. The percentage charged is based on the total amount of invested capital in the Fund.

Fund III pays an annual management fee (the “Fund III Management Fee”) payable quarterly in advance equal to the aggregate of (a) 1.00% per annum based on the total amount of committed capital in the Fund; and 0.50% per annum based on the total amount of invested capital in the Fund. After the Fund stops making new investments, or the tenth anniversary of the final closing, the Management Fee will be reduced to 1.25% of invested capital.

Arrowhead and its affiliates may also engage and retain senior advisors, advisers, consultants, and other similar professionals who are not employees or affiliates of Arrowhead and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies and/or other entities. In such circumstances, such amounts will not be deemed paid to or received by Arrowhead and its affiliates and such amounts will not be subject to the sharing arrangements described above. Arrowhead has established a network of outside advisors with significant operational expertise to support Fund III and portfolio company management teams. These outside advisors consist of the Advisory Board and the Executive Network. Arrowhead coordinates the delivery of services by this network and typically negotiates all forms of compensation payable to these resources on behalf of Fund III and the portfolio companies, including any equity compensation paid to such persons (which compensation can be significant in amount).

The precise amount of, and the manner and calculation of, the Management Fees for each Fund are established by Arrowhead, as modified by negotiations with investors in the applicable Fund, and are set forth in such Fund’s agreement with Arrowhead, organizational documents, and/or other documentation received by each investor prior to investment in such Fund. The Management Fees and other fees and distributions described above are generally subject to waiver or reduction by Arrowhead in its sole discretion, both voluntarily and on a negotiated basis with selected investors. The fee structures described above may be modified from time to time. Fees may differ from one Fund to another, as well as among investors in the same Fund.

Management Fees billed to and received from the Funds are payable quarterly in advance.

Upon termination of an investment management agreement, Advisory Fees that have been prepaid are generally returned on a prorated basis.

To the extent provided in the advisory agreements and the partnership agreements and other organizational documents of the Funds, Arrowhead will pay certain operating expenses, including expenses on account of rent, utilities, office supplies, office equipment, travel, entertainment, compensation of its Partners and employees (other than Carried Interest described in Item 6 below) and other routine administrative expenses relating to the services and facilities provided by Arrowhead to the Funds. Consistent with the partnership agreements or other organizational documents of the Funds, each Fund will bear all other expenses relating to it to the extent not borne by its portfolio companies, including legal, accounting, audit, investment banking, consulting, research, brokerage, finders’ fees, custody, transfer, registration, advisory

board, directors' and officers' insurance, interest, taxes, and extraordinary expenses, such Fund's allocable share of expenses and fees generated in the course of evaluating potential investments, including investments which are not consummated, such Fund's allocable share of expenses and fees incurred in the course of making investments, and other similar fees and expenses, as well as any other fees or expenses incurred by Arrowhead or such Fund in connection with such Fund's operations that are not specifically set forth above as being paid by Arrowhead. For the avoidance of doubt, unless Arrowhead determines otherwise, the Funds will be responsible for all broken-deal expenses related to an unconsummated transaction, notwithstanding the potential participation of one or more co-investors in such transaction (other than with respect to a dedicated vehicle formed for the purpose of co-investment in Fund III, if any).

Additionally, please see Item 6 below regarding "Carried Interest" that Funds may pay.

Although Arrowhead does not generally utilize the services of broker-dealers to effect portfolio transactions for the Funds, in the event that it chooses to use a broker-dealer for limited purposes relating to a particular Fund, such Fund will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.

Finally, Arrowhead and its affiliates may also engage and retain senior advisors, consultants, operating partners and other similar professionals who are not employees or affiliates of Arrowhead and who will, from time to time, receive payments from, or allocations with respect to, portfolio companies. The nature of the relationship with each of the senior advisors, consultants, operating partners and/or other professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide the Funds and/or Arrowhead with industry-specific insights and feedback on investment themes, assist in transaction due diligence, make introductions to and provide reference checks on management teams. In other cases, they may take on more extensive roles and serve as executives or directors on the boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances, Arrowhead may have formal arrangements with these senior advisors, consultants, operating partners and/or other professionals (which may or may not be terminable upon notice by any party), and in other cases the relationships may be more informal. They may be compensated (including pursuant to retainers and expense reimbursement) from an Arrowhead Fund and/or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. In such circumstances, such payments from, or allocations with respect to, portfolio companies and/or the Funds will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable to Arrowhead, be deemed paid to or received by Arrowhead. These senior advisors, consultants, operating partners and/or other professionals may have the right or may be offered the ability to co-invest alongside the Funds, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company. There can be no assurance that any of the senior advisors, consultants, operating partners and/or other professionals will continue to serve in such roles and/or continue their arrangements with Arrowhead and/or any portfolio companies throughout the terms of the Funds.

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

With respect to each Fund other than the Co-Investment Vehicles, a portion of the profits of each such Fund is distributed to its General Partner, if any (and in any case only after net proceeds are distributed first to the investors as a return on all capital contributions of such investors and second as a preferred return on the capital contributions of such investors), as “carried interest” (the “Carried Interest”). Each General Partner of a Fund is a related person of Arrowhead. Carried Interest paid by a Main Fund is indirectly borne by investors in such Main Fund. The existence of Carried Interest may create an incentive for Arrowhead to invest the Funds’ assets in riskier or more speculative investments than might otherwise be the case.

The payment by some, but not all, Funds of Carried Interest may create an incentive for Arrowhead to disproportionately allocate time, services or functions to Funds paying Carried Interest, or allocate investment opportunities to such Funds. Generally, and except as may be otherwise set forth in the organizational documents of the Funds, this conflict is mitigated by provisions restricting Arrowhead and its principals, unless consented to by investors representing at least two-thirds of the aggregate commitments to the applicable Main Funds, from establishing a new investment fund with objectives substantially similar to those of the applicable Main Fund until the earlier of (i) the end of the Main Fund’s investment period or (ii) such time as the applicable Main Fund is at least 75% invested or committed (including amounts reserved for reasonably anticipated expenses of the applicable Main Fund). With respect to Funds that do not pay Carried Interest, such as the Co-Investment Vehicles, this conflict is largely mitigated since Co-Investment Vehicles invest alongside one or more Main Funds in accordance with rules contained in the offering and organizational documents of the relevant Funds. Any Alternative Investment Vehicle will generally contain terms and conditions substantially similar to those of the applicable Main Fund with respect to which it is formed and profits and losses of an Alternative Investment Vehicle generally will be aggregated with those of such applicable Main Fund for purposes of determining distributions by the applicable Main Fund and the Alternative Investment Vehicle (except as may be advisable because of legal, regulatory or tax constraints). Please also see Item 12 below regarding trade aggregation, as well as Item 11 below for additional information relating to how conflicts of interests are generally addressed by Arrowhead.

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

Arrowhead currently provides investment supervisory services to the Funds (other than certain Co-Investment Vehicles) and to the SMA. Investment advice is provided directly to the Funds (subject to the direction and control of the General Partner of each such Fund, if applicable) and to the SMA and not individually to investors in such Fund.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Funds are generally “qualified purchasers” as defined in the 1940 Act, and may include, among others, high net worth individuals, banks, insurance companies, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships and limited liability companies or other entities.



Arrowhead does not have a minimum size for a Fund, but minimum investment commitments may be established for investors in the Funds. The General Partner of each Fund may in its sole discretion permit investments below the minimum amounts set forth in the offering documents of such Fund.

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

*For a more complete discussion of Arrowhead's investment process, please refer to the offering documents for the Funds.*

***It is important for investors to know and remember that all investments carry risks. Investing in securities involves risk of loss that clients should be prepared to bear.***

Arrowhead manages private funds. The investment objectives of these funds are similar, in that all attempt to provide investors with capital appreciation and income by investing in private companies through a combination of senior debt, subordinated debt, preferred stock, and non-control common equity securities. The borrower is typically an existing business that is in need of capital to pursue a goal or business objective.

#### **Identification and Sourcing**

The principals of Arrowhead work through their networks and direct calling efforts to develop strong relationships with numerous market participants, such as management teams, senior lenders, other mezzanine providers, and investment banks. In addition, Arrowhead may also be sought out by borrowers or other lenders to participate in an investment.

Each of the principals of the firm is actively involved in identifying potential investment opportunities. Initial screening is carried out by one of more of the principals. If the transaction is potentially attractive, the principals will decide as a group whether to pursue the opportunity.

#### **Analysis and Due Diligence**

The due diligence process is designed to identify and substantiate the particular attributes of each potential investment. Each investment undergoes a credit review process, including analysis of business and operational dynamics as well as both historical and projected financial information. Areas of additional focus may include management or sponsor experience and capability, industry and competitive dynamics and tangible and intangible asset values. The principals may also seek to verify any understandings established during due diligence by personally contacting customers, suppliers and competitors. On-site due diligence may also be performed to provide support for the investment thesis.

#### **Structuring**

The principals evaluate whether a proposed capital structure is appropriate for the issuer's business and to customize the transaction to suit both the Fund's objectives and those of the issuing company. The principals determine whether the investment structure, particularly the amount of leverage, is appropriate for the issuer's business. Senior debt terms are analyzed to

ensure that they do not unreasonable disadvantage the mezzanine holders and that covenants are set appropriately.

### **Investment Approval**

Final approval of an investment transaction rests with the Investment Committee. The Investment Committee may hold a meeting or approve investments in writing. The proposed transaction is submitted to the Investment Committee and, in the case where a meeting is held, subjected to discussion. Typically, a formal memorandum which includes the results of due diligence, is prepared. Approval of an investment requires a majority vote of the Investment Committee members. Approval of an investment may be subject to various conditions. In the event of a conditional approval, it is the responsibility of the principals to ensure that the approval conditions are met.

### **Investment Monitoring and Exit**

Arrowhead believes in an active management approach to ensure that each portfolio company continues to perform as anticipated by the initial investment thesis. The principals evaluate monthly or quarterly financial reporting packages that cover operational and financial performance. The principals conduct a regular valuation analysis and continually monitor future liquidity and covenant compliance.

Exit alternatives are considered during due diligence and continually reviewed and revised throughout the life of the investment. At all times, the goal is to ensure that the Funds realize any opportunity to enhance returns. Should the portfolio company's performance change, the investment may be re-evaluated.

### **RISK FACTORS**

*The risk factors stated below are considered to be some of the more significant risk factors associated with investing in one of the Funds. For a complete discussion of risk factors, please see the Funds' private placement memorandums.*

All investments risk the loss of capital. No guarantee or representation can be made that any of the Funds will achieve its investment objective or that a client will receive a return of its capital. In addition, there will be occasions when Arrowhead and its affiliates may encounter potential conflicts of interest in connection with the Fund. The following discussion is not a complete list of all potential risks. In evaluating whether to make an investment in the Fund, potential investors should consider all information contained in the private placement memorandum.

### **Nature of Investment**

Investment in a Fund requires a long-term commitment, with no certainty of return. In the near-term, cash flow available from a Fund is likely to be limited. Most of a Fund's investments will be highly illiquid, and there can be no assurance that a Fund will be able to realize on such

investments in a timely manner. Dispositions of such investments may require a lengthy time period or may result in distributions in kind to a Fund's Partners. Generally, a Fund will not be able to sell these securities publicly except pursuant to a registration statement filed under the Securities Act or in accordance with Rule 144 of the Securities Act or another exemption under such Act. The securities in which a Fund will invest will generally be junior in what will typically be a complex capital structure, and thus subject to the risk of loss. Leveraged companies by their nature undertake a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Since a Fund may only make a limited number of investments, poor performances by a few of the investments could severely affect the total returns to a Fund.

### **Failure to Achieve Investment Objective**

There can be no assurance that a Fund will be able to achieve its targeted returns or its investment objectives. Any given investment made by a Fund may prove to be worthless. Investors in a Fund should be prepared and able to absorb a loss of some or all of the capital invested in a Fund.

### **Difficulty of Locating Suitable Investments**

A Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives.

### **Long-Term Investments**

It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before realization of gains on successful investments. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of a Fund investment. While a Fund investment may be sold at any time, it is not generally expected that this will occur for a period of years after the initial investment. Prior to such time, there is unlikely to be a current return on the investments.

### **Competition**

The private equity investment industry in which a Fund will be engaged is highly competitive. There can be no certainty that the principals will identify a sufficient number of attractive investment opportunities to enable the full amount of capital committed to a Fund to be invested. Other investors may make competing offers for investment opportunities that are identified, and even after an agreement in principle has been reached with the board of directors or owners of an acquisition target, consummating the transaction is subject to a myriad of uncertainties, only some of which are foreseeable or within the control of the principals.

### **General Political, Market, and Economic Conditions**

Present economic and market instability has negatively affected a wide range of financial institutions and markets, asset classes and sectors. The ability to successfully make and realize

investments depends not only on the portfolio companies and their historical results and prospects, but also on current political, market and economic conditions. The trading market for the securities of any portfolio company may not be sufficiently liquid to enable a Fund to sell these securities when they believe it is most advantageous to do so, or without adversely affecting the prevailing price where a trading market has developed for the interest. Continued volatility in market or economic conditions, as well as the occurrence of significant political events, such as an outbreak or escalation of major hostilities, declarations of war, terrorist actions or other substantial national or international crises or emergencies, could have a material adverse effect upon a Fund and the portfolio companies. In addition, tight credit markets may hinder the ability of portfolio companies to refinance debt securities or sell new securities in the public and private debt markets or otherwise. Prospective investors should consider the long-term nature of an investment in a Fund and the potential exposure to such market risks over the term of a Fund before investing in a Fund.

### **Market Volatility**

The value of any securities in which a Fund may directly or indirectly invest varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for its products or services or even loss of a key executive, could result in a decrease in the value of the issuer's securities. Factors specific to the industry in which the issuer participates, such as increased competition or costs of production or consumer or investor perception can have a similar effect. The value of an issuer's securities can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or a decrease in consumer confidence, that are unrelated to the issuer itself or its industry. Current economic conditions in some cases have produced downward pressure on security prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. In addition, certain options and other equity-related instruments may be subject to additional risks, including liquidity risk, counterparty credit risk, legal risk and operations risk, may involve significant economic leverage and, in some cases, may be subject to significant risks of loss. These factors and others can cause significant fluctuations in the prices of the securities in which the Fund may directly or indirectly invest and can result in adverse effect to a Fund's returns.

### **Cyber Security Breaches and Identity Theft**

Arrowhead's and portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Arrowhead has implemented, and portfolio companies may implement, various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Arrowhead, the Funds and/or a portfolio company may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Arrowhead's, the Funds' and/or a portfolio company's operations and result in a failure to maintain the security,

confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Arrowhead's, the Funds' and/or a portfolio company's reputation, subject any such entity and their respective affiliates to legal claims, and otherwise affect their business and financial performance.

### **Risks Associated with Infectious Illness Outbreak**

The Asia Pacific region has experienced a number of outbreaks of infectious illnesses in recent decades, including swine flu, avian influenza, SARS and the 2019-nCoV ("Coronavirus"). In December 2019, an initial outbreak of the Coronavirus was reported in Hubei, China. Since then, a large number of cases have subsequently been confirmed, including in every province of China and in other areas of the world, including Europe and the United States. The Coronavirus outbreak has resulted in numerous deaths and the imposition of local, municipal and national governmental "work from home" and other quarantine measures, border closures and other travel restrictions, and has caused significant social unrest and commercial disruption in a number of jurisdictions. The World Health Organization has declared the Coronavirus outbreak a Public Health Emergency of International Concern, as well as a pandemic.

At this point, it is difficult to predict the continuing spread of the Coronavirus and its likelihood of having a material adverse impact on portfolio investments, local economies in the affected jurisdictions and also on the global economy. Quarantine measures and travel restrictions have led to disruptions in global travel and production, which may or may not have an effect on portfolio investments. In addition, the Fund's operations could be disrupted if any member of the General Partner, the Manager or any other key personnel of the General Partner or Manager contracts the Coronavirus or any other infectious disease. Any of the foregoing events could materially and adversely affect the General Partner and the Manager's ability to source, manage and divest its investments and its ability to fulfill its investment objectives. Similar consequences may arise with respect to other comparable infectious diseases.

### **Potential Conflicts of Interest**

Arrowhead and its affiliates may invest in, advise, sponsor and/or act as investment manager to investment vehicles and other entities that may have investment objectives similar to those of Fund III and that may compete with Fund III for investment opportunities. Specifically, Gerald Parsky is Chairman of Aurora Capital Group and therefore may dedicate a significant portion of his time to such activities. Mr. Parsky may also pursue other opportunities outside Arrowhead and Aurora Capital Group. Although Arrowhead believes that Fund III and Mr. Parsky's activities with Aurora Capital Group and otherwise outside of Arrowhead have different investment focuses, Arrowhead will develop policies to address and mitigate potential conflicts of interest that may arise as a result of Mr. Parsky's activities outside of Arrowhead as a result of Fund III having similar investment focuses in the future. Such conflicts could be presented in connection with, but are not limited to, cross-transactions between Arrowhead and Mr. Parsky's activities outside of Arrowhead (including Aurora Capital Group), investing in the same portfolio company and at different levels of such company's capital structure and the possession of confidential information regarding investments of Fund III and the funds of Mr. Parsky's activities outside of Arrowhead (including Aurora Capital Group). While the policies Arrowhead adopts will seek to mitigate such conflicts, there can be no assurance that such conflicts will be

resolved in a manner that is most favorable to Fund III.

In addition, members of the Advisory Board and the Executive Network Arrowhead and may spend a significant portion of their time and attention pursuing investment opportunities for other investment funds and products, including for Aurora Capital Group. In addition, such persons also may serve as members of the boards of directors of various entities other than portfolio companies of Fund III, and as such they may owe duties to entities unaffiliated with Fund III. These activities could be viewed as creating a conflict of interest in that their time and effort will not be devoted exclusively to the business of Fund III but will be allocated between the business of Fund III and the management of other entities.

#### **Item 9. Disciplinary Information**

Item 9 is not applicable to Arrowhead.

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

##### **Related General Partners**

A limited liability company (the “General Partner”) serves as General Partner of the Funds, and the managing member of the General Partner is an entity owned by the principals. The principals also own and control Arrowhead. For a description of material conflicts of interest created by the relationship among Arrowhead and the General Partners, as well as a description of how such conflicts are addressed, please see Item 11 below.

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

##### **Code of Ethics**

Arrowhead has adopted a written Code of Ethics that is applicable to all of its members, officers, and employees, as well as officers and employees of its affiliates and certain independent contractors (collectively, “Arrowhead Personnel”). The Code of Ethics helps Arrowhead detect and prevent potential conflicts of interest. The Code of Ethics, which is designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 (as amended, the “Advisers Act”), establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. While highly unlikely due to the nature of Fund investments, Arrowhead Personnel and their households may purchase investments for their own accounts, including the same investments as may be purchased or sold for a Fund, subject to the terms of the Code of Ethics. Under the Code of Ethics, Arrowhead Personnel are also required to file certain periodic reports with Arrowhead’s Chief Compliance Officer as required by Rule 204A-1 under the Advisers Act.

A copy of the Code of Ethics is available to any client or prospective client upon written request to: Attn: Ashleigh Swayze, Arrowhead Investment Management LLC, 33 Benedict Place, 1<sup>st</sup> Floor, Greenwich, CT 06830.

## **Participation or Interest in Client Transactions**

Arrowhead and certain employees and affiliates of Arrowhead may invest in and alongside the Funds, either through the General Partners or otherwise. A Fund or its General Partner, as applicable, may reduce all or a portion of the Advisory Fee and Carried Interest related to investments held by such persons.

Due in part to the fact that potential investors in a Fund (including potential investors in a Co-Investment Vehicle or purchaser of a limited partner's interests in a secondary transaction) may ask different questions and request different information, Arrowhead may provide certain information to one or more prospective investors that it does not provide to all of the prospective investors or limited partners.

## **Other Fees**

Arrowhead may receive (i) acquisition fees for investments, (ii) fees for asset management services; and (iii) fees for advisory and/or transaction services provided to companies in which the Funds have an interest. Additionally, Arrowhead may receive fees relating to the Fund's investments or from unconsummated transactions (i.e., break-up and topping fees, director fees and organization, financing, divestment, and other similar fees). Funds and their limited partners will not receive the benefit of any fees relating to the Funds' Investments or paid by portfolio companies except to the extent they are offset by reduced management fees. For greater certainty, Arrowhead engages and retains strategic advisors, consultants and other similar professionals who are not employees or affiliates of Arrowhead and who will, from time to time, receive payments from, or allocations with respect to, portfolio companies.

## **Side Letter Agreements**

Arrowhead has entered into side letter agreements with certain investors that provide such investors with additional or differential rights, including but not limited to excuse rights applicable to particular investments (which may increase the percentage interest of other investors in, and contribution obligations of other investors with respect to such investments), information rights, waiver of certain confidentiality obligations and withdrawal or transfer rights.

## **Portfolio Company Relationships**

The Funds' portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other investment funds managed by Arrowhead or other Arrowhead affiliates that, although Arrowhead determines to be consistent with the requirements of such Funds' governing agreements, might not have otherwise been entered into but for the affiliation with Arrowhead, and which may involve fees and/or servicing payments to Arrowhead-affiliated entities which are not subject to the management fee offset provisions. For example, Arrowhead may cause portfolio companies to enter into agreements regarding group procurement benefits management, and other similar operational

initiatives that may result in commissions or similar payments, including related to a portion of the savings achieved by the portfolio company.

### **Common Service Providers**

Arrowhead and Arrowhead affiliates may engage other common service providers. In such circumstances, there will be a conflict of interest between Arrowhead and Arrowhead affiliates in determining whether to engage such service providers, including the possibility that Arrowhead will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Arrowhead affiliates.

### **Co-Investments**

Arrowhead may offer investors and other third parties the opportunity to co-invest in particular investments alongside the Funds. Co-investment opportunities offered to investors will be allocated as determined by the Arrowhead General Partners in their discretion, and there is no guarantee for any investor that it will be offered co-investment opportunities. As a general matter, the Arrowhead General Partners, in determining the allocation of co-investment opportunities, generally expect to take into account various facts and circumstances deemed relevant by the Arrowhead General Partners, including among others, whether a potential co-investor has expressed interest in evaluating co-investment opportunities, whether a potential co-investor has a history of participating in co-investment opportunities with Arrowhead, the size of the potential co-investor's interest to be held in the underlying portfolio company as a result of the applicable Fund's investment (which is likely to be based on the size of the potential investor's capital commitment and/or investment in the applicable Fund), whether the potential co-investor has demonstrated a long-term or continuing commitment to the potential success of Arrowhead, the applicable Fund, or other co-investment and/or other Funds, and such other factors that Arrowhead deems relevant under the circumstances. The terms and conditions of any co-investment opportunities will generally be negotiated by the Arrowhead General Partners and the potential co-investor on a case-by-case basis. The allocation of co-investment opportunities may involve a benefit to Arrowhead, including, without limitation, fees or carried interest from the co-investment opportunity, and capital commitments to the Funds, and such co-investment fees could create an incentive for the Arrowhead General Partners to pursue an investment and structure the terms of the Funds' investment differently than it otherwise would in the absence of such co-investment fees. Co-investment fees realized by Arrowhead and the costs that the co-investor bears, including the extent to which a co-investor would share in any broken deal costs, are negotiated by Arrowhead on a case-by-case basis. This may result in the Funds bearing all such broken-deal costs.

### **Subscription Facility and Capital Calls**

A General Partner may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, the undrawn capital commitments of investors) prior to calling commitments. The interest expense and other



costs of any such borrowings will be expenses of the applicable Fund and, accordingly, decrease net returns of such Fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made. In light of the foregoing, the General Partners have an incentive to cause Funds to borrow in this manner in lieu of drawing down commitments. As a general matter, use of leverage in lieu of drawing down commitment amplifies returns (either negative or positive) to limited partners.

For additional information regarding the foregoing or the risks and conflicts with respect to any Arrowhead fund or investment vehicle sponsored by Arrowhead, please see the Confidential Private Placement Memorandum, if applicable, or subscription documents of the applicable Arrowhead fund or investment vehicle

## **Item 12. Brokerage Practices**

Arrowhead's advisory business generally involves privately negotiated transactions in which best execution obligations do not arise in the same context as transactions in publicly-traded securities. With respect to such private transactions, Arrowhead believes it fulfills its best execution responsibilities through careful evaluation and negotiation of the terms of each such transaction.

However, Arrowhead may from time to time purchase or sell publicly-traded securities. In such circumstances, Arrowhead considers various factors in determining which broker is most likely to deliver best execution including, but are not limited to, Arrowhead's knowledge of negotiated commission rates and spreads currently available; the nature of the security or instrument being traded; the size and type of the transaction; the nature and character of the markets for the security or instrument to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security or instrument; confidentiality; the execution, clearance, and settlement capabilities as well as the reputation and perceived soundness of the broker selected and other brokers considered; Arrowhead's knowledge of actual or apparent operational problems of any broker; the broker or dealer's execution services rendered on a continuing basis and in other transactions; and the reasonableness of spreads or commissions.

Arrowhead does not maintain relationships with broker-dealers that feature soft-dollar benefits or referral arrangements.

Currently, Funds may co-invest together, with third parties through Co-Investment Vehicles. Such investments may involve risks not present in investments where a Co-Investment Vehicle is not involved, including the possibility that a Co-Investment Vehicle may at any time have economic or business interests or goals which are inconsistent with those of a Fund, or may be in a position to take action contrary to a Fund's investment objectives. In addition, there may be a limited amount of interests available for investing. Thus a Fund may receive a limited offering due to the Co-Investment Vehicles investing with such Fund. Also Co-Investors are likely to receive terms that are more advantageous than those received by a Fund.

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

#### **Oversight and Monitoring**

The investment portfolios of the Funds are generally private, illiquid and long-term in nature, and accordingly Arrowhead's review of them is not directed toward a short-term decision to dispose of securities. However, Arrowhead closely monitors the portfolio companies of the Funds and generally maintains an ongoing oversight position in such portfolio companies. The portfolios are reviewed by a team of investment professionals on an on-going basis with oversight from the Managing Partners.

#### **Reporting**

Investors in the Funds typically receive, among other things, a copy of audited financial statements of the relevant Fund within 120 days after the fiscal year end of such Fund, as well as quarterly reports within 45 days after each fiscal quarter end. Arrowhead and the applicable General Partner, if any, may from time to time, in their sole discretion, provide additional information relating to such Fund to one or more investors in such Fund as they deem appropriate.

Investors in a Co-Investment Vehicle will receive the reports and other information described in the organizational documents governing such Co-Investment Vehicle, which may include, for example, financial information regarding the specific portfolio company in which the Co-Investment Vehicle is invested.

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

For details regarding economic benefits provided to Arrowhead by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 11 above.

While not a client solicitation arrangement, Arrowhead may from time to time engage one or more persons to act as a placement agent for a Fund in connection with the offer and sale of interests to certain potential investors. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such Fund that are subsequently accepted. Such Fund may, subject to any limitations set forth in its partnership agreement or other organizational documents, reimburse such fees. Advisory Fees received by Arrowhead are generally reduced by the amount of such fees.

### **Item 15. Custody**

The General Partners of the Funds are related persons to Arrowhead. As the General Partners have access to the assets of the Funds, and indeed provide certain managerial services to the Funds, the General Partners, and through them, Arrowhead, have custody of client funds. The Funds are audited at least annually by a PCAOB registered accounting firm.

**Item 16. Investment Discretion**

Investment advice is provided directly to the Funds and not individually to the investors in the Funds. Services are provided to the Funds in accordance with the Advisory Agreements with the Funds and/or organizational documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the organizational or offering documents of the applicable Fund.

Co-Investment Vehicles, Alternative Investment Vehicles and Parallel Funds (which may include separately managed accounts) are generally established in order to invest alongside or in the place of one or more Main Funds in a particular investment opportunity or opportunities, and Arrowhead typically has limited discretion to invest the assets of the Co-Investment Vehicles, Alternative Investment Vehicles or Parallel Funds independent of the limitations as set forth in the organizational documents of the Co-Investment Vehicle, Alternative Investment Vehicle or Parallel Fund and the applicable Main Fund.

**Item 17. Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Arrowhead has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Arrowhead receives will be treated in accordance with these policies and procedures. A copy of Arrowhead's written proxy voting policies and procedures, as well as a record of how Arrowhead has voted in the past, will be maintained and available for review upon written request.

The Funds are primarily invested in privately-held portfolio company investments which typically do not issue proxies; therefore, the traditional concept of voting of proxies and participation in class actions is not currently applicable to Arrowhead. The investment opportunities that Arrowhead seeks allows the Funds to have influence on the management, operations and strategic direction of the portfolio companies in which it invests; through its majority interest and/or through its employees who sit as officers and directors on portfolio company boards. The exercise of control and/or significant influence over a portfolio company imposes additional risks of liability for product defects, environmental damage, failure to supervise management and other types of liability in which the limited liability generally characteristic of business operations may be ignored. The exercise of control and/or significant influence over a portfolio company could also expose the assets of the Funds to claims by such portfolio company, its security holders and its creditors. While Arrowhead intends to manage the Funds in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

Arrowhead will seek to avoid material conflicts of interest between its own interests on the one hand, and the interests of its Funds on the other. However, as is typical with private equity investing, Arrowhead may accept the election of one or more of Arrowhead's representatives to serve on the board of directors on behalf of its Funds and will typically, but not always, vote in favor of board recommendations. In situations where Arrowhead is required to vote the proxy for a company in which employees of Arrowhead serve on the board of directors, Arrowhead has determined that this does not inherently present a conflict of interest, as the sole purpose of this

representation is to maximize the return on the Funds' investment in such portfolio company. Accordingly, while Arrowhead is generally, but not automatically, fully supportive of recommendations made by a portfolio company's board of directors with respect to proxy votes related to that issuer, it will review all proxies in accordance with its proxy voting guidelines and may or may not vote in favor of the board's recommendation.

All conflicts of interest will be resolved in the interests of the Funds. In situations where Arrowhead perceives a material conflict of interest, Arrowhead may defer to the voting recommendation of a Fund's Advisory Board, where applicable, or take such other action in good faith which would protect the interests of such Fund. In addition, although Arrowhead currently believes that Fund III and Mr. Parsky's activities with Aurora Capital Group and otherwise outside of Arrowhead have different investment focuses, Arrowhead will develop policies to address and mitigate potential conflicts of interest that may arise as a result of Mr. Parsky's activities outside of Arrowhead as a result of Fund III having similar investment focuses in the future. While the policies Arrowhead adopts will seek to mitigate such conflicts, there can be no assurance that such conflicts will be resolved in a manner that is most favorable to Fund III.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Fund and copies of proxy voting policies are available to any client or prospective client upon written request to: Attn: Ashleigh Swayze, Arrowhead Investment Management LLC, 33 Benedict Place; 1<sup>st</sup> Floor, Greenwich, CT 06830.

**Item 18. Financial Information**

Item 18 is not applicable to Arrowhead.