

**CLEARSTREAM CAPITAL LLC  
PART 2A OF FORM ADV  
THE BROCHURE**

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This brochure provides information about the qualifications and business practices of Clearstream Capital LLC (“Clearstream” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 212-266-2150. 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 Clearstream is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

## **Item 2.     Material Changes**

Clearstream is filing under the 120-day provision for registration and has not yet begun to conduct its advisory business. This brochure describes the advisory business of Clearstream as it is anticipated to operate upon the effectiveness of its registration. A full update of Form ADV will be filed by Clearstream within 120 days of the effectiveness of its registration.

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## Item 4. Advisory Business

Clearstream is organized as a Delaware limited liability company and expects to commence advisory operations after the effective date of SEC registration. Clearstream is located in New York, New York and is owned indirectly by Andrew Ward through Clearstream Management LLC. Clearstream will provide discretionary investment management to one or more investment vehicles (each a “Fund”, together, the “Funds”), including Clearstream Capital Partners LP and Clearstream Capital Partners I-A LP, based on their respective investment objectives. Clearstream is an investment advisor dedicated to making private equity investments across the energy industry, with a primary focus on the midstream sector. Clearstream will seek to provide flexible capital solutions to the energy industry, targeting investments in high-quality assets alongside experienced management teams to generate capital appreciation and attractive risk-adjusted returns. Clearstream’s objective is to become the trusted strategic partner in energy investing through a differentiated approach to execution and by prioritizing transparency, collaboration and communication with its investors, partners, and advisors throughout the life cycle of an investment. Based on its specialized approach, Clearstream intends to cultivate long-term industry relationships and achieve an enhanced level of alignment with its investors and other constituents.

One or more affiliates of Clearstream (each a “General Partner”, together, the “General Partners”), including Clearstream Capital Partners GP LP, will serve as general partner entities to the Funds. Each General Partner is subject to the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder (together, the “IAA”) pursuant to Clearstream’s registration in accordance with SEC guidance. This brochure also describes the business practices of the General Partners, which operate as a single advisory business together with Clearstream.

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

As of the date of this brochure, Clearstream does not have any assets under management.

Additionally, from time to time and as permitted by the relevant Partnership Agreement, Clearstream expects to provide (or agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Clearstream’s personnel and/or certain other persons associated with Clearstream and/or its affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as

a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor or co-invest vehicle generally occurs shortly after such Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in Clearstream's sole discretion, Clearstream may charge interest on the purchase to the co-investor or co-invest vehicle, and/or seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

Clearstream does not participate in any wrap fee programs.

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

In general, Clearstream receives a management fee and a carried interest in connection with advisory services. Clearstream or its affiliates may receive additional compensation in connection with management and other services performed for portfolio companies of the Funds and any such additional compensation will offset in whole or in part the management fees otherwise payable to Clearstream. In addition, in certain circumstances Clearstream from time to time, may receive compensation for management and other services performed in connection with co-investments made in portfolio companies of the Funds and such compensation will not offset the management fees otherwise payable by any Fund to Clearstream. Investors in a Fund also bear certain expenses.

### Management Fees

During its investment period, it is anticipated that each Fund will pay Clearstream an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 2% of aggregate capital commitments of such Fund's limited partners (the "Limited Partners") not designated as "affiliated partners" by such Fund's General Partner. Commencing with the first Management Fee due date after the expiration of the investment period or earlier upon the occurrence of certain events as set forth in the applicable Partnership Agreement, the Management Fee will equal 2% of: (i) the aggregate investment contributions of the Limited Partners, less (ii) the aggregate amount of such investment contributions with respect to the portion of each investment that has been disposed of or permanently written-down; provided that investments (other than certain bridge financings) in a portfolio company will be treated as having been disposed of or permanently written down, in each case with respect to a Fund's partners not designated as "affiliated partners" only to the extent that, as of the date of any such disposition or write-down, the aggregate fair market value of all remaining Fund investments (excluding bridge financing) in such portfolio company is less than such Fund's aggregate investment contributions made with respect to such portfolio company. Each General Partner may elect to waive a portion of the Management Fee in exchange for a reduction in such General Partner's cash capital contribution obligation and/or a corresponding interest in such Fund's profits.

The Management Fee will commence as of the initial closing date of the applicable Fund (the "Initial Closing"), regardless of when a Limited Partner is actually admitted to such Fund. Limited Partners admitted or increasing their capital commitments at a subsequent closing after the Initial Closing will be assessed the Management Fee retroactive to the Initial Closing date as if such Limited Partners were admitted for their full capital commitments on the Initial Closing date and, in addition, will be charged an amount equal to the product of (i) 8% per annum multiplied by (ii) the amount of such assessed Management Fee, calculated from the date such Management Fee payments would have been due if such Limited Partner were admitted for its full capital commitment on the Initial Closing date. Any such amounts will be payable to Clearstream. The Management Fee may be paid out of current income and disposition proceeds of the applicable Fund or, in the applicable General Partner's discretion, from

drawdowns that will reduce unfunded capital commitments.

Except as otherwise agreed, the General Partners and Limited Partners who are affiliates, employees or other designees of a General Partner will not be subject to carried interest or the Management Fee.

#### Performance-Based Allocations or Fees

With respect to each Fund, it is anticipated that an affiliate of Clearstream will receive a performance-based allocation or fee of 20% of the proceeds realized upon the disposition of the assets of such Fund; subject to the return of capital contributions to investors and subject to a preferred return to investors of 8%, catch-up distributions to the affiliate and/or other performance hurdles.

Compensation to Clearstream is negotiable and is set forth and described in each Fund's Memorandum and Partnership Agreement, organizational documents and/or investment management agreement. Certain investors in the Funds may negotiate for and pay reduced performance-based allocations or fees and/or reduced management fees.

#### Transaction Fees

The Management Fee will be reduced by an amount equal to 100% of any "Transaction Fees," which shall mean any: (i) directors' fees, financial consulting fees or advisory fees paid to the General Partners with respect to any Fund investment; (ii) transaction fees paid to the General Partners with respect to any Fund investment; and (iii) break-up fees with respect to Fund transactions not completed that are paid to the General Partners, in each case net of certain expenses (including those described below) as set forth in the applicable Partnership Agreement; but not including, in any event, any amount received by the General Partners, any Operating Partners (as defined below) or other person from a portfolio company (A) as reimbursement for expenses directly related to such portfolio company, (B) as payment for services provided to any portfolio company in the ordinary course of such portfolio company's business, (C) as compensation for services provided by the General Partners or other person as an employee of or in a similar capacity for such portfolio company or (D) as compensation, including fees, incentive equity or other stock awards, for services rendered by any Operating Partners to a portfolio company or prospective portfolio company.

Various costs and expenses will reduce Transaction Fees (and therefore such amounts will not reduce the Management Fee), including out-of-pocket costs and expenses (including travel expenses) incurred by the General Partners in connection with any consummated or unconsummated transaction or in connection with generating any such Transaction Fees.

To the extent that the foregoing amounts to be offset against the Management Fee payable to Clearstream in any fiscal quarter exceed the Management Fee payable for such fiscal quarter, the excess will be carried forward and offset against the Management Fee payable in the next fiscal quarter and each succeeding fiscal quarter until the applicable Fund is terminated. In the event that, after the termination of a Fund, there remain excess offsetable amounts that have not been so applied, such excess will be retained by the applicable General Partner, Clearstream or their applicable affiliate; *provided* that Clearstream will rebate to any Limited Partner who has elected to receive such payment in its subscription agreement such Limited Partner's share of an amount of the Management Fee equal to the lesser of (a) such Limited Partner's *pro rata* share of any such excess offsetable amounts and (b) the amount of Management Fee previously borne by such Limited Partner.

To the extent that any other fund or any other entity or individual co-invests alongside a Fund in any

portfolio company investment, any Transaction Fees will be allocated among such Fund and the co-investor (or co-investors, as applicable) in proportion to the cost of the investment or potential investment in the portfolio company held (or committed to be held) by each. Accordingly, such Fund will, in most cases, only benefit from the Management Fee reduction described above with respect to its allocable portion of any such Transaction Fee and not the portion of any fee allocable to any other investor in a portfolio company.

#### Organizational Expenses

Each Fund will reimburse its General Partner for such Fund's and its affiliated entities' organizational and startup expenses (as further set forth in the applicable Partnership Agreement) ("Organizational Expenses"), including legal, travel (as described below) and lodging, entertainment, accounting, filing, printing, capital raising, regulatory compliance (including the initial compliance contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), any administrative or other filings and other organizational expenses. Each Fund will also bear expenses of the type described in the preceding sentence to the extent incurred by a placement agent.

#### Additional Expenses and Fees

In addition to the Management Fee, a Fund will pay, or reimburse its General Partner for, all other fees, costs, expenses, liabilities and obligations relating to such Fund and/or its activities, business, portfolio companies or actual or potential investments to the extent not borne or reimbursed by a portfolio company or potential portfolio company (which reimbursements may be for travel (including, where appropriate as determined by its General Partner, the cost of private air travel at a cost above the cost of first class commercial airfare, provided that its General Partner determines in its sole discretion that substantially similar commercial air travel was unavailable or not practical)), including all fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating or otherwise disposing of, as applicable, such Fund's portfolio companies and its actual and potential investments, including follow-on investments and refinancings, or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; (ii) indebtedness of, or guarantees made by, such Fund, its General Partner or any "affiliated partner" on behalf of such Fund (including any credit facility, letter of credit or similar credit support), including interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iii) financing, commitment, origination and similar fees and expenses; (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (v) brokerage, sale, custodial, depository, trustee, record-keeping, account and similar services; (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with such Fund's third-party administrator and administration or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to any Operating Partners, consultants performing investment initiatives and other similar consultants), tax and other professional services; (vii) reverse breakup, termination and other similar fees; (viii) directors and officers liability, errors and omissions liability, crime coverage and general partnership liability premiums and other

insurance and regulatory expenses; (ix) filing, title, transfer, registration or other similar fees and expenses; (x) printing, communications, marketing and publicity; (xi) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedules K-1, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (xii) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription based services) for the benefit of such Fund or its Limited Partners; (xiii) any activities with respect to protecting the confidential or non-public nature of any information or data; (xiv) to the extent provided in the applicable Partnership Agreement, or otherwise approved by its General Partner in its sole discretion, activities or proceedings of the advisory committee established for each Fund (the “LP Advisory Committee”) (including any reasonable out-of-pocket costs and expenses incurred by representatives of its General Partner, its LP Advisory Committee members, permitted observers and other persons in attendance or otherwise participating in meetings of applicable LP Advisory Committee); (xv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any partner or other person pursuant to the applicable Partnership Agreement and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the applicable Partnership Agreement), except as otherwise set forth in the applicable Partnership Agreement; (xvi) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered into in connection therewith; (xvii) any annual Limited Partner meeting or other periodic, if any, meetings of the Limited Partners and any other conference or meeting with any Limited Partner(s); (xviii) except as otherwise determined by its General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be a Fund expense or organizational expense if it were incurred in connection with a Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to such Fund to the extent not paid by the investors investing in such entities; (xix) the termination, liquidation, winding up or dissolution of such Fund; (xx) defaults by partners in the payment of any capital contributions; (xxi) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of such Fund, its General Partner and related entities and any alternative investment vehicle of such Fund, including the preparation, distribution and implementation thereof; (xxii) complying with any law or regulation related to the activities of such Fund (including regulatory expenses of its General Partner incurred in connection with the operation of such Fund and legal fees and expenses); (xxiii) any litigation or governmental inquiry, investigation or proceeding involving such Fund, including the amount of any judgments, settlements or fines paid in connection therewith, except as set forth in the applicable Partnership Agreement; (xxiv) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by a Limited Partner; (xxv) any taxes, fees and other governmental charges levied against such Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of such Fund (except to the extent that such Fund is reimbursed therefor by a partner or such tax, fee or charge is treated as having been distributed to the partners pursuant to the applicable Partnership Agreement); (xxvi) distributions to the partners and other expenses associated with the acquisition, holding and disposition of such Fund’s investments, including extraordinary expenses; (xxvii) unreimbursed expenses and unpaid fees of any Operating Partner; (xxviii) compliance or regulatory matters related to such Fund, except as set forth in the applicable



Partnership Agreement; (xxix) any travel, lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxx) any Organizational Expenses; (xxxi) any Placement Fees; and (xxxii) any other fees, costs, expenses, liabilities or obligations approved by the applicable LP Advisory Committee.

In the event that a General Partner proposes to structure an investment using a blocker corporation or other intermediate entity (each, a “Parallel Fund”), such as Clearstream Capital Partners I-A LP, intended to address the tax concerns of non-U.S. Limited Partners of a Fund from such investment, then all costs, expenses and reductions in proceeds attributable to such blocker corporation or other intermediate entity, including, without limitation, those related to the structuring, formation, operation, disposition and liquidation of, and all taxes incurred in connection with, related to or imposed on, such blocker corporation or other intermediate entity will be borne solely by such Limited Partners of such Parallel Fund. Such expenses borne by a Limited Partner shall be paid in addition to its commitment.

#### Operating Partners

Clearstream or any of its affiliates may retain operational advisory partners (“Operating Partners”) or other industry experts primarily to generate, evaluate, execute and manage opportunities in certain sectors and provide similar services to the Funds, any alternative investment vehicle or any portfolio company or prospective portfolio company of the Funds or any alternative investment vehicle. These services may frequently include serving as directors or in other policy-making positions, and in some cases may include serving in management positions, for the Funds’ portfolio companies.

Clearstream typically contracts with Operating Partners and negotiates to pay such Operating Partners a set fee. In the course of the performance of their services, Operating Partners may contract directly with a portfolio company to provide consulting services, the fees for which generally reduce the fees Clearstream is obligated to pay such Operating Partners. Operating Partners may, from time to time, be issued a profit interest in portfolio companies depending on their respective level of involvement in the portfolio companies. Expenses, fees and other compensation paid to Operating Partners, including compensation received from the Funds’ portfolio companies, will not result in offset to the Management Fee.

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

Clearstream and/or its advisory affiliates expect to receive performance-based compensation in the form of an incentive allocation, an incentive fee and/or performance distributions with respect to the Funds. Performance-based fee/allocation arrangements may create an incentive for Clearstream to make riskier investments than would otherwise be the case in the absence of such arrangements. In addition, it may create an incentive for Clearstream to favor Funds that have greater performance fee/allocation arrangements over Funds that have lesser or no performance fee/allocation arrangements in the allocation of investment opportunities. To mitigate this conflict, all investment decisions and allocations will be made in accordance with Clearstream’s written policies and procedures, which are designed to ensure that all Funds are treated fairly and equitably in the allocation of investments.

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

Clearstream expects to provide discretionary investment management to the Funds. Underlying

investors in the Funds may include high net-worth individuals, family offices, financial institutions, insurance companies, corporations, sovereign wealth funds, endowment funds, charitable organizations, public and private pension funds and other investment funds.

For the Funds, each underlying investor will be an “accredited investor” as defined in Regulation D under the Securities Act of 1933, as amended, and a “qualified purchaser” as defined in the 1940 Act. Certain employees of Clearstream who qualify as “knowledgeable employees” under Rule 3c-5 of the 1940 Act may be permitted to invest directly or indirectly in the Funds. The offering and organizational documents of each Fund will set forth the minimum amounts required for investment by prospective investors in such Funds. These minimum amounts may be waived by Clearstream or an affiliate. Investors should read the offering and organizational documents in full and consult with their advisors prior to making an investment.

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

Clearstream’s Funds will be dedicated to making energy private equity investments, with a primary focus on the North American midstream sector. Midstream assets are generally less volatile than other energy asset classes due to relatively limited direct commodity exposure and the contractual nature of underlying cash flow streams, allowing the Funds to target a stable return profile and attractive risk adjusted returns. Within the midstream market, Clearstream will target proprietary transactions that allow for the deployment of \$50 million to \$300 million of equity, with the potential for significant co-investment opportunities by the Funds’ limited partners.

The Funds will seek to provide flexible capital solutions to address a diverse set of market opportunities and funding needs, targeting control investments in high-quality assets alongside experienced management teams. Clearstream intends to actively manage its investments to drive value for investors and accomplish key objectives, including delivering a combination of stability and capital appreciation, driven by several key sources of value uplift including structural optimization, volumetric growth, operational efficiency, and multiple expansion.

While Clearstream intends to generally to apply the investment strategy and process set forth herein to each Fund’s investments, Clearstream may pursue a wide variety of strategies and may modify or depart from such investment process, approach, techniques and procedures as Clearstream determines appropriate to accomplish a Fund’s investment objectives.

### **Investment Risks**

The descriptions contained herein of specific strategies that are or may be engaged in by the Funds should not be understood as in any way limiting the Funds’ investment activities. The investment strategy employed by Clearstream on behalf of the Funds involves a substantial degree of risk. The Funds and their investors may lose a substantial part of, or their entire investment. Clearstream has listed certain risks below; however, this list of risks is not comprehensive or complete. The Funds and investors are strongly encouraged to review the complete list of risks outlined in the offering and organizational documents for the Funds, or as set forth in the applicable Fund’s investment management agreement.

**Loss of Invested Capital.** Investments recommendations are speculative. Their value will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities acquired, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, the Funds and their investors may lose all or a portion of their investment if Clearstream's trading and investment strategies are not successful.

**Business Risks.** The Funds' investment portfolios are expected to include securities issued by privately held companies, and operating results in a specified period may be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

**Future and Past Performance; Loss of Principal.** An investor should only invest in a Fund as part of an overall investment strategy, and only if the investor is able to withstand a total loss of its investment in such Fund. While Clearstream intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

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

**Concentration of Investments; Lack of Diversification.** The Funds will focus primarily on the energy industry. While the Clearstream's principals have extensive experience within this industry, the ultimate performance of the Funds' investments cannot be predicted with certainty. Although Clearstream will attempt to minimize risk, the Funds' actual returns will be subject to numerous factors beyond Clearstream's control, including natural causes, governmental regulation, competing responses to population growth, economic development, and increased urbanization, the successful implementation of measures to counter any of the foregoing, whether by way of political will, the development of new technologies for that purpose or otherwise, and consumer needs and preferences. In addition, the Funds may participate in a limited number of investments within the energy industry and, as a consequence, the aggregate returns to the Funds may be substantially adversely affected by the unfavorable performance of even a single investment. To the extent a Fund concentrates its investments in a particular issuer, security or geographic region, such investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect to that issuer, security or geographic region. If a Fund co-invests with another private equity fund, a Limited Partner invested in such other fund may have exposure to a single portfolio company through more than one fund, potentially multiplying such Limited Partner's losses. In addition, during the early stages of a Fund's term, such Fund may hold more concentrated positions than it otherwise would.

**Highly Competitive Market for Investment Opportunities Generally.** The business of identifying and structuring transactions in the energy industry is competitive. A number of new funds and established funds with more generalized investment capabilities have entered into the energy industry within the last several years as capital needs in the industry have increased and investment returns in other industries have decreased. As global efforts are made to respond to anticipated future population growth, economic development and increased urbanization, and the effects of each of them, the number of funds and sources of investment capital that have similar investment objectives to the Funds, or that target similar investment opportunities, may increase. Some of these competitors may have more relevant experience, greater financial resources and/or purchasing power, greater negotiating power, a

greater willingness to take on risk, and/or more personnel than Clearstream, the General Partners, the Funds and their respective affiliates. In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. This may adversely affect the terms upon which the Funds make investments, decrease the number of suitable investment opportunities and inhibit the Funds' ability to satisfy their investment objectives. Clearstream expects that competition for appropriate investment opportunities may increase, which may also require the Funds to participate in auctions, the outcome of which cannot be guaranteed, thus reducing the number of investment opportunities available to the Funds and/or adversely affecting the terms upon which portfolio investments can be made. To the extent that the Funds encounter competition for investments, returns to Limited Partners may decrease. In addition, it is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. Moreover, Limited Partners generally will be required to bear the Management Fee through the Funds during the investment period based on the entire amount of the Limited Partners' commitments and other expenses as set forth in the applicable Partnership Agreement.

**Impacts of Excuse or Exclusion.** A Limited Partner's participation in a Fund's investments may be limited by virtue of the applicable General Partner's right to exclude a Limited Partner from, or a Limited Partner's right to be excused from, participating in certain of such Fund's investments as set forth in the applicable Partnership Agreement, thereby increasing the participation of other Limited Partners. As a consequence of one or more Limited Partners being excused or excluded or other factors limiting their participation in investments, the aggregate returns realized by the participating Limited Partners could be adversely affected in a material manner by the unfavorable performance of even one investment by such Fund.

**Unspecified Investments.** Limited Partners will be relying on the ability of Clearstream to locate and evaluate the investments to be made by the Funds using the proceeds of this offering. The activity of identifying, completing and realizing private equity investments involves a high degree of uncertainty and is subject in some cases to the prevailing capital market, regulatory or political environment. There can be no assurance that Clearstream will be able to locate or the Funds will be able to complete portfolio investments that satisfy the Funds' rate of return objectives or, if completed, realize such investments for fair or attractive values or that the Funds will be able fully to invest their committed capital.

**Illiquidity; Lack of Current Distributions.** An investment in a Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Such Fund's ability to dispose of investments may be limited for several reasons. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by such Fund. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In addition, the ability to exit an investment through the public markets will depend upon favorable market conditions, including receptiveness to initial or secondary public offerings for the companies in which such Fund invests and an active mergers and acquisitions (or recapitalizations and reorganizations) market. Public offering, merger and acquisition and recapitalization and reorganization opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In view of these

limitations on liquidity, a Fund generally will not be able to realize on an investment in a privately-held entity until the sale of such entity. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to Clearstream) may exceed its income, thereby requiring that the difference be paid from such Fund's capital, including, without limitation, unfunded commitments.

**Public Company Holdings.** A Fund's investment portfolio may include securities issued by public companies (including formerly privately-held portfolio companies that have consummated IPOs during a Fund's holding period) or debt issued by publicly held companies. Such investments may subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of such Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including employees and representatives of Clearstream, and increased costs associated with each of the aforementioned risks. See also "—Material Non-Public Information" below.

**Distressed Investments.** The Funds may invest in the securities and obligations, including debt obligations that are in covenant or payment default, of companies experiencing significant financial difficulties and material operating issues, including companies that may have been, are or will become involved in bankruptcy proceedings or other restructuring, recapitalization or liquidation processes. Investments in such companies involve a substantial degree of risk that is generally higher than the risk involved in investing in companies that are not in financial or operational distress. Given the heightened difficulty of the financial analysis required to evaluate distressed companies, there can be no assurance that Clearstream will correctly evaluate the value of the assets of a distressed company securing its debt and other obligations or correctly project the prospects for the successful restructuring, recapitalization or liquidation of such company. Therefore, in the event that a portfolio company does become involved in bankruptcy proceedings or a restructuring, recapitalization or liquidation is required, the Funds may lose some or all of its investment or may be required to accept illiquid securities with rights that are materially different than the original securities in which the Funds invested.

**Leveraged Investments; Borrowing.** The Funds may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both the Funds' opportunities for gain and its risk of loss from a particular investment, and the magnification of the risk of loss may be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which may be impacted by regulatory restrictions and guidelines and which are difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. The use of leverage may also impose restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies may increase the exposure of the Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' investments in the leveraged portfolio companies in a down market. In the event

any portfolio company cannot generate adequate cash flow to meet its debt service, the Funds may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Funds. Additionally, lenders would typically have a claim that has priority over any claim by the Funds to the assets of such portfolio company in an insolvency event or proceeding. Should the credit markets be limited or costly at the time the Funds determine that it is desirable to sell all or a part of a portfolio company, the Funds may not achieve an exit multiple or enterprise valuation consistent with its forecasts. If a portfolio company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal amount of financial leverage, the Funds may hold a larger than expected equity investment in such portfolio company and may realize lower than expected returns from the portfolio company that would adversely affect the Funds' ability to generate attractive investment returns for the Funds as a whole. Any failure by lenders to provide previously committed financing could also expose the Funds to potential claims by sellers of businesses which the Funds may have been contracted to purchase.

The Funds may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefore, and in such situations it is not expected that the Funds would be compensated for providing such guarantee or exposure to such liability. Although use of such borrowing facilities enhances Clearstream's ability to close transactions quickly, such activity also increases risk and raises the possibility that the General Partners will need to call additional capital to pay off such debt. Any use of leverage by the Funds may result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of their investments. The Funds may incur leverage on a joint and several basis with one or more other investment funds and entities managed by Clearstream or any of their affiliates and, in connection with incurring such indebtedness, the General Partners may, in their sole discretion, cause the Funds to enter into one or more agreements to obtain a right of contribution, subrogation or reimbursement from or against such entities. However, it is possible that, if and when the Funds were to seek to enforce any such right, any such entity could default on its obligation and/or such right may otherwise be unenforceable. In addition, to the extent the Funds incur leverage or provides any guaranty, such amounts may be secured by the capital commitments of the Funds' investors and other Funds assets. The inability of a Fund to repay any leverage secured by the capital commitments of such Fund's investors could enable a lender to issue a capital call on behalf of the General Partner of such Fund.

**Uncertainty of Projections.** The Funds may use financial projections to help analyze a potential investment or future capital raises and financing for portfolio companies or other transactions. Projected operating results of a company in which the Funds invest normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by the General Partners in their discretion. In all cases, projections are only estimates of future results that are based upon information received from the portfolio company and third parties and assumptions made at the time the projections are developed. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values. There can be no assurance that the results set forth in any projections will be attained, and actual results may be significantly different from projections.

**Bridge Investments.** From time to time, the Funds may lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge

loans may be convertible into a more permanent, long-term security. It is possible, however, for reasons not always in the Funds' control, that such long-term securities may not be issued and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Funds.

**Loans in Lieu of Distributions.** Pursuant to the applicable Partnership Agreement, certain distributions to a General Partner may be deferred to the extent the amount distributable exceeds such General Partner's tax basis in its Fund. In such case, the deferred distribution amount may be loaned by such Fund to its General Partner. Any interest accruing with respect to such a loan will be allocated and distributed solely to such General Partners.

**Risks in Effecting Operating Improvements.** In some cases, the success of the Funds' investment strategies will depend, in part, on the ability of the Funds to effect improvements in the operations of a portfolio company. The activity of identifying and implementing operating improvements at portfolio companies entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key personnel and disrupt normal business. There can be no assurance that the Funds will be able to successfully identify and implement such improvements. Although non-control investments may also be made, the Funds intend to make investments that allow the Funds to acquire control or exercise influence over management and the strategic direction of a portfolio company through its ability to appoint members of the board. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability characteristic of business operations may be ignored. The exercise of control over an investment could expose the assets of the Funds to claims by such portfolio companies, its shareholders and its creditors.

**Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.** Before making investments, Clearstream will typically conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, technical, environmental, legal and other issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and Clearstream may rely on the advice received from such third parties. Investment analyses and decisions by Clearstream will often be undertaken on an expedited basis in order for the Funds to take advantage of investment opportunities. In such cases, the information available to Clearstream at the time of an investment decision may be limited, and Clearstream may not have access to the detailed information necessary for a full evaluation of the investment opportunity. The due diligence investigation carried out with respect to any investment opportunity will not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment being successful or even ensure a return on invested capital.

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

cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject the Funds to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose the Funds to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements could create for Clearstream, the General Partners and/or one of their affiliates an obligation to register with the U.S. Commodity Futures Trading Commission ("CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

**Uncertain Economic, Social and Political Environment.** Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon a Fund's portfolio companies.

**General Economic and Market Conditions.** The private equity industry generally and the success of a Fund's investment activities specifically will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. Such factors are unpredictable and cannot be controlled by Clearstream. General fluctuations in the market prices of securities and economic conditions may reduce the availability of attractive investment opportunities for a Fund and may affect a Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a Fund's investments and could have a negative impact on the performance and/or valuation of a Fund's portfolio companies. A Fund's performance can be affected by deterioration in the capital markets and by market events, including events similar to the credit crisis in the summer of 2007, the downgrading of the credit rating of the U.S. in 2011 or the decline in oil and gas prices in the fourth quarter of 2014, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and a Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of a Fund to sell and/or partially dispose of its portfolio company investments. Such adverse effects may include the requirement of a Fund to pay breakup, termination or other fees and expenses in the event a Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that Clearstream believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund's ability to obtain



funding to support its investment objective. Any of the foregoing events could result in substantial or total losses to a Fund in respect of certain portfolio investments, which losses will likely be exacerbated by the presence of leverage in a portfolio company's capital structure and may be magnified by the expected limited geographic diversity of a Fund's investments.

**Labor Matters.** Certain portfolio companies may have a unionized work force or employees who are covered by a collective bargaining agreement, which could subject a portfolio company to complex laws and regulations as well as labor relations disputes or difficulties generally. Business operations at one or more drilling sites or facilities may be interrupted as a result of work stoppages and delays in the process of renegotiating collective bargaining agreements.

**Mezzanine and Other Subordinated Debt Investments.** The Funds may invest in mezzanine and other subordinated debt investments, which involve a high degree of risk with no certainty of any return of capital. Although mezzanine debt obligations are senior to common stock and other equity securities in the capital structure, they may be subordinated to large amounts of senior debt and are often unsecured. The ability of the subordinated debt holders to influence a company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. Accordingly, the Funds may not be able to take the steps necessary to protect their mezzanine debt investments in a timely manner or at all.

Other factors may materially and adversely affect the market price and yield of such debt investments, including, without limitation, investor demand, changes in the financial condition of issuers, government fiscal policy and domestic or worldwide economic conditions. The market for relatively illiquid debt tends to be more volatile than the market for more liquid instruments.

### **Risks Relating to the Energy Industry**

**Energy Services and Natural Resources Industries Risks.** As detailed further herein, investments in the energy and energy services sectors by the Funds are subject to a variety of risks, not all of which can be foreseen or quantified, including, but not limited to: (i) the risk that the technology employed in an energy project will not be effective or efficient; (ii) the risk that regulations affecting the energy industry will change in a manner detrimental to the industry; (iii) environmental liability risks related to energy properties and projects (e.g., potential pollution arising from portfolio company operations); (iv) the risk of equipment failures, fuel interruptions, loss of sale and supply contracts or fuel contracts, decreases or escalations in power contract or fuel contract prices or bankruptcy of key customers or suppliers; (v) tort liabilities in excess of insurance coverage (if any) or the inability to obtain desirable amounts of insurance at economic rates; (vi) acts of God or other catastrophes; (vii) political instability, including armed conflicts; and (viii) the risk of volatile valuations of companies in the energy sector whose operations are affected by changes in prices and supplies of energy fuels.

In addition, prices and supplies of energy fuels can fluctuate significantly in a short period of time due to any economic instability in countries that are large consumers of energy; industry competition or consolidation; and the availability of drilling rigs and other oilfield equipment and services. The Funds' investments may also be subject to unpredictable changes in cash flow and anticipated liquidity; the timing, success and cost of exploration and exploitation activities; operating costs including lease operating expenses; administrative costs and other expenses; marketing of and market prices for oil, gas or oil or gas properties or working interests therein; quantities of discovered or probable, potential and proved reserves of oil or gas; timing and amount of future production of oil and gas; drilling of wells and other planned exploitation activities; the market for oil and gas acreage or properties or

working interests therein; and the amount, nature and timing of property acquisitions or capital expenditures.

Because of the Funds' sector focus, investment-related decisions and determinations, such as portfolio construction and diversification, may generally differ as compared to a more broadly-focused private equity fund. When making such decisions and determinations, Clearstream may emphasize factors in a different manner and consider different factors, in each case as compared to such decisions and determinations relating to a more broadly-focused private equity fund.

**Commodity Price Volatility.** The value of the Funds' portfolio companies will be substantially dependent upon the market price for oil, natural gas and other hydrocarbons, which value ultimately impacts the demand for their products and services. Historically, the markets for hydrocarbons have been volatile and such volatility is likely to continue in the future. Various factors beyond the control of the Funds, the General Partners, Clearstream or any portfolio company may affect hydrocarbon prices, including: (i) the worldwide and domestic supplies of oil and natural gas; (ii) the ability of the members of the Organization of the Petroleum Exporting Countries to agree to and maintain oil prices and production controls; (iii) political instability or armed conflict in the Middle East and other oil or natural gas producing regions; (iv) terrorist acts; (v) the price and level of foreign imports; (vi) the level of consumer demand; (vii) the price, availability and acceptance of alternative fuels; (viii) the availability of pipeline capacity; (ix) weather conditions; (x) transportation interruption; (xi) domestic and foreign governmental regulations, price controls and taxes; (xii) domestic and foreign environmental laws and regulations; and (xiii) the overall economic environment, including interest rates, levels of economic activity, the price of securities and the participation by other investors in the financial markets. There can be no assurance that there will not be a significant decline in the prevailing price for hydrocarbons, which could adversely affect the value of the Funds' investments and its income from its investments. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development projects.

**Energy Regulatory Risk; Environmental Matters.** Investments in the energy sector may entail risks associated with more mature businesses and heavily regulated industries. The energy and natural resources industries are subject to comprehensive U.S. federal, state and local laws and regulations as well as non-U.S. laws and regulations. Present, and future, statutes, rules and regulations could cause additional expenditures, decreased revenues, restrictions and delays that could materially and adversely affect the Funds' investments and the prospects of the Funds. There can be no assurance that (i) existing regulations applicable to investments generally or the portfolio companies will not be revised or reinterpreted, (ii) new laws and regulations will not be adopted or become applicable to the portfolio companies, (iii) the technology and equipment selected by portfolio companies to comply with current and future regulatory requirements will meet such requirements, (iv) portfolio companies' business and financial conditions will not be materially and adversely affected by such future changes in, or reinterpretation of, laws, rules and regulations (including the possible loss of exemptions from laws and regulations) or any failure to comply with such current and future laws, rules and regulations, or (v) regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies.

Further, environmental laws, rules, regulations and regulatory initiatives play a significant role in the energy and natural resources industries and can have a substantial impact on investments in these industries. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment

opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments of the industry. The energy and natural resources industries will continue to face considerable oversight from environmental regulatory authorities and significant influence from non-governmental organizations (“NGOs”) and special interest groups. The Funds may invest in portfolio companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements. New and more stringent environmental and health and safety laws, rules, regulations and permit requirements or stricter interpretations of current laws, rules or regulations could impose substantial additional costs on portfolio companies and potential investments. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not be required to incur additional unforeseen environmental expenditures.

Moreover, failure to comply with any such requirements could have a material adverse effect on a portfolio company, and there can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, rules, regulations and permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims. Under certain circumstances, environmental authorities and other parties may seek to impose personal liability on the limited partners of a partnership (such as the Funds) subject to environmental liability.

**Regulatory Approvals; Permits.** Companies and projects in which the Funds invest are expected to be required to comply with numerous U.S. federal, state and local statutory, rules and regulatory standards, including those related to air emissions, water discharge, waste disposal, the environment and safety and health, and to maintain numerous permits and approvals required for their operation. Compliance with these various rules and regulations may cause companies and projects to incur significant costs and may impact almost every aspect of their respective businesses. In addition, the Funds may be required to obtain the consent or approval of applicable regulatory authorities in order to acquire or hold investments in particular companies or projects. If a Fund is unable to obtain required consents or approvals, it may be unable to enter into transactions or to structure transactions in ways that are optimal for such Fund or particular Fund vehicles. The Funds may invest in companies or projects it believes have obtained all material energy-related U.S. federal, state, local or non-U.S. approvals and permits required as of the date thereof to acquire and operate their facilities. However, such approvals and permits may be subject to conditions, and there is no assurance that companies and projects in which the Funds invest will be successful in meeting such conditions. A failure to satisfy such conditions could prevent the operation of certain facilities or result in additional costs to such companies and projects, which may adversely affect a Fund’s investment performance and results. There can be no assurance that a company or project will be able to do any of the following: (i) obtain all required regulatory approvals and permits; (ii) obtain any necessary modifications to existing regulatory approvals and permits; or (iii) renew and otherwise maintain required regulatory approvals and permits. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals and permits (or amendments thereto) or delay or failure to satisfy any regulatory conditions or other applicable requirements (which may change over time), could prevent operation of certain assets or sales of such assets to third parties, or could result in additional costs to a company or project and adversely affect a Fund’s investment performance and results.

**Environmental Liabilities.** The Funds could face substantial risk of loss from environmental claims arising from investments made with undisclosed or unknown environmental problems or inadequate

reserves or insurance for previously identified matters, as well as from occupational safety issues and concerns. Under certain circumstances, U.S. courts have held that a parent company is responsible for the environmental clean-up obligations of its subsidiary imposed by applicable laws. In the event that a Fund is the parent of a portfolio company with such obligations, a U.S. court or a court of any other applicable jurisdiction might find that such Fund is liable for such obligations. Environmental claims with respect to a specific investment may exceed the value of such investment.

**Governmental Contracts.** The Funds' portfolio companies may serve customers that include governmental entities. Investments that include significant customer concentration with governmental entities pose additional and unique risks. Governmental budgeting and procurement requirements could adversely affect profitability. In addition, to the extent that a Fund invests in a project whose assets are governed by concession agreements with national, provincial or local authorities, there is a risk that these authorities may not be able to honor their obligations under the agreement, especially over the long term. The leases or concessions may also contain clauses more favorable to the governmental counterparty than a typical commercial contract and may restrict the project's ability to operate in a way that maximizes cash flows and profitability. Governments typically have considerable discretion in implementing regulations that could impact these businesses, may be influenced by political (rather than just economic) considerations and may make decisions that adversely affect a Fund's investments.

**Siting.** Energy and energy-related projects may be subject to siting requirements. Siting of energy projects is also frequently subject to regulation by applicable governmental authorities. For example, proposals to site a facility may be challenged by a number of parties, including NGOs and special interest groups based on alleged security concerns, disturbances to natural habitats for wildlife and adverse aesthetic impacts, including the common "not in my backyard" phenomenon. Concerns may also arise that may require governmental permits or approvals, the receipt of which may depend, in part, on heightened environmental concerns and public opposition in some jurisdictions.

**New Technology Risk.** There are currently a number of scientific research institutions (including those supported by major venture capital firms and corporations) seeking to develop technologies designed to reduce dependence upon large scale fossil fuel generation. In the event that any such technology is successfully developed and implemented, some of the Funds' investments may be adversely affected. In addition, the energy services industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As new horizontal and directional drilling, pressure pumping, pressure control and well service technologies develop, portfolio companies may be placed at a competitive disadvantage, and competitive pressure may force portfolio companies to implement new technologies at a substantial cost. There can be no assurance that portfolio companies will be successful in building or acquiring new oilfield service equipment and other assets or upgrading existing rigs and equipment in a timely and cost-effective manner. As a result, new technologies, services or standards could render some of the services, equipment and other assets provided or operated by portfolio companies obsolete, which could have an adverse effect on a Fund's investments.

**Technical Risk.** Investments in the energy industry may be subject to technical risks, including the risk of mechanical breakdown, spare parts shortages, failure to perform according to design specifications and other unanticipated events which adversely affect operations. While the Funds intend to seek investments in portfolio companies that have adequate reserves to cover such

occurrences and are appropriately bonded and insured, there can be no assurance that any or all such risks can be mitigated.

**Key Inputs.** The operations of the businesses in which the Funds invest may rely on access to certain key inputs such as strategic consumables, raw materials and drilling and processing equipment. The inability to obtain such key inputs in a timely manner could delay or reduce a portfolio company's production, which could have an adverse impact on its results of operations and financial condition. Periods of high demand for such supplies can result in periods when availability of supplies are limited and cause costs to increase above normal inflation rates. Any interruption to supplies or increase in costs could adversely affect the operating results and cash flows of a Fund's investments and, therefore, of such Fund.

**Independent Contractors.** Independent contractors are typically used in operations in the energy industry to perform various operational tasks, including carrying out drilling activities and delivering raw commodities to processing or beneficiation plants. In periods of high commodity prices, demand for such contractors may exceed supply resulting in increased costs or lack of availability of key contractors. Disruptions of operations or increased costs also can occur as a result of disputes with contractors or a shortage of contractors with particular capabilities. Additionally, since a business in which a Fund invests may not have the same control over independent contractors as they may have over their own employees, there is a risk that such contractors will not operate in accordance with their own safety standards or other policies. Any of the foregoing circumstances could have a material adverse effect on the business in which a Fund invests, and ultimately such Fund's operating results and cash flows.

**Counterparty Risk.** A Fund may be exposed to counterparty risk to the extent it uses "over-the-counter" derivatives, enters into repurchase agreements, lends its portfolio securities or allows a prime broker, if any, or an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for such Fund. Certain markets in which the Funds may effect transactions are "over-the-counter" or "interdealer" markets, and may also include unregulated private markets. The lack of a common clearing facility creates counterparty risk. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the 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 Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. The Funds may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. The Funds typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty. When a counterparty's obligations are not fully secured by collateral, then a Fund is essentially an unsecured creditor of the counterparty. If the counterparty defaults, the relevant Fund will have contractual remedies, but there is no assurance that a counterparty will be able to meet its obligations pursuant to such contracts or that, in the event

of default, such Fund will succeed in enforcing contractual remedies. Counterparty risk is still present even if a counterparty's obligations are secured by collateral because the Funds' interest in collateral may not be perfected or additional collateral may not be promptly posted as required. To the extent the Funds allow a prime broker, if any, or any over-the-counter derivative counterparty to retain possession of any collateral, the Funds may be treated as an unsecured creditor of such counterparty in the event of the counterparty's insolvency. Counterparty risk also may be more pronounced if a counterparty's obligations exceed the amount of collateral held by a Fund (if any), a Fund is unable to exercise its interest in collateral upon default by the counterparty, or the termination value of the instrument varies significantly from marked-to-market value of the instrument.

A Fund will be exposed to the credit risk of any of its counterparties and may also bear the risk of settlement default. For example, although the seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount exceeding the repurchase price, default by the seller would expose a Fund, as buyer, to possible loss due to adverse market action or delay in connection with the disposal of the underlying obligations. Conversely, where a Fund acts as seller under a repurchase agreement it is exposed to the risk of the buyer defaulting in its obligation to return the securities when it is required to do so, and such Fund could realize a loss on the purchase of the underlying security to the extent that the purchase price of the underlying security is greater than the cash collateral posted by the buyer. In addition, if the seller becomes involved in bankruptcy or litigation proceedings, the applicable Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if such Fund is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate.

Securities purchased or sold on a "when-issued" or "delayed delivery" basis involve a risk of loss if the value of the securities to be purchased declines prior to the settlement date or if the value of the securities to be sold increases prior to a settlement date. Loans of securities also involve risks of delay in receiving additional collateral or in recovering the securities loaned, or possibly loss of rights in the collateral, should the borrower of the securities become insolvent.

Due to the nature of certain of the Funds' potential investments, the Funds may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced effect on the Funds. In addition, the creditworthiness of a counterparty may be adversely affected by larger than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. Clearstream intends to evaluate the creditworthiness of the counterparties to a Fund's transactions or their guarantors at the time such Fund enters into a transaction. The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the Funds to transact business with any one of a 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 Funds.

**Natural Disasters, Terrorist Acts and Similar Dislocations.** Upon the occurrence of a natural disaster such as a flood, hurricane, or earthquake, electricity shortages or other similar national or local emergencies, or upon an incident of war, riot or civil unrest, the impacted country may not efficiently and quickly recover from such event, which can have a materially adverse effect on portfolio companies and other developing economic enterprises in such country. Terrorist attacks and related events can result in increased short-term economic volatility. U.S. military and related actions in Afghanistan and

Iraq, other events in the Middle East, and terrorist actions worldwide could have significant adverse effects on U.S. and world economies and securities markets. The effects of future terrorist acts (or threats thereof), military action or similar events on the economies and securities markets of countries cannot be predicted. Such disruptions of the world financial markets could affect interest rates, ratings, credit risk, inflation and other factors relating to the Funds' investments.

**Midstream Energy Investment Risks.** Investments in companies owning, controlling or investing in midstream energy assets, including oil and gas pipelines and terminals, are subject to a variety of risks not necessarily associated with other types of energy investments. Such risks may include: (i) the risk that the market for the products gathered by, transported on and stored in the midstream assets held by portfolio companies may decline due to a reduction in downstream customer base or end-use demand; (ii) the risk that oil and gas producers that utilize the midstream assets will not be successful in their exploration and production of oil and gas; (iii) the risk that the land on which the midstream assets held by portfolio companies are located will not be owned by such portfolio company or held by its affiliates, and therefore will be subject to risks associated with obtaining and maintaining necessary land use rights, contracts and permits from unrelated third parties; (iv) the risk that the Federal Energy Regulatory Commission ("FERC") may regulate tariff rates for interstate movements of oil and gas on the pipeline systems held by portfolio companies in a manner that adversely affects the profitability of the Funds' investments in such companies; (v) the risk that, even if FERC permits an increase in tariff rates charged on the pipeline systems held by portfolio companies, competition from other pipeline systems may prevent such portfolio companies from doing so; (vi) the risk that any reduction in the capacity of interconnecting third-party pipelines due to testing, line repair, reduced operating pressures or other causes may result in a reduction of oil and gas volumes transported on pipelines or stored in terminals held by portfolio companies, thereby potentially adversely affecting the profitability of the Funds' investments in such portfolio companies; (vii) the risk that oil and gas products and other hydrocarbons transported on and stored in the midstream assets held by portfolio companies may be released into the environment, which could cause such portfolio companies to be required to make substantial expenditures for responsive action or government-imposed penalties, to be liable to government agencies or private parties for natural resources damages, personal injury or property damages, and to be subjected to significant business interruption; and (viii) the risk that, as a result of their ownership or control of or investment in regulated assets such as pipelines, portfolio companies may be subject to unfavorable rulings imposed by regulatory authorities.

**Construction Risk.** Certain portfolio companies may involve projects in the construction phase of development. In connection with any new development project, expansion of a facility or acquisition of a facility in development stage, a portfolio company may also face construction risks typical for gathering, transportation and other midstream businesses, including, without limitation, (i) labor disputes, shortages of material and skilled labor or work stoppages, (ii) slower than projected construction progress and the unavailability or late delivery of necessary equipment, (iii) adverse weather conditions and unexpected construction conditions, (iv) less than optimal coordination with public utilities in the relocation of their facilities, (v) accidents or the breakdown or failure of construction equipment or processes, (vi) political opposition; regulatory and permitting delays, (vii) delays in procuring real property rights, (viii) transmission grid interconnection delays, (ix) failure by one or more of the construction participants to perform in a timely manner (or at all) its or their contractual, financial or other commitments and (x) catastrophic events such as explosions, fires and terrorist activities and other similar events beyond the Funds' control. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of construction activities once undertaken, any of which could have an adverse effect on

the Funds and on the amount of funds available for distribution to its partners. Construction costs may exceed estimates for various reasons, including inaccurate engineering and planning, labor and building material costs in excess of expectations and unanticipated problems with project start-up. Such unexpected increases may result in increased debt service costs and funds being insufficient to complete construction. Such increases may also result in the inability of project owners to meet the higher interest and principal repayments arising from the additional debt required. Delays in project completion can result in an increase in total project construction costs through higher capitalized interest charges and additional labor and material expenses and, consequently, an increase in debt service costs. They may also affect the scheduled flow of project revenues necessary to cover the scheduled operations phase debt service costs, operations and maintenance expenses and damage payments for late delivery. In addition, there are risks inherent in certain construction work that may give rise to claims or demands against a portfolio company from time to time. Delays in the completion of any construction project may result in lost opportunities or revenues or increased expenses, including higher operation and maintenance costs related to a portfolio company. Assets under development or assets acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.

**Operation.** A Fund may invest in certain oil and gas related assets, such as oil and gas pipelines and other related transportation networks. Investors should be aware that there are numerous risks associated with such investments that may affect the business operation of a portfolio company and that could result in substantial losses and liabilities. For example, delays in land acquisition, shortages of construction materials or equipment and labor, environmental conditions such as bad weather and natural disasters, disputes with workers or contractors, accidents, changes in government policies and other unforeseeable difficulties or circumstances could potentially delay or even cancel the required development, improvement or maintenance of necessary infrastructure required for oil and gas projects. Any of these events may cause significant losses and liabilities for a Fund.

**Broken Deal Expenses.** Investments in the energy industry often require extensive due diligence activities and regulatory approvals prior to acquisition. Due diligence may include, without limitation, feasibility and technical studies, preliminary engineering and marketing studies, and legal and environmental review, any or all of which may entail significant third-party expenses. In the event that an investment is not consummated, a Fund may bear some or all of such third-party expenses and any termination fees.

**Ability to Exit Investments.** Individual investments in certain assets may be large due to the general nature and size of such assets (such as transmission lines, distribution properties or gas storage and pipeline facilities). Such assets may have unique geographic and market characteristics (and may be subject to political, regulatory and public opinion considerations), which could make them highly illiquid. A Fund may acquire portfolios of assets that are not easily separated into individual asset acquisitions or dispositions. Accordingly, a Fund's investments may be quite sizeable. There may be limited pools of capital available in the sector that can make sizeable investments and limited numbers of market participants. As a result, the potential exits from these investments may be limited and there can be no assurance that a Fund will be able to realize its investments on favorable terms, in a timely manner or at all. Moreover, the realizable value of a highly illiquid investment may be less than its intrinsic value.



**Transportation and Storage Risks.** There are a variety of hazards and operating risks inherent to the transportation, relocation and storage of equipment, raw materials, waste materials and other hazardous, radioactive and explosive materials, such as leaks, releases, explosions, mechanical problems and damage caused by portfolio companies and/or third parties. Additional risks to vessels include adverse sea conditions, capsizing, grounding and navigation errors. These risks could result in serious injury and loss of human life, significant damage to property and natural resources, environmental pollution and impairment of operations, any of which also could result in substantial financial losses. For pipeline and storage assets located near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering areas, the level of damage resulting from these risks may be greater. Failure of a portfolio company to properly handle, transport or dispose of these materials or otherwise conduct its operations in accordance with applicable environmental laws may negatively impact the revenues and cash flows of a portfolio company and expose the portfolio company to substantial liability for administrative, civil and criminal penalties, cleanup and site restoration costs and liability associated with releases of such materials, damages to natural resources and other damages, as well as potentially impair its ability to conduct operations. In addition, losses in excess of a portfolio company's insurance coverage could have an adverse effect on its business, financial condition and results of operations.

**Rate Risk.** The FERC, the California Public Utilities Commission (the "CPUC"), the National Energy Board (the "NEB") or other similar agencies may establish pipeline tariff rates that have a negative impact on a Fund's portfolio companies. In addition, the FERC, the CPUC, the NEB, other similar agencies or a portfolio company's customers could file complaints challenging the tariff rates charged by a portfolio company's pipelines, and a successful complaint could have an adverse impact on that company. The profitability of a portfolio company's regulated pipelines, if any, is influenced by fluctuations in costs and its ability to recover any increases in our costs in the rates charged to its shippers. To the extent that a portfolio company's costs increase in an amount greater than what it is permitted by the FERC, the CPUC, the NEB or other similar agencies to recover in its rates, or to the extent that there is a lag before it can file for and obtain rate increases, such events can have a negative impact upon that company's operating results. A portfolio company's existing rates may also be challenged by complaint. Regulators and shippers on pipelines have rights to challenge the rates charged under certain circumstances prescribed by applicable regulations. Some shippers on pipelines have filed complaints with the regulators that seek substantial refunds for alleged overcharges during the years in question and prospective reductions in the tariff rates. Further, the FERC may continue to initiate investigations to determine whether interstate natural gas pipelines have over-collected on rates charged to shippers. Any successful challenge to a portfolio company's rates could materially adversely affect its future earnings, cash flows and financial condition, all which would negatively impact the returns of a Fund.

**Drilling, Exploration and Development.** A Fund may invest in companies or projects that engage in oil and gas exploration and development; a speculative business involving a high degree of risk. Exploration and development companies may have limited production, marketing, and financial resources and may be, therefore, more vulnerable to the adverse impact of competition and changes in market conditions. Moreover, oil and gas drilling may involve unprofitable and unsuccessful efforts. Companies engaged in oil and gas exploration and development may expend a significant amount of capital drilling in wells that do not produce oil or gas, or in wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Additionally, if multiple rounds of drilling are undertaken before oil or gas is located or produced, the investment may be carried at little or no value, may face increased borrowing costs or trigger lending

covenants, and may produce lower returns on an aggregate or an internal rate of return (“IRR”) basis. Acquiring, developing and exploring for oil and natural gas involve many risks. These risks include: (i) encountering unexpected formations or pressures; (ii) loss of drilling fluid circulations; (iii) premature declines of reservoirs; (iv) blow-outs; (v) possible claims of indigenous peoples; (vi) protests by environmental groups; (vii) eco-terrorism; (viii) continuity of mineable reserves; (ix) availability of essential infrastructure; (x) labor relations; (xi) industrial accidents; (xii) reclamation obligations; (xiii) other accidents in completing wells; (xiv) cratering; (xv) sour gas releases; (xvi) pipeline failures; (xvii) uncontrollable flows of oil, natural gas or well fluids; (xviii) pollution, release of toxic or other hazardous substances; (xix) fires; (xx) explosions; (xxi) spills; and (xxii) other environmental, health and safety risks. The risks and hazards inherent in the oil and gas industries, some of which are enumerated above, have the potential of causing widespread and catastrophic environmental disasters. Such disasters could materially and adversely harm a Fund and any portfolio company of such Fund that is directly or indirectly responsible for causing or exacerbating such disasters. In addition, a Fund may also be liable for environmental damages caused by the previous or subsequent owners or operators of properties (or working interests therein) a Fund purchases. Insurance coverage for environmental damages that occur over time, or insurance coverage for the full potential liability that could be caused by sudden environmental damages, may not be available at a reasonable cost and a Fund may be subject to liability or may lose substantial portions of its properties (or working interests therein) in the event of certain environmental damages.

In addition to the economic costs resulting from such disasters that a Fund and/or a portfolio company of a Fund may have to bear through liability for third-party losses or the cessation or suspension of operations (which amounts could be greater than aggregate commitments, with respect to a Fund), such disasters could cause severe reputational damage to such portfolio company, a Fund, and, potentially, the Limited Partners. Furthermore, such disasters may not be covered by insurance, and casualty and business interruption insurance may not be available at rates and on terms that key personnel deem desirable. As a result, substantial liabilities to third parties or governmental entities may be incurred and the payment of such liabilities could have a material adverse effect on a Fund’s financial condition and results of operations.

**Sovereign Rights.** The right of certain portfolio companies to extract mineral resources, or to generate, deliver or sell energy or related services and equipment may be granted by or derive from approval by governmental entities and are subject to special risks, including the risk that the relevant governmental entity will exercise sovereign rights and take actions contrary to the rights of a Fund or the relevant portfolio company or project under the relevant agreement. There can be no assurance that the relevant governmental entity will not legislate, impose rules or regulations or change applicable laws or act contrary to the law in a way that would materially and adversely affect the business of any portfolio company.

**Energy Services Investment Risks.** Demand for services and products provided by energy services companies is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas exploration and production companies. Investments in companies providing energy services or owning, controlling or investing in energy services assets, including horizontal and directional drilling, pressure pumping, pressure control and well services activities, are subject to a variety of risks not necessarily associated with other types of energy investments. Such risks may include the risks that: (i) the demand for energy services and products provided by portfolio companies may decline due to a reduction in end-use demand for oil and natural gas; (ii) the deterioration of the commodity price environment can negatively impact oil and

natural gas exploration and production companies, and in some cases, impair their ability to timely pay for products or services offered by portfolio companies, subjecting the payment of value for services offered by portfolio companies to the credit risk of unrelated third parties; (iii) shortages, delays in delivery or interruptions in the supply of drill pipe, replacement parts, or other equipment, supplies or materials could prevent portfolio companies from operating and adversely impact a Fund's investments in such portfolio companies; (iv) competition within the energy services industry may affect the ability of portfolio companies to market their services, which could adversely affect the profitability of a Fund's investment in such companies; (v) upgrading, converting or reactivating energy services equipment after a period of inactivity may subject such equipment or assets to operational risks which could cause delays or cost overruns and adversely affect the cash flows or financial position of portfolio companies, thereby potentially adversely affecting the profitability of a Fund's investments in such portfolio companies; (vi) unrefined oil and natural gas products and other hydrocarbons may be released into the environment as a result of conduct by portfolio companies (even if lawful at the time it occurred) or prior operators or other third parties, which could cause such portfolio companies to be required to make substantial expenditures for responsive action or government-imposed penalties, to be liable to government agencies or private parties for natural resources damages, personal injury or property damages, and to be subjected to significant business interruption; and (vii) as a result of their operation, ownership or control of or investment in regulated assets such as drilling rigs, portfolio companies may be subject to unfavorable rulings imposed by regulatory authorities.

**Hydraulic Fracturing.** The entities in which a Fund may invest, and/or the key counterparties of such entities, will in most cases use hydraulic fracturing in their core programs. Hydraulic fracturing typically involves the injection of water, sand and additives under pressure into rock formations in order to stimulate hydrocarbon production. Certain portfolio companies and/or their key counterparties may find that the use of hydraulic fracturing is necessary to produce commercial quantities of oil and natural gas from reservoirs in which they operate. Each Fund intends to invest in entities and businesses that have operations in the U.S. where there have been a number of initiatives and proposed initiatives at the federal, state and local level to ban or regulate hydraulic fracturing and to study the environmental impacts of hydraulic fracturing and the need for further regulation of the practice. For example, debate exists over whether certain of the chemical constituents in hydraulic fracturing fluids may contaminate drinking water supplies, with some members of the U.S. Congress and others proposing to revisit the exemption of hydraulic fracturing from the permitting requirements of the U.S. Safe Drinking Water Act (the "SDWA"). Eliminating this exemption could establish an additional level of regulation and permitting at the federal level that could lead to operational delays or increased operating costs for those portfolio companies and could result in additional regulatory burdens that could make it more difficult to perform hydraulic fracturing and increase a portfolio company's costs of compliance and doing business. Further, the U.S. Clean Water Act (the "CWA") restricts the discharge of produced waters and other pollutants into waters of the U.S. and requires permits before any pollutants may be discharged. The CWA and comparable state laws and regulations in the U.S. provide for penalties for unauthorized discharges of pollutants including produced water, oil, and other hazardous substances. Compliance with and future revisions to requirements and permits governing the use, discharge, and recycling of water used for hydraulic fracturing may increase a portfolio company's costs and cause delays, interruptions or terminations of its operations which cannot be predicted.

Furthermore, the U.S. Environmental Protection Agency ("EPA") recently asserted federal regulatory authority over hydraulic fracturing involving diesel additives under the SDWA's Underground Injection Control Program. The EPA has since produced new guidelines in connection with this program that may prompt certain states to adopt similar practices into their regulatory framework. At the same time,

the EPA has commenced a study of the potential environmental impacts of hydraulic fracturing activities, and a committee of the U.S. House of Representatives also conducted an investigation of hydraulic fracturing practices. Legislation has been introduced before the U.S. Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. More recently, legislation has also been introduced before the U.S. Congress that would ban hydraulic fracturing on federally owned, public lands. In March 2015, the U.S. Department of the Interior (“DOI”) adopted regulations covering fracturing activities on federal lands, including rules addressing wastewater disposal, standards for well construction and the required disclosure of the chemicals used in the fracturing process. The DOI’s regulations are currently facing legal challenge but if such regulations remain effective, then the cost of hydraulic fracturing on federal lands could increase, the amount of available investment opportunities could be limited and there could be an adverse effect on investment returns.

In addition, some states have adopted, and other states are considering adopting, regulations that could impose more stringent licensing, disclosure and well construction requirements on hydraulic fracturing operations, including a variety of well construction, set back, and disclosure regulations limiting how fracturing can be performed and requiring various degrees of chemical disclosure. Although certain of these restrictions have been challenged and/or remain open to challenges (in light of, among other things, state law preemption considerations), the current effect is the prohibition of or significant uncertainty regarding hydraulic fracturing in such municipalities. If these municipal laws are not overturned (if challenged) or otherwise remain effective and/or if new laws or regulations that significantly restrict hydraulic fracturing are adopted, such laws could make it more difficult (if not impossible in the case of the municipality-level bans) or costly for companies in which a Fund invests to perform fracturing to stimulate production from tight formations. If such legislation is successfully upheld, it may spur similar efforts in other jurisdictions.

In addition, if hydraulic fracturing becomes regulated at the U.S. federal level as a result of U.S. federal legislation or regulatory initiatives by the EPA following a Fund investment, fracturing activities by companies in which such Fund had previously invested and/or the key counterparties of such entities could become subject to additional permitting requirements, and also to attendant permitting delays and potential increases in costs.

Overall, initiatives by the EPA and other regulators in the U.S. and elsewhere to expand or implement regulation of hydraulic fracturing, together with the possible adoption of new laws or regulations that significantly restrict hydraulic fracturing, could result in delays, eliminate certain drilling and injection activities, make it more difficult or costly for a portfolio company to perform hydraulic fracturing, increase a portfolio company’s costs of compliance and doing business, and delay or prevent the development of unconventional hydrocarbon resources from shale and other formations that are not commercial without the use of hydraulic fracturing. In addition, there have been proposals by certain NGOs to restrict certain buyers from purchasing oil and natural gas produced from wells that have utilized hydraulic fracturing in their completion process, which could negatively impact a portfolio company’s ability to sell its production from wells that utilized these fracturing processes. These effects on a portfolio company’s operations could have a material adverse effect on the financial condition of a Fund and the value of such Fund interests. There may be similar and/or more onerous approaches taken to regulate hydraulic fracturing in other jurisdictions in which a Fund makes investments.

**Change of Law.** Government counterparties or agencies may have the discretion to change or increase regulation of a portfolio company’s operations, or implement laws or regulations affecting the portfolio

company's operations, separate from any contractual rights it may have. A company or project in which a Fund invests could thus be materially and adversely affected as a result of statutory or regulatory changes or changes in judicial or administrative interpretations of existing laws, rules and regulations that impose more comprehensive or stringent requirements on such company or project, the markets in which such company or project operates or such company's or project's industry generally. Such changes could adversely affect the performance of one or more of a Fund's investments. Moreover, additional regulatory approvals, including renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the companies' customer(s), or for other reasons. Changes in laws, rules and regulations could result in increased compliance costs, additional capital expenditures or unanticipated liabilities. A company or project could also be materially and adversely affected by regulations that have been vacated by court decisions. Several U.S. federal environmental programs, including the Clean Water Act rules regarding cooling water intake structures, the Clean Air Mercury Rule, and the Clean Air Interstate Rule, have been fully or partially vacated by the courts. The U.S. Environmental Protection Agency issued its Cross-State Air Pollution Rule replacing the Clean Air Interstate Rule on July 7, 2011. There is considerable uncertainty as to how these and other federal environmental programs will be modified and/or ultimately implemented. Any such modifications could alter the competitive landscape and/or the nature of the markets in which a company or project operates in a material and adverse manner to such company or project.

**Reliance on Estimates of Oil and Gas Reserve.** In acquiring oil and gas properties or working interests therein, each General Partner and Clearstream will rely to a large degree on estimates of oil and gas reserves to determine the value of its current and prospective investments and in negotiating the acquisition terms of its investments. Estimates of oil and gas reserves are inherently uncertain. Inaccurate estimates may cause a Fund to underbid and fail to win an acquisition target, or overpay in its acquisitions and adversely affect its ability to generate attractive results. Estimates of oil and gas reserves, by necessity, are projections based on engineering and geological data. There are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend on a number of variable factors and assumptions, such as historical production from the examined area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and gas attributable to any particular group of properties and classifications of such reserves based on risk of recovery and estimates of the future net cash flows expected from such reserves may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves.

**Production.** Exploration and production companies are particularly vulnerable to declines in the demand for and prices of crude oil and natural gas. Reductions in prices for crude oil and natural gas can cause continued production from a given reservoir to cease being economical earlier than it would if prices were higher, resulting in the plugging and abandonment of, and cessation of production from, that reservoir. In addition, lower commodity prices not only reduce revenues but also can result in substantial downward adjustments in reserve estimates. Actual oil and gas prices, development

expenditures and operating expenses will vary from those assumed in reserve estimates, and these variances may be significant. Any significant variance from the assumptions used could result in the actual quantity of reserves and future net cash flow being materially different from those estimated in reserve reports. In addition, results from drilling, testing and production and changes in prices after the date of reserve estimates may result in downward revisions to such reserve estimates. Substantial downward adjustments in reserve estimates could have a material adverse effect on a given exploration and production company's financial position and results of operations and could result in acceleration of result-based loans or defaults thereunder. Actual amounts produced from such reserves may similarly vary. In addition, due to natural declines in reserves and production, exploration and production companies must economically find or acquire and develop additional reserves in order to maintain and grow their revenues and distributions.

**Licenses and Lease.** Interests in the exploration and operation of oil and gas businesses in most countries are governed by statutes, rules and regulations and are evidenced by the granting of exploration and development licenses or production leases. Each license is typically for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, a portfolio company could lose title to, or its interest in, such licenses if the license conditions are not met or if insufficient funds are available to meet expenditure commitments. If the portfolio company is unable to meet its obligations in relation to the work programs of any of the licenses, it may be required to relinquish the license or the license may be revoked. Certain tenements and licenses may be located in, or adjacent to, areas that may be subject to actual or potential border disputes between two or more countries. These disputes may cause disruptions, delays and possibly cancellation of certain projects, as well as the impairment of certain assets. Further, certain reserves may be located below privately owned properties and may require regulatory intervention to permit and facilitate the exploration and exploitation of such reserves.

**Underdeveloped Acreage.** Each Fund's portfolio companies may hold, or seek to hold, undeveloped acreage and/or acreage in new or emerging plays. Undeveloped acreage may not ultimately be developed or become commercially productive, which could cause the applicable portfolio company to lose rights under its leases as well as have a material adverse effect on its oil and natural gas reserves and future production. As a result, drilling results in these areas are uncertain, and the value of undeveloped acreage will decline if drilling results are unsuccessful. In addition, drilling results in these areas are more uncertain than drilling results in areas that are developed and producing. Since new or emerging plays have limited or no production history, portfolio companies may be unable to use past drilling results in those areas to help predict future drilling results. As a result, costs of drilling, completing and operating wells in these areas may be higher than initially expected, and the value of undeveloped acreage will decline if drilling results are unsuccessful.

**Weather and Climatological Risks.** Certain energy companies may be particularly sensitive to weather and climate conditions. For example, solar power generators rely on the frequency and intensity of sunlight, wind turbines upon the frequency and intensity of the wind, and companies focused on biomass rely on the production of crops, which can be adversely affected by droughts and other weather conditions.

**Adequacy and Availability of Insurance; Catastrophic Events.** While each Fund may seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible.

Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation of assets.

In addition, certain losses of a catastrophic nature, such as those caused by wars, earthquakes, hurricanes, tornadoes, floods, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates as to adversely impact a Fund's profitability. In general, losses related to terrorism are becoming harder and more expensive to insure against, and most insurers are excluding terrorism coverage from their all-risk policies. As a result, it is unlikely that any of a Fund's investments will be insured against damages attributable to acts of terrorism (or certain other losses of a catastrophic nature). If a major uninsured loss were to occur with respect to an investment, a Fund could lose both its capital invested in and anticipated profits related to such investment.

**Regulation of Greenhouse Gases.** Both in the U.S. and globally, emissions of greenhouse gases ("GHGs") are increasingly regarded as linked to global climate change, which may lead to more stringent regulation of GHGs in the future. Increased public concern and mounting political pressure may result in more U.S. federal, state or international requirements to reduce or mitigate the effects of GHGs. These requirements include adoption of cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards, and incentives or mandates for renewable energy, all of which could make a Fund's portfolio companies' products and services more expensive, lengthen project implementation times, and reduce demand for hydrocarbons. Any such future laws and regulations imposing reporting obligations on, or limiting emissions of GHGs from, a portfolio company's equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations. Furthermore, current and pending GHG regulations may also increase a portfolio company's compliance costs, such as for monitoring or sequestering emissions. Substantial limitations on GHG emissions could also adversely affect demand for oil and natural gas, which could affect the demand for services and products provided by energy services companies. Changes in the regulation of GHGs could impact a portfolio company investment by a Fund or make future investments undesirable.

**Renewable Energy Policy Risk.** Investments in renewable energy and related businesses and/or assets currently may enjoy support from national, state and local governments and regulatory agencies designed to finance or support the financing development thereof, such as the U.S. federal investment tax credit and federal production tax credit, U.S. Department of the Treasury grants, various renewable and alternative portfolio standard requirements enacted by several states, renewable energy credits and state-level utility programs, such as system benefits charge and customer choice programs. Similar support, initiatives and arrangements exist in non-U.S. jurisdictions as well, in particular the European Union. Non-U.S. jurisdictions may have more variable views on policies regarding renewable energy (and for example may be more willing or likely to abandon initiatives regarding renewable energy in favor of more carbon-intensive forms of traditional energy generation). The combined effect of these programs is to subsidize in part the development, ownership and operation of renewable energy projects, particularly in an environment where the low cost of fossil fuel may otherwise make the cost of producing energy from renewable sources uneconomic. The operation and financial performance of any renewable energy investment may be significantly dependent on governmental policies and regulatory frameworks that support renewable energy sources. Some of the U.S. states or other jurisdictions in which renewable energy investments are located may have Renewable Portfolio Standards ("RPS") requirements that support the sale of electricity generated from renewable energy

sources. Electric utility suppliers may satisfy their RPS requirements by purchasing renewable energy or renewable energy credits (“RECs”) from producers of electricity generated from renewable sources. There can be no assurance that government support for renewable energy will continue, that favorable legislation will pass, or that the electricity produced by the renewable energy investments will continue to qualify for support through the RPS programs. The elimination of, or reduction in, government policies that support renewable energy could have a material adverse effect on a renewable energy portfolio company’s financial condition or results of operation. Any reduction in or elimination of these programs could have an adverse effect on development of renewable energy resources, as was demonstrated by the significant reduction in wind power development projects between the end of 2003 when the federal production tax credit expired and the reinstatement of such credit by the U.S. Congress in October 2004. To the extent any tax credits, other favorable tax treatment or other forms of support for renewable energy are changed, a Fund’s renewable energy investments may be negatively impacted.

**Risks Relating to the Power Sector.** For much of its history, the power sector, and particularly the utility industry within this broader sector, was characterized by institutional stability and predictability of financial performance. The advent of utility deregulation, privatization, technological change, environmental regulations, commodity price fluctuations, and market volatility has created a much less stable sector with substantially greater variability of company performance. There can be no assurance that the pace or direction of the change will be in accord with the expectations of Clearstream’s principals, nor that the industry changes will benefit investments made by a Fund. Investing in power facilities and related assets and the companies that provide the equipment, services, and systems to such power facilities and related assets is subject to a variety of risks, not all of which can be foreseen or quantified, including operating, economic, environmental, commercial, regulatory, political and financial risks. There is no assurance that a Fund’s investments will be profitable or generate cash flow sufficient to service their debt or provide a return on or recovery of amounts invested therein.

**Documentation and Other Legal Risks.** In addition to the matters described above, energy and energy generation and related projects are typically governed by complex legal agreements. As a result, there can be a higher risk of dispute over interpretation or enforceability of such agreements. It is not uncommon for energy generation and related assets to be exposed to a variety of other legal risks including, but not limited to, legal action from special interest groups. Special interest groups may use legal processes to seek to impede particular projects to which they are opposed.

**Availability of Raw Materials.** Constraints in the supply of, prices for, and availability of transportation of raw materials can adversely affect portfolio companies engaged in the energy services business. Raw materials essential to such business, such as proppants, hydrochloric acid, and gels, including guar gum, are normally readily available. Shortage of raw materials as a result of high levels of demand or loss of suppliers during market challenges can trigger constraints in the supply chain of those raw materials, particularly where a company has a relationship with a single supplier for a particular resource. Many of the raw materials essential to the energy services business require the use of rail, storage, and trucking services to transport the materials to jobsites. These services, particularly during times of high demand, may cause delays in the arrival of or otherwise constrain the supply of raw materials. These constraints could adversely affect an energy services company’s business and results of operations (see “—Transportation and Storage Risks” above). In addition, price increases imposed by vendors for raw materials used in such business and the inability to pass these increases through to customers could have a material adverse effect on the business and operations of a portfolio company.



**Reliance on Customers.** Certain portfolio companies of a Fund may depend on a limited number of significant customers. Accordingly, the loss by any such portfolio company of one or more significant customers could have an adverse effect on its business. Further, the failure or delay of a portfolio company's customers to pay a significant amount of outstanding receivables could adversely affect its liquidity, results of operations, and financial condition. In weak economic or commodity price environments, certain energy companies may experience increased delays and failures due to, among other reasons, a reduction in cash flow from operations and access to credit markets. If customers delay paying or fail to pay a significant amount of outstanding receivables to a portfolio company, it could adversely affect the liquidity, results of operations, and financial condition of such company.

### **Risks Relating to Non-U.S. Investments**

**Non-U.S. Investments.** Each Fund may invest a portion of such Fund's aggregate commitments in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the U.S., its territories, and possessions. Investments in non-U.S. securities or instruments involve certain factors not typically associated with investing in U.S. securities and instruments, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a Fund's non-U.S. investments may be denominated (including risks associated with potentially rapid inflation), and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which a Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (v) the absence of uniform accounting, auditing, and financial reporting standards, practices and disclosure requirements, and less (or more) government supervision and regulation; (vi) certain economic, social and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, the risks of political, economic, governmental or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation; (vii) the possible imposition of non-U.S. taxes on income, gains and gross sales or other proceeds recognized with respect to such securities or instruments; (viii) the application of complex U.S. and non-U.S. tax rules to cross-border investments; (ix) possible non-U.S. tax return filing requirements for a Fund and/or its partners; (x) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (xi) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (xii) political hostility to investments by foreign or private equity investors; and (xiii) less publicly available information.

**Non-U.S. Currency Risks.** Although most of a Fund's investments are expected to be U.S. dollar denominated, a Fund's investments that are denominated in non-U.S. currencies are subject to the risk that the value of the particular currency in which such investment is denominated will change in relation to the U.S. dollar, the currency in which the books of such Fund are kept and contributions and distributions generally will be made. Among the factors that may affect currency values are trade balances between nations, the level of short-term interest rates, differences in relative value of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. A Fund may incur costs in converting investment proceeds from one currency to another. Clearstream may, but it is under no obligation to, employ hedging techniques to manage exposure, although there can be no assurance that such strategies will be effective.

Non-U.S. prospective investors should note that interests in each Fund are denominated in U.S. dollars. Prospective investors subscribing for interests in a Fund in any country in which U.S. dollars are not the local currency should note that changes in value of foreign exchange between the U.S. and such currency may have an adverse effect on the value, price or income of the investment to such prospective investors. There may be foreign exchange regulations applicable to investments in foreign currencies in certain jurisdictions. The fees, costs and expenses incurred by Limited Partners in converting their local currency to U.S. dollars (if applicable) in order to make capital contributions will be borne solely by such Limited Partners and will be in addition to the amounts required by such capital contributions (and are not part of such Limited Partners' commitments).

### **Investment Structuring and Legal Risks**

**Control Person Liability.** Each Fund is expected to have controlling interests in a number of its portfolio companies. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, pension and other fringe benefits, failure to supervise management, violation of laws and governmental regulations (including securities laws) and other types of liability, for which the limited liability generally afforded to investors may be ignored. In particular, if determined to be a direct owner or operator of any of the portfolio company's facilities or operations, a Fund could face strict, joint and several liability under environmental laws for hazardous substance or contamination-related liabilities. If any such liabilities were to arise, a Fund might suffer significant losses. While Clearstream intends to manage each Fund in a manner that will minimize the exposure of these risks, the possibility of successful claims against a Fund and/or its affiliates cannot be precluded.

**Active Management.** A Fund may, in certain circumstances, take majority positions, which may be alongside other investors, such as institutions, other pooled investment vehicles, and management, while providing equity financing at all stages of a company's lifecycle. Depending upon the amount of equity owned by a Fund, any relevant contractual arrangements between a portfolio company and a Fund, and other relevant factual circumstances, such majority position could result in an extension of the ninety-day bankruptcy preference period to one (1) year with respect to payments made to it. In addition, because of its equity ownership, representation on the board of directors, and/or contractual rights, a Fund may often be thought to control, participate in the management of or influence the conduct of such portfolio companies. This could expose the assets of a Fund to claims by such portfolio company, its other security holders, its creditors or governmental agencies. In addition, investments alongside other investors, including in the event a Fund holds a majority position in such portfolio company, may involve certain additional risks not present in investments where a third party is not involved. Please see the second paragraph of "—Non-Controlling Investments" below for additional detail on such risks.

**Non-Controlling Investments.** A Fund may hold meaningful minority stakes in privately held companies or assets and in some cases may have limited minority protection rights. In addition, during the process of exiting investments, a Fund at times may hold minority equity stakes of any size such as might occur if portfolio companies are taken public. In such instances, a Fund may have limited management and/or control rights with respect to the operation of such companies or assets and may be entirely dependent on the decisions of the portfolio company and/or third party investors. As is the case with minority holdings in general, such minority stakes that a Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it may be more difficult for such Fund to liquidate its interests than it would be had such Fund owned a controlling interest in such company or

were otherwise granted control and/or management rights alongside any such company and/or other third party investor. Even if a Fund has contractual rights to seek liquidity of such Fund's minority interests in such companies or assets, it may be very difficult to sell such interests or seek a sale of such company or asset upon terms acceptable to such Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

In addition, a Fund may co-invest with other persons or entities through partnerships, joint ventures or other entities or arrangements as a co-venturer or partner. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) a Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of a Fund may at any time have economic or business interests or goals that are inconsistent with those of such Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to such Fund's investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances a Fund may be liable for actions of its co-venturers or partners. The co-venturer or partner may be a joint venture partner or interest holder in another joint venture or other vehicle in which Clearstream or its affiliates has an interest or otherwise controls. The co-venturer or partner may also be entitled to receive payments from, or allocations or performance-based compensation (e.g., carried interest) in respect of, a Fund and/or such investments, and in such circumstances, any such amounts will not, even if they have the effect of reducing any retainers or minimum amounts otherwise be payable by Clearstream or its affiliates, be deemed paid to or received by such persons or entities or reduce the Management Fee. In addition, a Fund may co-invest with non-affiliated co-investors or partners whose ability to influence the affairs of the companies in which a Fund invests may be significant, and even greater than that of a Fund and as such, a Fund may be required to rely upon the abilities and management expertise of such co-venturer or partner. It may also be more difficult for a Fund to sell its interest in any joint venture, co-investment, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment may be subject to a buy-sell right). A Fund may grant co-venturers or partners approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require a Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, a Fund may be unable to fully realize its expected return on any such investment. Further, to the extent that a Fund offers any co-investment opportunity to any Limited Partners or third parties, some or all of the risks described above may also apply to such co-investments.

**Director Liability.** A Fund will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests (each, a "Board Representative"). In those instances where a Fund is not the sole shareholder of the applicable portfolio company, a Board Representative may have duties to persons other than the Fund. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Board Representative, and ultimately such Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect against such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from a Fund's investment activities.

**Litigation.** The transactional nature of the business of a Fund exposes such Fund, its General Partner and their respective affiliates generally to this risk of third-party litigation. In the ordinary course of its business, a Fund may be subject to litigation from time to time. Under the applicable Partnership Agreement, a Fund will generally be responsible for indemnifying its General Partner and certain of its affiliates for costs they may incur with respect to such litigation not covered by insurance. The outcome of litigation proceedings may materially adversely affect the value of a Fund and may continue without resolution for long periods of time. Additional regulation could also increase the risks of third-party litigation. Any litigation may consume substantial amounts of its General Partner's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

**Unfunded Pension Liabilities of Portfolio Companies.** Recent court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a U.S. portfolio company, such fund (and any other 80%-owned U.S. portfolio companies of such fund) might be found liable for certain pension liabilities of such a U.S. portfolio company to the extent the U.S. portfolio company is unable to satisfy such liabilities. Although Clearstream intends to manage each Fund's investments to minimize any such exposure, a Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where a Fund may own an 80% or greater interest in such a U.S. portfolio company. If a Fund (or other 80%-owned U.S. portfolio companies of a Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of such Fund and the companies in which such Fund invests 80% or more of the equity. This discussion is based on current court decisions, statute and regulations regarding ERISA control group liability as in effect as of the date of the applicable Memorandum, which may change in the future as the case law and guidance develops.

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

**Liability of Limited Partners.** Each Fund has been organized as a limited partnership. Generally, a Limited Partner should not be personally liable for the debts of a Fund except that, in the event a Fund is otherwise unable to meet its obligations, the Limited Partners may, under applicable law, be obligated to repay amounts previously received by them to the extent such amounts are deemed to have been wrongfully distributed to them, subject to certain limitations set forth in the applicable Partnership Agreement. In addition, any partner's capital commitment is susceptible to risk of loss as a result of any liability of a Fund irrespective of whether such liability is attributable to an investment to which such partner did not contribute any capital.

**Over-Commitment.** In order to facilitate the acquisition of a portfolio company, a Fund may make (or commit to make) an investment in such company with a view to selling a portion of such investment to co-investors or other persons prior to or within a brief period after the closing of the acquisition. In such event, a Fund will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms and that, as a consequence, a Fund may bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment, hold a larger than expected investment in such portfolio company or may realize lower than expected returns from such investment.

### **Management Risks**

**Reliance on the General Partners and Clearstream.** Each Fund will be dependent on its General Partner and Clearstream. Limited Partners generally have no right or power to take part in the management of a Fund, and control over the operation of a Fund, including decisions with respect to structuring, negotiating and purchasing, financing and eventually divesting investments on behalf of a Fund, as control over these decisions will be vested with its General Partner and Clearstream. Consequently, a Fund's future profitability and investment performance will depend largely upon the business and investment acumen of Clearstream's principals. The loss or reduction of service of one or more of Clearstream's principals could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, Clearstream's principals may in the future manage other Funds (as defined below) besides the Funds and Clearstream's principals may need to devote substantial amounts of their time to the investment activities of such other Funds, which may pose conflicts of interest in the allocation of the time of Clearstream's principals. In addition, certain changes in Clearstream or circumstances relating to Clearstream may have an adverse effect on a Fund or one or more of its portfolio companies including potential acceleration of debt facilities. Limited Partners are reminded that the composition of the professionals making up particular industry sector investment teams change over time, and the professionals included in such teams may no longer be members of the particular team or serve in the same or similar roles thereon (or may no longer be employed by Clearstream, or may leave such team or Clearstream during the life of a Fund).

**Reliance on Portfolio Company Management.** The success of many of a Fund's portfolio companies is heavily dependent on the management of such companies. Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Additionally, Clearstream will generally establish the capital structure of companies in which a Fund invests on the basis of financial projections for such companies, which will contain significant judgment and input from the portfolio company management team. Although Clearstream will be responsible for monitoring the performance of each portfolio investment and each Fund generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management team, or any successor, will be able or willing to successfully operate a company in accordance with each Fund's objectives. Portfolio companies may need to attract, retain and develop executives and members of their management teams. The market for executive talent can be extremely competitive. Further, the business and operations of software and technology companies in which a Fund may invest often experience rapid organizational change that may strain the performance of the portfolio companies' management teams. There can be no assurance that the management team of a portfolio company on the date a portfolio investment is made will remain the same or continue to be affiliated with the portfolio company throughout the period the portfolio company is held by the Fund. There can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, a Fund may be adversely affected thereby.

**Standard of Care; Indemnification.** Each Fund's Partnership Agreement contains provisions that, subject to applicable law, reduce, modify or eliminate the duties that a General Partner would otherwise owe to a Fund and the Limited Partners. Pursuant to the applicable Partnership Agreement, the General Partners, Clearstream, its principals and certain of their employees and affiliates will be indemnified and held harmless from losses sustained from any act or omission in connection with a Fund's activities, subject to certain exceptions set forth in the applicable Partnership Agreement, and may receive advances for any fees, costs and expenses incurred in the defense or settlement of any claim that may be subject to a right of indemnification. The application of the foregoing standards may result in Limited Partners having a more limited right of action in certain cases than they would in the absence of such standards. As a result, a Fund may bear significant financial losses even where such losses were caused by the negligence of its General Partner and certain of its affiliates. Such financial losses may have an adverse effect on the returns to the Limited Partners. The fees, costs and expenses (whether or not advanced) and other liabilities resulting from a Fund's indemnification obligations will generally be paid by or otherwise satisfied out of the assets of a Fund, including the unpaid capital obligations of the Limited Partners. In addition, if the assets of a Fund are insufficient to satisfy such Fund's indemnification obligations, its General Partner may recall distributions previously made to the Limited Partners, subject to certain limitations set forth in the applicable Partnership Agreement.

**Possibility of Fraud or Other Misconduct of Employees and Service Providers.** Misconduct by (i) Clearstream's employees, (ii) portfolio company directors, officers or employees, and (iii) service providers to the foregoing and/or their respective affiliates could undermine the due diligence efforts of a Fund and/or Clearstream and cause significant losses to such Fund. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Fund, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting a Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations (and the concealing of any of the foregoing). Such activities may result in reputational damage, litigation, business disruption, market or industry segment volatility and/or financial losses to a Fund. Clearstream has controls and procedures through which it seeks to minimize the risk of such misconduct occurring; however, no assurances can be given that such misconduct will be able to be identified or prevented.

### **Fund Risks**

**No Market for Interests; Restrictions on Transfer; No Right of Withdrawal.** Interests in a Fund may not generally be transferred, sold, assigned, pledged or otherwise encumbered without the prior written consent of its General Partner, which may be withheld pursuant to the applicable Partnership Agreement, and the volume of transfers permitted in any calendar year may be restricted in order to comply with certain safe harbors under the tax regulations promulgated under the U.S. Internal Revenue Code of 1986, as amended from time to time (the "Code"). Voluntary withdrawals from a Fund will not be permitted except in very limited circumstances generally involving situations where retaining an interest in a Fund would violate certain laws or regulations. In addition, interests in a Fund are not redeemable. There will be no public market for interests in a Fund, and none is expected to develop. Interests in a Fund have not been registered under the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the "Securities Act"), the securities laws of any state or the securities laws of any other jurisdiction and therefore cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws, or unless an exemption from registration is available. It is not contemplated that registration of the interests in a

Fund will ever be effected. Limited Partners may not be able to liquidate their investments prior to the end of a Fund's term and must be prepared to bear the risks of an investment in a Fund for an extended period of time.

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

**Significant Adverse Consequences for Default.** Each Fund's Partnership Agreement provides for significant adverse consequences in the event a Limited Partner defaults on its capital commitment or any other payment obligation. In addition to losing its right to potential distributions from a Fund, a defaulting Limited Partner may be forced to transfer its interest in a Fund for an amount that is less than the fair market value of such interest. Whether and how to exercise a General Partner's remedies against a defaulting Limited Partner will be in the discretion of such General Partner, and such General Partner may require the non-defaulting Limited Partners to contribute capital to make up for the shortfall created by such defaulting Limited Partner.

**Failure to Make Capital Contributions.** If a Limited Partner fails to pay when due installments of its capital commitment to a Fund, and the contributions made by non-defaulting Limited Partners and borrowings by a Fund are inadequate to cover the defaulted amount, such Fund may be unable to pay its obligations when due. As a result, such Fund may be subjected to significant penalties that could materially adversely affect the returns to the Limited Partners (including non-defaulting Limited Partners).

**Mandatory Withdrawal.** Under the applicable Partnership Agreement, a General Partner may require a Limited Partner to withdraw from a Fund if, among other things, failure to do so would, as determined by such General Partner in its sole discretion, adversely affect either a Fund, its General Partner, any portfolio company or Clearstream. In such an instance, the withdrawing Limited Partner shall not contribute additional capital to a Fund in respect of any subsequent capital call and the withdrawing Limited Partner's interest in such Fund will be entirely terminated (and such Limited Partner's capital commitment will be reduced to zero).

**Dilution from Subsequent Closings.** Limited Partners admitted or that increase their respective commitments to a Fund at subsequent closings generally will participate in then-existing investments of a Fund, thereby diluting the interest of existing Limited Partners in such investments. Although any such new Limited Partner will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of a Fund's existing investments at the time of such contributions.

**General Partner's Carried Interest.** The fact that a General Partner's carried interest is based on a percentage of net profits may create an incentive for such General Partner to cause its Fund to make

riskier or more-speculative investments or to hold an investment longer than otherwise would be the case.

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

**Transfer by General Partner.** To the extent a General Partner, its partners, including Clearstream's principals, and/or their respective affiliates commit to make a direct or indirect investment in or alongside a Fund, a participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in the applicable Partnership Agreement.

**Recycling; Reinvestment.** As set forth in the applicable Partnership Agreement, a General Partner has the right to recall certain capital returned or distributed to the applicable Fund's partners. Accordingly, a Fund's partner may be required to make capital contributions in excess of its commitment (with certain limitations), and to the extent such recalled or retained amounts are reinvested in investments, a partner will remain subject to investment and other risks associated with such investments.

**Fees and Expenses.** Each Fund will pay and bear all expenses related to its operations, including management fees and the costs of holding, monitoring, maintaining and disposing of portfolio companies, including investment banking fees and consulting fees and certain fees and expenses related to Operating Partners, whether or not a Fund makes any profits. While it is difficult to predict the future expenses of a Fund, such expenses may be substantial and may surpass such Fund's operating income. The amount of these partnership expenses will reduce the actual returns realized by Limited Partners on their investment in a Fund (and may, in certain circumstances, reduce the amount of capital available to be deployed by a Fund for investments). Fund expenses include recurring and regular items, as well as extraordinary expenses for which it may be hard to budget or forecast. As a result, the amount of a Fund's expenses ultimately called or called at any one time may exceed expectations.

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

**Additional Capital.** Certain of a Fund's portfolio companies, especially those in a development or "platform" phase, may be expected to require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular portfolio company. Each such round of financing



(whether from a Fund or other investors) is typically intended to provide a portfolio company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, such portfolio company may have to raise additional capital at a price unfavorable to the existing investors, including the invested Fund. In addition, a Fund may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve such Fund's proportionate ownership when a subsequent financing is planned, or to protect such Fund's investment when such portfolio company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of a Fund or any portfolio company. There can be no assurance that any portfolio company will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

**Removal of a General Partner; Early Termination of a Fund.** If, pursuant to and in accordance with the terms of the applicable Partnership Agreement, a General Partner is removed and a replacement general partner is appointed, Clearstream and its affiliates will cease to be involved in the management or control of the business of the applicable Fund. Therefore, there can be no certainty regarding such Fund's ability to consummate investment opportunities thereafter. Similar risks exist if the investment period is cancelled earlier than anticipated pursuant to the terms of the applicable Partnership Agreement. Moreover, it is possible that a Fund may be dissolved and terminated prematurely, and as a result, may not be able to accomplish its objectives and may be required to dispose of its investments at a disadvantageous time or make an in-kind distribution (resulting in Limited Partners not having their capital invested and/or deployed in the manner originally contemplated).

**Investments Longer than Term.** A Fund may make investments that may not be advantageously disposed of prior to the date such Fund is dissolved, either by expiration of such Fund's term or otherwise, or such Fund's term may be extended to facilitate the wind-down of such Fund. Although each General Partner expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, a General Partner has a limited ability to extend the term of its Fund, and a Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. To the extent that such investments are held in trust, the trust may incur operating and formation expenses. In addition, there can be no assurances with respect to the timeframe in which the winding-up and the final distribution of proceeds to the Limited Partners will occur.

**Distributions in Kind.** Although, under normal circumstances, prior to the termination of a Fund, each Fund intends to make distributions in cash or marketable securities, it is possible that under certain circumstances (including the winding-up of a Fund), distributions of investments for which there is no readily available public market and/or which may be subject to substantial restrictions on sale or transfer may be made in-kind. It may be difficult for Limited Partners to liquidate the investments received at a price or within a time period that is determined thereby to be ideal, and significant administrative burden may be involved. After a distribution of investments is made, the recipients may decide to liquidate such investments within a short period of time, which could have an adverse impact on the price of such investments. Limited Partners in receipt of a distributed investment will have no guidance from a Fund or its General Partner with respect to disposition of such investment (including timing of such disposition). The price at which such investments may be sold by such Limited Partners may be lower than the value of such investments determined pursuant to the applicable Partnership Agreement, including the value used to determine the amount of carried interest accruing to a General Partner with respect to such investment. In addition, the direct holding of certain investments may subject the holder to suit or taxes in jurisdictions in which such investments are located.

**Disclosure of Confidential Fund and Investor Information.** The Limited Partners are expected to include entities that are subject to public disclosure requirements, including state public records or similar freedom of information laws which may compel public disclosure of confidential information regarding a Fund, its investments and its investors. There has been a recent increase in the number of requests under such laws for contracts (including partnership agreements, subscription agreements and side letters) that investors in private equity funds that are subject to such laws have in place with private equity funds. A Fund may incur expenses in connection with responding to any such disclosure requests, even if such Fund ultimately succeeds in asserting confidentiality for any requested documentation. Moreover, notwithstanding the obligation that the Limited Partners will have pursuant to the applicable Partnership Agreement to maintain the confidentiality of such Fund's information, there can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement or otherwise. Each General Partner may also in certain circumstances, in an effort to protect any such potential disclosure, withhold all or any part of the information otherwise to be provided to such a Limited Partner, as more fully described in the applicable Partnership Agreement. There can be no assurance that such information will not be disclosed by a Fund, its General Partner, Clearstream, their affiliates and personnel, portfolio companies or services providers to any of them including, without limitation, to comply with laws, regulations or policies to which they are or may become subject. In addition, under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has authority to require private equity fund advisers, such as Clearstream, to file additional reports with the SEC regarding their funds and investment activities. Any public disclosure of a Fund's information could have an adverse effect on such Fund and its investors, for example, by affecting such Fund's competitive advantage in finding attractive investment opportunities.

**Cyber Security Breaches and Identity Theft.** A Fund and its 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 earthquake. Although Clearstream and the General Partners intend to 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, Clearstream, the General Partners, the Funds and/or a portfolio company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Clearstream's, the General Partners', 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 Clearstream's, the General Partners', the Funds' and/or a portfolio company's reputation, subject any such entity and its respective affiliates to legal claims or otherwise affect their business and financial performance.

**Electronic Delivery of Certain Documents.** Pursuant to the subscription agreement entered into by a Limited Partner, such Limited Partner may consent to electronic delivery (including email, facsimile or posting on a Fund's web-based investor reporting site or other Internet service in accordance with the applicable Partnership Agreement) of (i) any notices or communications required or contemplated to be delivered to such Limited Partner by a Fund, its General Partner or any of their respective affiliates, pursuant to applicable law or regulation (including, without limitation, the IAA), at the option of the person making such delivery, and (ii) capital call notices and other notices, requests, demands or

consents or other communications and any financial statements, reports, schedules, certificates or opinions required to be provided to such Limited Partner under the applicable Partnership Agreement or under any side letter or similar agreement with such Limited Partner. There are certain costs and possible risks (e.g., system outages) associated with electronic delivery. Moreover, a General Partner cannot provide any assurance that these communication methods are secure and will not be responsible for any computer viruses, problems, malfunctions, theft of information or related problems that may be associated with the use of an Internet-based system.

### **Potential Conflicts of Interest**

Instances may arise where the interests of Clearstream, a General Partner, Clearstream's principals and/or their respective affiliates and investment professionals may actually or potentially conflict with the interests of a Fund and its Limited Partners.

### **Other Activities**

Clearstream, Clearstream's principals and/or their respective affiliates and/or any of their respective investment professionals may in the future manage several other investment Funds. Such other Funds would likely be controlled by their own respective general partners subject to such other Funds' respective governing documents. The Funds will generally not have any rights to investment opportunities in relation to the rights of such other Funds and to the extent of overlapping investment objectives, opportunities may be allocated to or shared with one or more of such other Funds, as described further in this section, under the heading "*—Relationship with Clearstream and Other Funds, Accounts and Vehicles Managed by Clearstream.*"

The investment professionals of the General Partners and Clearstream or their respective affiliates may need to devote substantial amounts of their time to the investment activities of such other Funds, which may pose conflicts of interest regarding, among other things, the allocation of the time and attention of such investment professionals. Conflicts of interest that arise between a Fund, on the one hand, and the General Partners, their affiliates or any other Funds, on the other hand, will be discussed and resolved on a case-by-case basis by the representatives of the General Partners and/or Clearstream. Any such discussions will take into consideration the interests of the relevant parties and the circumstances giving rise to the conflict. While the General Partners and Clearstream will seek to manage any resulting conflicts in an appropriate manner, such transactions or advice may have consequences that are adverse to the interests of the Fund. The General Partners and Clearstream will have the power to resolve, or consent to the resolution of, conflicts of interest on behalf of, and such resolution will be binding on, the Fund. If any matter arises that a General Partner and/or Clearstream determines in its good faith judgment constitutes an actual conflict of interest, such General Partner and/or Clearstream may take such actions as it determines in good faith may be necessary or appropriate to ameliorate the conflict (and upon taking such actions such General Partner and/or Clearstream will be relieved of any liability for such conflict to the fullest extent not prohibited by law and shall be deemed to have satisfied its fiduciary duties related thereto to the fullest extent not prohibited by law). Investors should be aware that conflicts will not necessarily be resolved in favor of a Fund's interests.

In addition, pursuant to the applicable Partnership Agreement, an LP Advisory Committee will be established and authorized to give consent on behalf of a Fund, and its General Partner and/or Clearstream may in certain situations choose to consult with or obtain the consent of the applicable LP

Advisory Committee with respect to any specific conflict of interest relating to such Fund or in certain situations required by the IAA. If the applicable LP Advisory Committee waives the conflict of interest or such General Partner and/or Clearstream acts in a manner, or pursuant to the standards and procedures, approved by the LP Advisory Committee with respect to the conflict of interest, then such General Partner and its affiliates will not have any liability to such Fund or the Limited Partners for such actions taken by them, including actions in pursuit of their own interests.

Each General Partner will appoint one or more Limited Partner representatives to the LP Advisory Committee. Pursuant to the terms of the applicable Partnership Agreement, all Limited Partners are bound by the determinations of the applicable LP Advisory Committee, regardless of whether a Limited Partner is represented by a member of such LP Advisory Committee. The applicable Partnership Agreement will provide that to the maximum extent not prohibited by applicable law, no LP Advisory Committee member (or Limited Partner represented by such LP Advisory Committee member) shall be liable to any partner or the Fund for any such LP Advisory Committee member's action taken or failure to act (but solely with respect to any action or omission of such LP Advisory Committee member in his or her capacity as such) unless and to the extent such member failed to act in good faith. Representatives appointed to a Fund's LP Advisory Committee may not necessarily be an officer, director, employee, partner or member of the person whom such member represents. Furthermore, members of a Fund's LP Advisory Committee may own securities of, or have various business and other relationships with, a General Partner and/or Clearstream and its partners, employees and affiliates. The presence of these other interests and relationships may influence their decisions as members of such committee. Members of a Fund's LP Advisory Committee may have conflicts of interest that do not disqualify such members from voting or consenting to matters submitted to such LP Advisory Committee for consideration or review. To the extent that a Limited Partner is not represented by a member of such LP Advisory Committee, such Limited Partner will have no influence over matters submitted to an LP Advisory Committee for review or approval.

### **Diverse Limited Partner Group**

The Limited Partners may have conflicting investment, tax, regulatory and other interests with respect to their investments in the Fund. The conflicting interest of individual Limited Partners may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by a General Partner or Clearstream, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, its General Partner and Clearstream will consider the investment and tax objectives of the Funds and its partners as a whole, and not the investment, tax or other objectives of any Limited Partner individually. Interests in the Funds held by permitted partners and employees of Clearstream and/or the General Partners shall have the same voting and other rights as limited partners in the Funds upon such partner or employee's ceasing to be affiliated with Clearstream and/or the General Partners. Due to, among other factors, the differing circumstances under which events of defaults by Limited Partners may arise, the General Partners may apply different, or refrain from applying, remedies to any such defaults.

In addition, certain Limited Partners may also become limited partners in other Funds. It is also possible that a Fund or a Fund's investments may be counterparties or participants in agreements, transactions (including co-investments) or other arrangements with a Limited Partner or an affiliate of a Limited

Partner. Such Limited Partners described in the previous two sentences may therefore have different information about, and relationships with, the Funds than Limited Partners not similarly positioned. Prospective investors should note that, to the extent members of a Fund's LP Advisory Committee or Limited Partners in a Fund vote on any matter regarding conflicts (including conflicts between a Fund and any other Funds managed by Clearstream in the future, including their respective investment vehicles or portfolio companies) or otherwise participate in matters involving any vote or action thereby, any such Limited Partners in a Fund may have an interest in such other Funds managed by Clearstream in the future, including their respective investment vehicles or portfolio companies, and, as a result, may not be motivated to vote solely in accordance with their respective interests related to such Fund.

### **Carried Interest**

The existence of each General Partner's carried interest could be viewed as an incentive for such General Partner and/or Clearstream to make riskier or more speculative investments for each Fund than would be the case in the absence of this arrangement. In addition, the manner in which a General Partner's entitlement to the carried interest is determined may result in a conflict between its interests and the interests of Limited Partners with respect to the sequence and timing of disposals of investments. The performance of co-investments sponsored by Clearstream are not netted with the performance of a Fund's investments for purposes of calculating the carried interest payable by a Fund or the carried interest or performance fee payable by co-investors with respect to any such co-investment; and Clearstream may have conflicts with respect to the pursuit and allocation of investment opportunities.

### **Relationship with Clearstream and Other Funds, Accounts and Vehicles Managed by Clearstream**

Clearstream may, from time to time, be presented with investment opportunities that fall within the investment objective of a Fund and the investment objectives of other Funds. Each Fund is expected to serve as Clearstream's primary vehicle for making investments that in Clearstream's judgment are within the primary investment focus of such Fund. Subject to certain exceptions set forth in the applicable Partnership Agreement and until the formation of a successor fund is permitted, investments which are within the primary investment focus of a Fund and presented to Clearstream will be presented to such Fund. Investments determined to be outside a Fund's primary investment focus or that are otherwise determined as not suitable for a Fund in good faith by Clearstream may be made away from the Funds.

Furthermore, as set forth in the applicable Memorandum, in some instances, investments a Fund otherwise might have participated in may be made available to and shared with co-investors, and thus not all amounts available to a Fund relating to an investment may be presented to such Fund. Notwithstanding anything to the contrary, Clearstream may in its sole discretion allocate investment opportunities among one or more of the Funds, strategic investors and co-investors on a basis that it determines in good faith is appropriate or desirable in its sole discretion, taking into account legal, tax and regulatory considerations, contractual legal obligations, its investment allocation policies and procedures, portfolio diversification concerns, the specific nature of the investment, the risk-return profile and time horizon of the investments, client relationships, investment restrictions, the source of the investment opportunity, the nature of the investment focus of the Funds, the relative amounts of capital available for investment, and other considerations deemed relevant by Clearstream, and such

allocations are subject to adjustment based on the participation levels of any such parties in the co-investment opportunity. The outcome of this determination may result in the allocation of all of an investment opportunity to a Fund, or may result in a Fund co-investing alongside other Funds, strategic investors or other co-investors. Allocation of identified investment opportunities among a Fund, other Funds, strategic investors and other co-investors presents inherent conflicts of interest where demand exceeds available supply. Investors should note that the conflicts inherent in making such allocation decisions may not always be resolved to the advantage of any Fund. As a result of the foregoing, not all amounts available to Clearstream relating to an investment opportunity that falls within the investment objective of a Fund may be available to a Fund to the extent another Fund permitted to be formed under the applicable Partnership Agreement has overlapping investment objectives with such Fund. In addition, Clearstream may take actions on behalf of other Funds, strategic investors and co-investors that may conflict with a Fund's investment objectives and may not always be resolved to the advantage of such Fund. The records of such other Funds, strategic investors and co-investors will not be made available to Limited Partners. Clearstream's allocation of investment opportunities among a Fund and any other Fund may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to a Fund relative to one or all of the other Funds, or vice versa. While Clearstream will allocate investment opportunities in a way that it believes in good faith is fair and equitable to a Fund, there can be no assurance that each Fund's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which Clearstream may be subject did not exist.

Other Funds may also enter into transactions that Clearstream determines may present a potential conflict of interest with transactions executed on behalf of a Fund. Such conflicting activities may take place for a variety of reasons, including, without limitation, differing liquidity needs, risk parameters and overall investment objectives of the various accounts.

Generally, a Fund's Partnership Agreement requires that such Fund and any other Fund invest in an actual or potential portfolio company, to the extent reasonably practical, on substantially the same terms and at substantially the same time, subject to any tax, regulatory, accounting, legal or other considerations that may limit the timing, amount or type of investments by a Fund or such other Fund. Hence, under certain limited circumstances, other Funds may invest in different parts of the capital structure of a company or other issuers in which a Fund invests. For example, with respect to a Fund's investments in certain companies, other Funds may invest in different classes of debt issued by the same companies and/or own some or all of the equity securities of such companies. The interests of such other Funds may not in all cases be aligned with a Fund, which could create actual or potential conflicts of interest or the appearance of such conflicts. In that regard, actions may be taken by Clearstream and other Funds that are adverse to a Fund. In addition, where a Fund and other Funds invest in different parts of the capital structure of a portfolio company, their respective interests may diverge significantly in the case of financial distress of the company. In addition, it is possible that, in a bankruptcy proceeding, a Fund's interest may be subordinated or otherwise adversely affected by virtue of the involvement and actions of Clearstream and other Funds relating to their investments. In this circumstance, questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring may raise conflicts of interest, particularly with respect to a Fund and other Funds that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, a Fund may or

may not provide such additional capital, and if provided, a Fund generally will supply such additional capital in such amounts, if any, as determined by its General Partner in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, Clearstream may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of a Fund versus another Fund (*e.g.*, the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). If a Fund enters into any indebtedness with another Investment Fund on a joint and several basis, its General Partner is expected to enter into one or more agreements that provide a Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, such agreements, Clearstream may be subject to conflicts of interest. Clearstream intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause a Fund and each other Fund, as applicable, to bear its proportionate share of the applicable indebtedness.

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that a Fund and the other Fund(s) with which it co-invests will exit such investment at the same time or on the same terms. Clearstream and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on a Fund's investments will be the same as the returns obtained by other Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both a Fund and the applicable other Fund(s). In that regard, actions may be taken for one or more other Funds that adversely affect a Fund.

### **Co-Investment Allocation**

Clearstream may in its sole and absolute discretion give certain persons an opportunity to co-invest in particular investment opportunities. The allocation of co-investment opportunities may involve a benefit to Clearstream or its affiliates, including, without limitation, fees or carried interest from the co-investment opportunity, or capital commitments to one or more Funds. Any such allocations are subject to further adjustment based on the participation levels of any such parties in the co-investment opportunity. There can be no assurances with respect to the amount of any investment opportunity that will be allocated to a Fund.

If any co-investment vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by a Fund, although, from time to time, a Fund alongside which a co-investment vehicle is investing may bear such costs directly or indirectly. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all broken deal expenses relating to such unconsummated transaction are likely to be borne entirely by a Fund, and not by any prospective co-investors that were to have participated in such transaction. In many cases no co-investment vehicle will have been formed at such time. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle may bear its share of such broken deal expenses. Each General Partner expects that, in most instances of unconsummated transactions, no

co-investors will have invested in any such vehicle, and accordingly a Fund will bear all such expenses relating to such transactions.

Additionally, from time to time, Clearstream may provide (or agree to provide) certain investors (including Limited Partners) or other persons, including such Clearstream's personnel and/or certain other persons associated with Clearstream (to the extent not prohibited by the applicable Partnership Agreement), co-investment opportunities (including the opportunity to participate in co-invest vehicles) that will invest in certain portfolio companies alongside a Fund.

The allocation of co-investment opportunities, which may be made to one or more persons or entities for any number of reasons, may not be in the best interests of a Fund or any individual Limited Partner. In exercising its discretion to allocate co-investment opportunities with respect to a particular investment to and among potential co-investors and the terms thereof, Clearstream may consider some or all of a wide range of factors, which may include: (i) the ability of a person or entity to react promptly to co-invest opportunities; (ii) any strategic advantages that may result from a person's or entity's participation in a co-investment opportunity; (iii) a person's or entity's commitment to a Fund and/or one or more other funds, vehicles, managed accounts or other entities managed by Clearstream and its affiliates; or (iv) the likelihood that a person or entity may invest in a future fund, managed account, vehicle or other entity sponsored by Clearstream, such Fund's General Partner or their respective affiliates. A General Partner may also, in its sole discretion, charge a management fee and obtain a "carried interest" in respect of any such co-investment.

Such co-investments typically will involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms at the investment level as a Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from a Fund. Any such purchase from a Fund by a co-investor or co-invest vehicle generally would occur shortly after such Fund's completion of the investment to avoid any changes in valuation of the investment, and the co-investor or co-invest vehicle may be charged interest on the purchase to compensate such Fund for the holding period, and generally would be required to reimburse such Fund for related costs.

Co-investments with third parties through partnerships, joint ventures or other entities or arrangements may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a Fund, may have financial difficulties (which may increase the possibility of default), or may be in a position to take (or block) action contrary to the investment objectives of the Fund. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such co-investments, including incentive compensation arrangements. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction. See "*Non-Controlling Investments*" above.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Clearstream or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. When and to the extent that employees and related persons of



Clearstream make capital investments in or alongside a Fund, Clearstream is subject to conflicting interests in connection with these investments.

### **Material Non-Public Information**

From time to time, Clearstream and its personnel or affiliates may come into possession of confidential or material, non-public information concerning specific companies, including as a result of certain Clearstream personnel serving on the boards of directors of portfolio companies. Under applicable securities laws, this may limit Clearstream's flexibility to buy or sell securities issued by such companies. A Fund's investment flexibility may be constrained as a consequence of Clearstream's inability to use such information for investment purposes, and a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Clearstream's internal policies. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold. Each Fund, its General Partner and Clearstream anticipate that, to avoid such restriction, it may elect not to receive such non-public information. In situations where a Fund decides to receive such information, it may seek to discontinue receiving non-public information concerning the borrower under a loan when it is disclosed by such borrower that the borrower will issue high yield bonds in the near future. As a result, a Fund, at times, may receive less information regarding such a borrower than is available to the other investors in such borrower's loan, which may result in a Fund taking actions or refusing to take actions in a manner different than had it received such non-public information.

### **Allocation of Expenses**

Each Fund will pay and bear all Fund expenses related to its operations. The amount of these Fund expenses will be substantial and will reduce the actual returns realized by the Limited Partners on their investment in the applicable Fund. As described further in the applicable Memorandum and Partnership Agreement, Fund expenses encompass a broad range of expenses. Clearstream, a Fund's General Partner and their respective affiliates may from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of a Fund and one or more other Funds. To the extent practicable, any fees, costs and expenses that are incurred in connection with a consummated investment will be charged to the applicable portfolio company. Except as otherwise set forth in the applicable Memorandum, to the extent such fees, costs and expenses are not charged to a portfolio company, they will be paid by a Fund and each other Fund that participated or was expected to participate in such investment. A Fund and any such other Funds will typically bear a portion of any such fees, costs, and expenses in proportion to the size of its actual or proposed investment, or in such other manner as Clearstream considers, in good faith, to be fair and equitable in its sole discretion. In exercising such discretion, Clearstream may face a variety of potential conflicts of interest. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion. A Fund and other Funds may have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in a Fund and other Funds bearing different levels of expenses with respect to the same investment.

Moreover, Clearstream and its personnel can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Fund which will not be subject to the Management Fee offset or otherwise shared with a Fund, Limited Partners and/or portfolio companies. For example, airline travel or hotel stays incurred as Fund expenses may result in

“miles” or “points” or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not *de minimis* or difficult to value, inure exclusively to Clearstream and/or such personnel (and not a Fund, Limited Partners and/or portfolio companies) even though the cost of the underlying service is borne by a Fund and/or portfolio companies. From time to time, Clearstream will be required to decide whether costs and expenses are to be borne by a Fund, on the one hand, or its General Partner and Clearstream, on the other, and/or whether certain costs and expenses should be allocated between or among a Fund, on the one hand, and any other Funds and/or co-investors, on the other hand. Certain expenses may be suitable for only a Fund or particular funds or entities participating in specific investments and may be allocated to and borne only by such funds and/or entities, or, as is more often the case, expenses may be allocated pro rata among a Fund and other Clearstream products participating in the relevant investment(s). Clearstream will make such judgments in its sole discretion. Travel and related expenses in connection with a trip taken by employees of Clearstream and/or a General Partner for purposes of multiple matters will be allocated by Clearstream at its discretion.

Although Clearstream and its affiliates will endeavor to allocate such fees, costs and expenses on a fair and equitable basis as described herein, there can be no assurance that such fees, costs and expenses will in all cases be allocated appropriately. Any such determinations may involve inherent matters of discretion and conflicts of interest. Notwithstanding the foregoing, Clearstream and its affiliates may in the future develop policies and procedures to address the allocation of expenses that differ from its current practice.

In addition, as discussed in “Operating Partners” below, a Fund, through portfolio companies or directly, may bear the cost, including compensation, of directors, executives or consultants to portfolio companies, which may include former senior principals or employees of Clearstream, in connection with management or consulting services provided by such persons. Any such cost will not offset or otherwise reduce the Management Fee paid to Clearstream. Because such persons may be former senior principals or employees of Clearstream, Clearstream could have a potential conflict of interest in approving such arrangement, although it seeks to do so generally at market rates for the services provided. There can be no assurance, however, that such rates are the lowest cost available.

### **Other Responsibilities of the Investment Professionals of the General Partners**

Subject to the terms of the applicable Partnership Agreement, the investment professionals of Clearstream and/or its affiliates and other persons involved with a Fund, including members of the investment committee, may not all be dedicated exclusively to a Fund and may have other responsibilities outside of Clearstream, including potentially serving on the investment committees of and managing other Funds and the investments of such other Funds during a Fund’s investment period. Subject to the terms of the applicable Partnership Agreement, investment professionals of Clearstream and/or its affiliates may spend a portion of their business time and attention managing other Funds and pursuing investment opportunities for such other Funds. Clearstream believes that the significant investment of such investment professionals in a Fund, as well as their interest in the carried interest, operate to align, to some extent, the interest of such investment professionals with the interest of the Limited Partners, although these investment professionals have or may have economic interests in such other Funds and investments as well and receive management fees and carried interests relating to these interests. Such other Funds and investments that the investment professionals of Clearstream and/or its affiliates may control or manage in the future may compete with a Fund’s investments, a Fund or Clearstream.

## **Dilution from Subsequent Closings**

Limited Partners subscribing for Fund interests at subsequent closings will participate in existing investments of a Fund, diluting the interest of existing Limited Partners therein. Although such Limited Partners will contribute their pro rata share of previously made Fund draws (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of a Fund's existing investments at the time such additional Limited Partners subscribe for interests in the Fund. Subject to certain limitations as set forth in the applicable Partnership Agreement, a General Partner and/or Clearstream will have some flexibility to make certain adjustments with respect to investments in which it believes there was a material change or significant event relating to the value of any such investment.

## **Amendments; Side Letters**

A Fund's Partnership Agreement may be amended from time to time generally with the consent of the relevant General Partner and a majority in interest of the Limited Partners, subject to certain exceptions set forth in such Partnership Agreement. Each Fund's Partnership Agreement sets forth certain other procedures for its amendment, including provisions allowing a General Partner to amend such Partnership Agreement without the consent of the Limited Partners in certain circumstances.

A General Partner may enter into a side letter or other similar agreement with a particular Limited Partner with respect to a Fund without the approval of any other Limited Partner, which would have the effect of establishing rights under, altering or supplementing, the terms of the applicable Partnership Agreement and any subscription agreement with respect to such Limited Partner in a manner more favorable to such Limited Partner than those applicable to other Limited Partners. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse or exclusion rights applicable to investments or transfer or withdrawal rights with respect to a Fund, including without limitation, as a result of a Limited Partner's specific policies or certain violations of federal, state or non-U.S. laws, rules or regulations, such as so-called "pay-to-play" rules with respect to public pension plan investors, (which may materially increase the percentage interest of other Limited Partners in, and their contribution obligations, for future investments and expenses, and reduce the overall size of such Fund), (ii) additional or modified reporting obligations of its General Partner and a Fund, (iii) waiver of certain confidentiality obligations, (iv) prior consent of its General Partner to, or facilitation of, certain transfers by such Limited Partner, (v) rights or terms necessary in light of particular legal, regulatory or policy characteristics of a Limited Partner, (vi) certain adjustments with respect to economic terms and privileges (including potential mandatory waiver of compensation as a result of certain violations of law with regard to public pension plan investors), (vii) additional obligations and restrictions of its General Partner and a Fund with respect to the structuring of any investment in light of the legal, tax and regulatory considerations of particular Limited Partners, (viii) priority co-investment rights and preferred co-investment terms, (ix) agreements to assist with the taking or defending of tax positions, (x) certain extensions or other adjustments with respect to time periods for making capital contributions or other deadlines set forth in the applicable Partnership Agreement, (xi) terms altering the investment in a Fund by a Limited Partner, and (xii) certain restrictions on its General Partner with respect to the exercise of its discretion on certain matters, including amendments, exercising default remedies, waiving confidentiality or terms and allocation of co-investment opportunities.

## **Fees from Portfolio Companies**

Each General Partner, Clearstream, Clearstream's principals or any of their respective affiliates, subject to certain limitations and the Management Fee offset described in the applicable Partnership Agreement, may earn directors' fees, advisory fees, management fees, consulting fees, investment banking fees, monitoring fees, broker's and finder's fees, transaction fees, commitment, topping, break-up fees and litigation payments or equivalent compensation, from portfolio companies and from other persons or entities in connection with potential or actual portfolio investments and such fees shall be for the sole account of a General Partner, Clearstream, Clearstream's principals or any of their respective affiliates. Such fees may create a conflict of interest with respect to the role of a General Partner, Clearstream, Clearstream's principals or any of their respective affiliates in connection with a Fund. Except for the Management Fee offset described in the applicable Partnership Agreement, Limited Partners will receive no benefit from such fees.

A General Partner may have the right to appoint portfolio company board members (including current or former General Partner personnel or persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, from time to time, portfolio company board members approve compensation and other amounts payable to such General Partner in connection with services provided by such General Partner and its affiliates to such portfolio company, and, except to the extent such amounts are subject to the applicable Partnership Agreement's offset provisions, are in addition to the Management Fee or carried interest discussed herein. A General Partner's authority to appoint or influence the appointment of portfolio company board members who may be involved in approving compensation payable to such General Partner subjects such General Partner and any such portfolio company board appointees to potential conflicts of interest.

In addition, the investment professionals of Clearstream and/or its affiliates and other persons involved with a Fund may serve as members of the boards of directors of various companies and may participate in other activities outside of such Fund. Conflicts may arise as a result of such activities. The possibility exists that the companies with which one or more of such persons is involved could engage in transactions that would be suitable for a Fund, but in which a Fund might be unable to invest. Moreover, with respect to such persons who serve as directors of a portfolio company, such individuals, in their capacity as directors, will be required to make decisions that they consider to be in the best interests of the portfolio company. In certain circumstances, for example in situations involving bankruptcy or near insolvency of the portfolio company, actions that may be in the best interest of the portfolio company may not be in the best interests of a Fund, and vice versa. Accordingly, in these situations, there may be conflicts of interests between such person's duties as an officer of a General Partner or its affiliates and such person's duties as a director of the portfolio company. See also "*Other Responsibilities of the Investment Professionals of the General Partners*" above.

### **Portfolio Company Relationships**

A Fund's portfolio companies may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of other Funds that, although Clearstream determines to be consistent with the requirements of the respective funds' governing agreements, may not have otherwise been entered into but for the affiliation with Clearstream and which may involve fees and/or payments for goods and services to such other portfolio companies or Clearstream that are not subject to the Management Fee offset provisions described in the applicable Memorandum.

## **Valuation of Assets**

There is not expected to be an actively traded market for most of the securities owned by the Fund. When estimating fair market value, Clearstream and the applicable General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ materially from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by Clearstream and the applicable General Partner may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees. Additionally, under certain circumstances set forth in the applicable Partnership Agreement, distributions in kind of investments for which market quotations are not readily available may be made. The valuation of such investments will generally form the basis for calculation of the General Partners' carried interest.

## **Industry Experts**

Portfolio companies (and, to a lesser extent, the Funds) typically will pay certain fees to industry experts and other third party consultants (including Operating Partners and other consultants introduced or arranged by Clearstream that may regularly provide services to one or more portfolio companies), and such fees do not offset the Management Fee as described herein. Industry experts may make use of the General Partners' and/or Clearstream's resources or otherwise be associated with the General Partners and/or Clearstream. Although the use of industry experts and the allocation of compensation paid to them by Clearstream and/or the portfolio companies may subject Clearstream to potential conflicts of interest, Clearstream believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which are expected to be to the benefit of the Funds) that will result if the cost of the industry expert is lower than market rates for the services provided and/or if the quality of the services of the industry expert makes a greater contribution to the success of the portfolio company than could otherwise be obtained at the same cost or at all. Although Clearstream will seek to retain industry experts with a view to reducing costs to portfolio companies and, ultimately, the Funds, a number of factors may result in limited or no cost savings from such retention. Clearstream also will seek to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Clearstream believes will align such persons' interests with those of the Limited Partners.

## **Operating Partners**

Clearstream, the Funds and their portfolio companies may from time to time retain Operating Partners, which may be affiliates or employees of Clearstream, employees of its affiliates, portfolio companies of other Funds managed by Clearstream or its affiliates, third party consultants (including consultants and external executives), "strategic partners," "executive partners" or "senior advisors." Operating Partners may be engaged to provide services to, or in connection with, a Fund in relation to its activities or one or more portfolio companies, including sourcing, identification, due diligence, acquisition, acquisitions integration/rationalization, holding, improvement, operations, technology, portfolio company management and disposition of portfolio companies ("Services").

Pursuant to the applicable Partnership Agreement, fees, compensation and expenses, including certain travel and other costs, associated with the Services (collectively, “Consulting Fees and Expenses”), may be paid and/or reimbursed by applicable portfolio companies and/or a Fund and Consulting Fees and Expenses do not offset the Management Fee. Consulting Fees and Expenses are expected to include cash fees and may, at the discretion of Clearstream taking into account the particular Services, include a profits or equity interest in a portfolio company or in Clearstream or other incentive-based compensation to the Operating Partner, which may be determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Additionally, portfolio companies may provide opportunities for Operating Partners to invest in such portfolio company and reimburse costs and expenses incurred by Operating Partners. Operating Partners also may receive remuneration from a General Partner and/or a Fund or their respective affiliates, be entitled to other forms of compensation or benefits, including a salary, guaranteed payments, office space, business cards, health insurance and/or equity grants in portfolio companies and/or hold an economic interest in Clearstream or any of its affiliates, which may entitle them to receive distributions of fee income and/or to participate in any sale or public offering of Clearstream. Such investment opportunities, reimbursements and other compensation paid to an Operating Partner will not offset the Management Fee. In addition, Operating Partners may have a limited partnership or profit interest in a Fund, a General Partner, Clearstream or an affiliate of a General Partner or Clearstream, and certain Operating Partners may not bear management fees or carried interest with respect to such interest. Although Clearstream intends to retain Operating Partners with a view to reducing costs to portfolio companies (and, ultimately, a Fund) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. In addition, Clearstream intends to retain only such Operating Partners which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Additionally, a portfolio company typically will reimburse Clearstream or service providers retained at Clearstream’s discretion for expenses (including travel expenses) incurred by Clearstream or such service providers in connection with the performance of services for such portfolio company. This subjects Clearstream to conflicts of interest because a Fund generally does not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the applicable Partnership Agreement and its internal reimbursement policies and practices, Clearstream determines the amount of these reimbursements for such services in its own discretion.

In addition, portfolio companies of a Fund may pay Operating Partners to perform Services that, directly or indirectly, benefit Clearstream, its affiliates and/or portfolio companies of other Investments Funds. Consequently, Clearstream, its affiliates and/or portfolio companies of other Investments Funds may receive Services without being charged or at below market rates. Conversely, portfolio companies of a Fund may also benefit from Services that are paid for by Clearstream, its affiliates and/or portfolio companies of other Investments Funds. In addition, because the fees payable by Clearstream and its affiliates to certain Operating Partners are reduced in whole or in part by fees paid by portfolio companies to such Operating Partners, Clearstream or such affiliate may have an incentive to cause portfolio companies to pay for Services at rates that were not determined in arm’s length transactions.

## Service Providers

Investment transactions for a Fund that require the use of a service provider will generally be allocated to service providers on the basis of each General Partner's and Clearstream's judgment as to best execution, the evaluation of which includes, among other considerations, such service provider's provision of certain investment-related services and research that a General Partner or Clearstream believes to be of benefit to a Fund. In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to a General Partner and Clearstream or their affiliates as compared to services provided to a Fund and its portfolio companies, which may result in more favorable rates or arrangements than those payable by a Fund or such portfolio companies.

Clearstream generally exercises its discretion to recommend to a Fund or in some cases to a portfolio company thereof that it contract for services with (i) Clearstream or a related person of Clearstream (which may include a portfolio company of a Fund), (ii) an entity with which Clearstream or current or former members of its personnel has a relationship or from which Clearstream or its personnel otherwise derives financial or other benefit or (iii) a Limited Partner (or an investor in another Fund) or its affiliates; *provided* that any such services will generally be either provided in the ordinary course of business and on an arms-length basis or subject to the approval of the applicable LP Advisory Committee. Any such transactions may subject Clearstream to conflicts of interest, because although Clearstream selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of a Fund, Clearstream may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that Clearstream, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Clearstream has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Clearstream may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies of a Fund or other investment vehicles advised by Clearstream; conversely, former personnel or executives of Clearstream may serve in significant management roles at portfolio companies or service providers recommended by Clearstream. Similarly, Clearstream and/or its personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Clearstream and/or a Fund; *provided* that any such services will generally be either provided in the ordinary course of business and on an arms-length basis or subject to the approval of the applicable LP Advisory Committee. Clearstream may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to a Fund or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more other Funds, will provide Clearstream information about markets and industries in which Clearstream operates (or is contemplating operations) or will provide other services that are beneficial to Clearstream. Clearstream may have a conflict of interest in making such recommendations, in that Clearstream has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund and other Funds and investment vehicles, while the products or services recommended may not necessarily be the best available to the portfolio companies held by such Fund.

Additionally, a portfolio company typically will reimburse Clearstream or service providers retained at Clearstream's discretion (or the discretion of one or more third party co-investors if part of a consortium deal) for expenses (including without limitation travel expenses) incurred by Clearstream or such service providers in connection with their performance of services for such portfolio company. This subjects Clearstream to conflicts of interest because a Fund generally does not have an interest or share in these reimbursements, and the amount of such reimbursements may be substantial. Subject to the applicable Partnership Agreement and its internal reimbursement policies and practices, Clearstream determines the amount of these reimbursements for such services in its own discretion. The effect of such reimbursements is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to Clearstream or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

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

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to an investor's, or a prospective investor's, evaluation of Clearstream's advisory business or the integrity of Clearstream's management.

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

Except as set forth below, Clearstream and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Affiliates of Clearstream serve as the general partners to the Funds. These general partners will receive a performance-based allocation or fee.

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

Clearstream has adopted a Code of Ethics (the "Code of Ethics") setting forth the standards of business and fiduciary conduct for its covered persons under such policies. The Code of Ethics includes, among other things, policies and procedures regarding personal securities trading. All Clearstream employees will be required to report their holdings on an annual basis and all transactions quarterly, which will then be reviewed by Clearstream's Chief Compliance Officer. A copy of Clearstream's Code of Ethics is available upon request.

### **Co-investments**

Clearstream may, in its sole discretion, provide or commit to provide co-investment opportunities to one or more Limited Partners and/or other persons, including Clearstream and its affiliates, in each



case on terms to be determined by Clearstream in its sole discretion. In exercising its discretion to allocate co-investment opportunities with respect to a particular investment to and among potential co-investors and the terms thereof, Clearstream may consider some or all of a wide range of factors which may include the likelihood that an investor may invest in a future fund sponsored by Clearstream or its affiliates.

## **Item 12. Brokerage Practices**

As an investment adviser to private equity funds, Clearstream does not typically engage in active trading of publicly traded securities. When, on occasion, Clearstream or the private funds that it manages transact in publicly traded securities, Clearstream seeks to facilitate such transactions through the retention of professional services firms that provide high quality services at reasonable costs. Clearstream may not always select the service provider with the lowest costs, particularly if other providers offer better services at costs that are believed to be reasonable relative to their value. Clearstream's Best Execution Review Committee meets semi-annually to evaluate the quality and cost of transaction-related services obtained from third parties and to identify any actual or apparent conflicts of interest associated with the chosen third parties.

Clearstream does not have formal soft-dollar arrangements, but from time to time, it may obtain proprietary research or market color from broker-dealers and other trading counterparties. Clearstream does not believe that it pays higher commissions than those charged by other broker-dealers in exchange for such research; however, Clearstream's receipt of such research from third-party service providers that are paid by the private funds that it advises could pose a conflict of interest because Clearstream could have tried to use its own resources to generate similar research internally. This conflict of interest could give Clearstream an incentive to choose third-party service providers for the private funds who include research as part of their service packages. Research costs borne by the private funds can be for market research, industry research and regulatory research, among other things. Research obtained as part of a package of services might be used for the benefit of all of Clearstream's private funds, even if the services are paid for by just one fund.

Clearstream typically has only one private fund that is making active investments at any given time, so there is generally not an opportunity to aggregate orders among the private funds. To the extent that more than one fund is active at the same time and an investment opportunity is suitable for multiple active funds, each Fund's Investment Committee will seek to allocate the opportunity in a manner that is fair to all potential participants in accordance with the governing documents of such funds.

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

Clearstream anticipates that it will conduct ongoing portfolio monitoring in addition to more formal, periodic reviews of the Funds' portfolios. In addition, ad hoc reviews of a Fund's portfolio may be triggered by special circumstances.

Each Fund generally will provide to its limited partners (i) audited financial statements annually commencing with the first year in which it either is in operation for the full year or makes an investment, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each partner's U.S. tax returns, and (iv) descriptive investment information for each portfolio company periodically.

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

Other than described herein, Clearstream does not receive economic benefits from non-clients for providing investment advice and other advisory services.

Neither Clearstream nor any related person directly or indirectly compensates any person for investor referrals (though it may compensate third-parties for investor referrals). Clearstream has engaged a placement agent to solicit certain types of prospective investors. Clearstream may in the future enter into other arrangements with third party placement agents, distributors or others to solicit investors in the Funds and such arrangements will generally provide for the compensation of such persons for their services at Clearstream's expense.

## **Item 15. Custody**

Rule 206(4)-2 of the IAA (the "Custody Rule") imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them.

Clearstream is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which they have custody with a qualified custodian. Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions.

A related person may serve as the general partner or managing member of a Fund and because of this Clearstream may be deemed to have custody of the assets of the Funds because of the authority of such related person. Therefore, in accordance with the Custody Rule, Clearstream will ensure that all Funds are audited at least annually by an independent public accountant in accordance with generally accepted accounting principles. The audited financial statements will be distributed to all investors within 120 days of its fiscal year-end.

## **Item 16. Investment Discretion**

Clearstream has full discretionary authority with respect to the investment decisions of the Funds, and its advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in the relevant Fund's offering documents, governing documents or investment management agreement.

## **Item 17. Voting Client Securities**

The SEC adopted Rule 206(4)-6 under the IAA, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, Clearstream has adopted proxy voting policies and procedures. Clearstream is committed to voting proxies in a manner consistent with the best interest of the Funds. While the decision whether or not to vote a proxy must be made on a case-by-case basis, Clearstream generally does not vote a

proxy if it believes the proposal is not adverse to the best interest of the Funds, or, if adverse, the outcome of the vote is not in doubt. In the situations where Clearstream does vote a proxy, Clearstream generally votes the proxy in accordance with specified guidelines. A copy of the proxy voting policies and the proxy voting record relating to a Fund may be obtained by contacting Clearstream.

## **Item 18. Financial Information**

Clearstream has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to provide investment advisory services to the Funds.