

**Form ADV Part 2A: FIRM BROCHURE**



1601 Dodge Street, Suite 3800  
Omaha, NE 68102

Contact: Teri L. Mercer  
Tel: (402) 932-8600  
Fax: (402) 991-0020  
Email: [tmerc@mcCarthyCapital.com](mailto:tmerc@mcCarthyCapital.com)  
[www.mccarthyCapital.com](http://www.mccarthyCapital.com)

**March 26, 2020**

This Brochure provides information about the qualifications and business practices of McCarthy Partners Management, LLC (“MPM” or “Firm”). If you have any questions about the contents of this Brochure, please contact us at (402) 932-8600 or [tmerc@mcCarthyCapital.com](mailto:tmerc@mcCarthyCapital.com). 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.

MPM is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration of an investment adviser with the SEC does not imply a certain level of skill or training.

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

## Item 2 – Material Changes

Since MPM's last Brochure filing on March 29, 2019, the Firm has raised a new pooled investment vehicle, McCarthy Capital Fund VII, L.P. ("Fund VII").

MPM routinely makes changes throughout its Brochure to improve and clarify the descriptions of its business practices and compliance policies and procedures or in response to evolving industry and Firm practices. In this year's filing, the following Items have been updated, in addition to certain immaterial changes and/or conforming changes related to the following:

- Item 4: updated to reflect regulatory assets under management as of December 31, 2019;
- Item 5: updated with respect to fees and expenses associated with Fund VII; and
- Item 8: updated to reflect additional risk factors and conflicts of interest.

### Item 3 – Table of Contents

Item 1 – Cover Page.....	i
Item 2 – Material Changes.....	ii
Item 3 – Table of Contents .....	iii
Item 4 – Advisory Business.....	1
Item 5 – Fees and Compensation.....	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	11
Item 7 – Types of Clients.....	12
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	14
Item 9 – Disciplinary Information .....	36
Item 10 – Other Financial Industry Activities and Affiliations.....	37
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading...39	
Item 12 – Brokerage Practices.....	41
Item 13 – Review of Accounts .....	43
Item 14 – Client Referrals and Other Compensation.....	44
Item 15 – Custody .....	44
Item 16 – Investment Discretion.....	45
Item 17 – Voting Client Securities.....	46
Item 18 – Financial Information .....	47

## Item 4 – Advisory Business

### **A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).**

McCarthy Partners Management, LLC, together with its fund general partners or affiliates, unless the context otherwise requires (“MPM” or the “Firm”), a Delaware limited liability company, is a private equity firm based in Omaha, Nebraska (with a satellite office in Wellesley, Massachusetts). Founded in 1999 as McCarthy Capital Corporation with the initial mandate to invest in private and public companies in the lower middle market primarily based in the Central Plains and broader Midwest, MPM and its affiliates provide discretionary investment advisory services to their clients, which consist of numerous private investment funds. MPM is the investment adviser to private funds previously advised by the former McCarthy Capital Corporation.

Since formation, MPM has evolved its core strategy to make control and substantial minority investments in lower-middle market private companies in a mix of growth equity, recapitalizations and management buyouts. The Firm is typically the first institutional capital in its underlying portfolio companies, which presents its private fund clients with the ability to effect change and to implement value-add growth initiatives, creating opportunities to create scale. MPM’s private funds grow underlying businesses in partnership with management teams, pursuing a variety of proprietary strategies for creating long-term growth and value.

MPM serves as the investment adviser for, and provides discretionary investment advisory services to, private funds as well as to a co-investment special purpose fund established to invest alongside a fund in a portfolio company (collectively, “the Funds” and each a “Fund”). In addition, in certain circumstances, as more fully described in Item 7 below, the Firm also permits certain investors and third parties to co-invest directly into a portfolio company. Unlike the co-investment special purpose Fund mentioned above, such direct co-investments are not considered Funds or clients of MPM. For more information about the MPM Funds, please see the Firm’s Form ADV Part 1, Schedule D, Section 7.B.(1), Private Fund Reporting.

Most Funds are affiliated with a general partner with the authority to make investment decisions on behalf of the Fund (the “General Partner”, and collectively the “General Partners”). These General Partners are deemed to be registered under the Investment Advisers Act of 1940 (the “Advisers Act”) pursuant to MPM’s registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Funds, MPM has been delegated the role of investment adviser. For the Funds where there is no general partner, MPM or an affiliate serves the role of general partner and has similarly been delegated the role of investment manager. For more information about the General Partners and affiliates, please see the Firm’s Form ADV Part 1, Schedule D, Section 7.A., Financial Industry Affiliations.

## **Principal Owners/Ownership Structure**

MPM is owned by MCP Management Corporation, which is fully owned by members of the investment team and in some cases, their family members. For more information about MPM's owners and executive officers, see MPM's Form ADV Part 1, Schedules A and B.

**B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

MPM provides investment advisory and management services as a private equity fund manager to its Funds. MPM is responsible for the day-to-day management of each Fund, the identification and evaluation of investment opportunities for its Funds, negotiating the terms of purchase and sale of investments and the acquisition, management and disposition of the respective Fund's investment. Interests in the Funds generally are privately offered to qualified investors (primarily institutional investors and high net worth individuals) in the United States. The Funds invest through privately negotiated transactions in operating companies. Investments are made predominantly in non-public companies, although investments in public companies are permitted. Where such investments consist of portfolio companies, the senior principals or other personnel and or affiliates of MPM will generally serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

**C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

MPM does not customize its advisory services to the individual needs of investors in its Funds; the Firm's investment advice and authority for each Fund is tailored to the investment objectives of that Fund. These objectives are described in the offering memorandum, limited partnership agreement or operating agreement, side letter agreements and other governing documents of the relevant Fund, including without limitation, management or advisory agreements (collectively, "Governing Documents"). The Firm does not vary its advice from the terms of the Governing Documents, nor does it seek or require investor approval regarding each investment decision.

Fund investors generally cannot impose restrictions on investing in certain securities or types of securities, other than through side letters agreements. Investors in the Funds participate in the overall investment program for the applicable Fund and generally cannot be excused from a particular investment except pursuant to the terms of the applicable Governing Documents. MPM has entered into side letters or similar agreements with certain investors including those who make substantial commitments of capital or were early-stage investors in the Funds, or for other reasons in the sole

discretion of MPM, in each case that have the effect of establishing rights under, or altering or supplementing, a Fund's Governing Documents. Such rights include notification provisions, reporting requirements and "most favored nations" provisions, among others. These rights, benefits or privileges are not always made available to all investors nor in some cases are they required to be disclosed to all investors. Side letters are negotiated at the time of the relevant investor's capital commitment, and once invested in a Fund, investors generally cannot impose additional investment guidelines or restrictions on such Fund.

**D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

MPM does not participate in wrap fee programs.

**E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date "as of" which you calculated the amounts.**

As of December 31, 2019, MPM managed approximately \$1.914 billion in client assets, all managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

**A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.**

MPM receives a management fee and the General Partners (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner) are allocated carried interest as compensation for providing investment advisory services to the Funds. Management fees are generally negotiated with investors in a Fund over the course of the Fund's private offering of limited partnership or limited liability company interests. The following is a general description of fees, compensation and expenses of the Funds. Differences exist from Fund to Fund, and certain Funds may not charge certain fees, compensation or expenses that other Funds charge or may charge them in different amounts. Investors in the Funds also bear certain expenses, as described in Item 5.C below. Each Fund's Governing Documents describe fees, compensation and expenses in greater detail.

### **Management Fees**

MPM charges each Fund a management fee (the "Management Fee"), generally ranging from 1.5% to 2% per annum of non-affiliated investor capital (either committed or invested depending on the life-stage of the applicable Fund) depending on the particular Fund. The Management Fee charged to each Fund is described (i) in full detail in the relevant Fund's Governing Documents and (ii) more

briefly below. For certain Funds, Management Fees are initially calculated based upon each investor's committed capital for the period of time during which each Fund is making investments; thereafter, the Management Fee will be equal to a percentage of each investor's invested capital with respect to investments that have not been disposed of or completely written-off. For other Funds, Management Fees are initially based on the total capital commitments made to the Fund and later on the net asset value of the remaining assets in the Fund determined as of the previous quarter end. For calculations involving net asset value, such amount is determined by the respective portfolio company manager and then approved by the MPM investment committee.

The General Partners (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner) are permitted, in their sole discretion, to waive all or a portion of the Management Fee. Fees are generally waived for MPM employees, affiliates and their families investing in a Fund. Similarly, investors in the co-investment vehicle pay no Management Fee.

With respect to each Fund, Management Fees are billed to each Fund or its General Partner (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner) and paid by each Fund or its General Partner (or such affiliate) from the Fund's assets. To obtain cash for the payment of Management Fees, the Fund and/or its General Partner (or such affiliate) is permitted to draw down on the investors' capital commitments. Management Fees are exclusive of other expenses incurred by a Fund (as discussed later in Item 5.C below), which are borne by and payable out of the assets of the particular Fund and not by MPM.

### **Carried Interest**

As described more fully in Item 6 below, each Fund's General Partner (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner) is entitled to be allocated carried interest ("Carried Interest") with respect to the Funds, which is generally a range between 10% and 20% of all realized profits in excess of (in most cases) an 8% annually compounded preferred return, although some Funds charge a lower Carried Interest allocation. (Note, however, Fulcrum Growth Partners III, LLC ("Fulcrum III"), McCarthy Group, LLC ("McCarthy Group") and McCarthy Capital Mortgage Investors, LP ("McCarthy Mortgage") do not have a preferred return hurdle.) Each Fund's Carried Interest arrangement differs, and each calculation is further described in the relevant Fund's Governing Documents. In addition, MPM also is allocated a Carried Interest amount in connection with advisory services it provides to the co-investment vehicle.

**B. Describe whether you deduct fees from clients' assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.**

Management Fees are generally paid quarterly in advance, but for some Funds are paid partially in arrears. Each of the Funds maintains for each investor in such Fund a capital account that is adjusted to reflect the Carried Interest allocation, the Management Fee, Fund Expenses (as defined below), capital contributions and other similar changes during the term of the particular Fund.

**C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

### **Manager Expenses**

MPM and its affiliates are responsible for all of the day-to-day overhead and administrative expenses incurred by the Firm in connection with maintaining and operating its offices (including salaries, rent and equipment expenses).

### **Fund Expenses**

Permissible expenses differ across the Funds; however, the Funds will generally pay all fees, costs, expenses, liabilities and obligations relating to the Funds' and/or their subsidiaries' activities, business, portfolio companies or actual or potential investments, including with respect to any entity formed to effect the acquisition and/or holding of a portfolio company (to the extent not borne or reimbursed by a portfolio company or potential portfolio company), including all fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to originating, identifying and sourcing of investment opportunities for the Funds, including meeting with consultants, broker-dealers, investment banks and other sources of investments and developing an investment pipeline; (ii) activities with respect to structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to any periodicals, databases and/or research services), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding-up, liquidating, dissolving or otherwise disposing of, as applicable, portfolio companies and any Fund's actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, expert networks, third-party diligence and deal-sourcing 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; (iii) indebtedness of, or guarantees made by, the Funds, the Firm, a General Partner or any affiliated partner on behalf of the Funds (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iv) financing, commitment, origination and similar fees and expenses; (v) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (vi) brokerage, sale, custodial, depository (including any depository appointed pursuant to the AIFMD or any law, rule or regulation relating to the implementation thereof in any relevant jurisdiction), Swiss representative and paying agent appointed pursuant to the Swiss Collective Investment Schemes Act (as amended), including any law, rule or regulation relating to the



implementation thereof, trustee, record keeping, account and similar services; (vii) legal, accounting, research, auditing, administration (including fees and expenses associated with compliance with any anti-money laundering laws and regulations and any third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services as well as costs related to the establishment or maintenance of such other services), consulting (including consulting and retainer fees, salary and other compensation paid and benefits provided to consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies and other consultants), tax and other professional services; (viii) reverse breakup, termination and other similar fees; (ix) insurance (including directors and officers liability, fidelity bond, cyber-security, portfolio company management liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles and broker fees, costs and commissions) and the costs of any consultants or other advisors utilized in the procurement, review and analysis of insurance policies; (x) filing, title, transfer, survey, registration and other similar fees and expenses; (xi) printing, communications, mailing, courier, marketing and publicity; (xii) the preparation, distribution or filing of financial statements or other reports, tax returns, tax estimates, Schedule K-1s or similar forms or other communications with investors, any other administrative, compliance or regulatory filings or reports (including Form PF and Bureau of Economic Analysis Reports) or other information, including fees, costs and expenses of any third-party service providers and professionals related to the foregoing; (xiii) expenses associated with the reporting, filings or other ongoing compliance requirements contemplated by the AIFMD (excluding, for the avoidance of doubt, the initial and/or preliminary registrations, filings and compliance obligations related thereto), including secondary legislation, regulations, rules and/or associated guidance, and any related requirements; (xiv) compliance with any financial account reporting regime applicable to the Funds, any alternative investment vehicle and/or the relevant General Partner, including FATCA, the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard and any similar laws, rules and regulations, and any fees, costs and expenses of any third-party service providers and professionals related to the foregoing; (xv) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software (including accounting, investor reporting, ledger systems, financial management and cybersecurity) or other administrative or reporting tools (including subscription-based services); (xvi) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information (including any costs and expenses incurred in connection with the EU Data Protection Law or the Freedom of Information Act); (xvii) to the extent provided in the relevant Governing Documents, or otherwise approved by the applicable General Partner in its sole discretion, activities or proceedings of the relevant advisory committee (including any costs and expenses incurred by representatives of the applicable General Partner, the advisory committee members, permitted observers and other persons in attending or otherwise participating in meetings of the advisory committee); (xviii) indemnification obligations (including legal and any other fees, costs and expenses incurred in connection with indemnifying any partner or other person pursuant to the Governing Documents or otherwise and

advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the applicable Governing Documents), except as otherwise set forth in such Governing Documents; (xix) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of any discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (xx) any annual investor meeting or other periodic, if any, meetings of the investors and any other conference, meeting or webcast with any investor(s), and any periodic executive forum of portfolio company management and other persons; (xxi) the Management Fee; (xxii) except as otherwise determined by the relevant 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 (as defined below) if it were incurred in connection with the Funds, and any expenses incurred in connection with the formation, management, operation, termination, winding-up and dissolution of any feeder vehicles related to the Funds to the extent not paid by the investors investing in such entities and any other costs and expenses related to any structuring or restructuring of any Fund and/or its affiliated entities; (xxiii) the termination, liquidation, winding-up or dissolution of the Funds and any legal entities owned directly or indirectly by such Funds, including portfolio companies and related entities; (xxiv) defaults by investors in the payment of any capital contributions; (xxv) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Funds, any parallel fund, the relevant General Partner(s) or parallel fund general partner(s), the Firm, any entities owned directly or indirectly by the Funds (including portfolio companies) and any alternative investment vehicle of the Funds or a parallel fund, including the preparation, distribution and implementation thereof; (xxvi) (A) compliance with any law, rule, regulation, policy, directive or special measure (including in relation to privacy, data protection, know-your-customer, anti-money laundering, sanctions or anti-terrorism considerations), including any legal, administrator, consulting or other third-party service provider fees, costs and expenses related thereto, any regulatory expenses of a General Partner incurred in connection with the operation of the applicable Fund and any costs and expenses related to compliance with any environmental, social or governance or other investment considerations and policies of a General Partner and/or a Fund and/or (B) any costs and expenses related to the validation of any payments made to a Fund or a General Partner in connection with any voluntary or compulsory review (including any anti-money laundering laws, rules or regulations); (xxvii) any litigation or governmental inquiry, investigation or proceeding, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the Governing Documents; (xxviii) any experts, including independent appraisers, engaged by a General Partner in connection with the relevant Fund considering, making, holding or disposing of, directly or indirectly, an investment in the same person as one or more investment vehicles (other than the Funds) managed or controlled by such General Partner or any of its affiliates; (xxix) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer contemplated in the relevant the Governing Documents or any

investor's name change, internal restructuring or change in registered agent or custodian; (xxx) any taxes, fees and other governmental charges levied against the Funds and/or any alternative investment vehicle and all expenses incurred in connection with any tax audit, inquiry, investigation settlement or review of the Funds and/or any alternative investment vehicle (except to the extent that such Fund is reimbursed therefor by a reimbursing partner) and any costs and expenses of or related to the tax representative; (xxxi) distributions to investors and other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses; (xxxii) compliance or regulatory matters, except as otherwise set forth in the applicable Governing Documents, including compliance with such Governing Documents and/or any letter agreement; (xxxiii) amendments to, and waivers, consents or approvals pursuant to, side letters and similar agreements with investors and the "most favored nations" election processes in connection therewith; (xxxiv) any travel (including, where appropriate as determined by the relevant General Partner, the cost of using or chartering private aircraft or other private air travel at a cost not to exceed the cost of corresponding first class commercial airfare, other air travel, car or ride sharing services and other modes of transportation), lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxv) attendance of any member, manager, shareholder, partner, director, officer, employee or affiliate of the applicable General Partner or the Firm at any trade conference, including any applicable registration fees and exhibition, sponsorship or other presentation fees, costs and expenses; (xxxvi) any Organizational Expenses (as defined below); (xxxvii) any placement fees; and (xxxviii) any other fees, costs, expenses, liabilities or obligations approved by the advisory committee (together the "Fund Expenses"). More information about MPM's brokerage practices is available in Item 12.

For the avoidance of doubt, Fund Expenses do not include (i) ordinary overhead and administrative expenses which are payable by any General Partner, MPM or an affiliate thereof pursuant to any agreements between the relevant Fund and such party, including, without limitation, the Governing Documents or (ii) any expenses included as part of the definition of "Investment Contributions" (which is defined as the amount of contributions which are used to make an investment in a Fund portfolio company or, as determined by the applicable General Partner, pay expenses incurred in direct connection with the making, maintaining or disposing of such Fund investment).

### **Offering and Organizational Expenses**

Each investor will bear its pro rata share of the applicable Fund's, the General Partner's and the affiliate's organizational expenses attributable to the organization of the Fund and the sale of interests ("Organizational Expenses"). The amount of Organizational Expenses varies by Fund and is further detailed in the Governing Documents of each Fund. Any amount incurred for Organizational Expenses in excess of the amount specified in each Fund's Governing Documents will be paid by MPM (which may take the form of an offset to Management Fees) and not the relevant Fund or its investors.

## **Portfolio Company Remuneration**

While permitted in the Governing Documents, MPM does not typically charge its portfolio companies closing fees, investment banking fees, placement fees, commitment fees, break-up fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees directors' fees or other similar fees.

## **Co-Investment Expenses**

In certain cases, one or more co-investment vehicles or other similar vehicle established to facilitate investments alongside a Fund will be formed in connection with the consummation of a transaction. In the event a co-investment vehicle is created, the investors in such co-investment vehicle will pay their own separate expenses or fees with respect to any due diligence, legal or accounting review, fees of other professionals or other fees associated with administration, management and dispositions of such co-investment securities, and shall reimburse the participating Fund if such Fund incurs additional incremental expenses, fees or other charges as a result of an investor's participation in such co-investment. Co-investors, however, generally do not pay for expenses related to investments that are not consummated, or "broken deal" expenses. To date, MPM has one co-investment vehicle established in accordance with the relevant Fund's Governing Documents. The co-investment vehicle does not pay Management Fees but is allocated a reduced Carried Interest and is responsible for its own operating fees and expenses.

## **Fee Offset**

As mentioned above, although permitted per the Governing Documents, the Funds do not typically charge their portfolio companies other fees such as closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees. In the event MPM were to charge such fees, 100% of all net cash fees paid by a Fund's portfolio companies (including closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees) that exceed unreimbursed expenses (including unreimbursed unconsummated transaction expenses) during any calendar year (in the case of Funds formed prior to Fund VII) or against the Management Fee payable in the following quarter (in the case of Fund VII) will be treated as an offset against the Management Fee payable in the following year (in the case of Funds formed prior to Fund VII) or against the Management Fee payable in the following quarter (in the case of Fund VII). Any such reduction of a Fund's Management Fee would typically be limited to the extent of such Fund's proportionate interest in any such portfolio company and only to the extent a Management Fee is payable by a Fund. In the case of Funds formed prior to Fund VII, if offsets exceed the Management Fee for a given annual period, the Management Fee will not be reduced below zero and, therefore, such offsets will not be carried forward to the subsequent period. However, for Fund VII, to the extent that such an offset credit would reduce a Fund's Management Fee for a given quarter below zero, the credit will be carried forward for future application against payable Management Fees, and

if a credit remains upon dissolution, a payment will be made to investors that have not elected to waive such amount for tax or other reasons.

As noted above, MPM does not generally charge portfolio companies any such supplemental fees and therefore the offsets described herein are largely disregarded for purposes of calculating the applicable Management Fee. Further information regarding permissible fees and expenses, as well as the amount and manner of any Management Fee reduction associated therewith, is set forth in the relevant Governing Documents.

### **Other Expenses**

In the unlikely event that the Firm receives any fees or other remuneration directly from any portfolio company of a Fund (such as board of director fees), those fees will be used to reduce the Management Fees otherwise payable by the relevant Fund in the following quarter, as described above. In the event MPM appoints a third party to serve as a director for a Fund portfolio company, any director's fees earned by such third party will not be offset against Management Fees.

### **Fee Receipt Allocation**

From time to time, MPM, in its sole discretion, may agree to pay a transaction fee, portion of the Management Fee, Carried Interest or other fee received from an actual or prospective portfolio company to a third party, such as a consultant, adviser, operating partner, finder, placement agent, broker and/or investment banker. In such event, the third-party fee is not a fee that MPM is entitled to retain and, therefore, MPM is not required under the terms of the applicable Governing Documents to share such third-party fees with a Fund (or to offset Management Fees of that Fund by such amount).

### **Allocation of Fees and Expenses**

In good faith and in its fair and reasonable discretion, MPM determines on a case-by-case basis whether an expense should be borne by the Firm, a Fund, multiple Funds or a portfolio company. To the extent that the Governing Documents do not expressly provide for a method of allocation or to the extent that an invoice does not relate to a specific Fund, MPM will typically allocate common expenses among multiple Funds on a pro rata basis and in accordance with its policies and procedures on expense allocation, unless another method is more equitable. Where one or more Funds to which an expense would otherwise be allocable are not permitted to receive an allocation based on the applicable Governing Documents, the portion of the expense attributable to such Fund(s) will be borne by MPM.

**D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

The Funds pay Management Fees quarterly, typically in advance although in certain instances may be paid in arrears. Management Fees are expected to be paid, except as otherwise described in the relevant Governing Documents, and investors generally are not permitted to withdraw or redeem interests in the Funds.

**E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.**

Neither MPM nor any supervised person accepts compensation for the sale of securities or other products, other than as described in this Item 5 and in Item 6 below.

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

**If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a Client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.**

A Carried Interest allocation represents an adviser's compensation based on a percentage of net profits of the funds it manages. As described above in Item 5, the General Partner (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner) receives a Carried Interest allocation on certain realized profits in the Funds equal to 10% to 20% of all realized profits (depending on the Fund) subject to, in most cases, an 8% annually compounded preferred return (or hurdle) and subject to reimbursement of all relevant Fund Expenses, including Management Fees. (Note, however, Fulcrum III, McCarthy Group and McCarthy Mortgage do not have a preferred return hurdle.) With regard to the co-investment vehicle, MPM is allocated a Carried Interest amount equal to 15% of all realized profits.

Calculated based on realized gains and income only, Carried Interest is payable as portfolio holdings are liquidated or otherwise monetized and is subject to a potential giveback if the respective General Partner (or affiliate) has received excess cumulative distributions. Each Fund maintains for each of its investors in such Fund a capital account that is adjusted to reflect the Carried Interest allocation, the Management Fee, Fund Expenses, capital contributions and other similar changes during the term

of the particular Fund. Each Fund's Carried Interest calculation, as well as the clawback provisions of each Fund, is further described in the relevant Fund's Governing Documents.

MPM's Carried Interest allocations have been structured subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner or an affiliate of each Fund is permitted, in its sole discretion, to waive or reduce the amount of Carried Interest for an investor in a Fund. Specifically, if principals and employees, and their respective family and friends, are Fund investors they will generally pay reduced Carried Interest or none at all. Moreover, the General Partners of the Funds are all affiliates of MPM, and some of MPM's affiliates and employees are members of the affiliated entities that receive Carried Interest distributions from the Funds.

The fact that the Carried Interest allocations are based on the performance of each Fund can create an incentive for MPM to make investments that are more speculative than would be the case in the absence of such distributions. The Firm believes this incentive is sufficiently mitigated, however, due to the fact that: (i) the applicable Governing Documents create limitations on the ability of MPM to establish new investment funds; (ii) any losses the Funds sustain will reduce the General Partner's or a Fund's affiliates' Carried Interest distribution; (iii) Carried Interest is generally calculated only after investors have received as distributions 100% of their capital contributions plus a preferred return; and (iv) a General Partner often makes a substantial commitment to a Fund to invest its own capital alongside the investors.

Further, the fact that certain of the Funds charge higher Carried Interest amounts than others also can create an incentive to favor higher fee-paying Funds over lower fee-paying Funds. This conflict, however, only arises where two or more Funds with capital available for investment have overlapping investment profiles and the potential investments are suitable for two or more of these Funds. Generally, the Funds that MPM manages that are actively seeking new investments do not have the same investment objectives. Further, MPM's policies and procedures regarding investment allocation are designed to ensure that all investment decisions are made in accordance with MPM's fiduciary duties to its Funds and without consideration of MPM's (or its affiliates' or employees') pecuniary interest.

MPM will not allocate investment opportunities based in whole or in part, on (i) the relative fee structure or amount of fees paid by any Fund or (ii) the profitability of any Fund.

## **Item 7 – Types of Clients**

**Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

MPM provides investment advice to the Funds. The Funds limit their investors to (i) “accredited investors” as defined in the Securities Act of 1933, as amended (the “Securities Act”), (ii) “qualified clients” as defined in the Advisers Act, and (iii) “qualified purchasers” or “knowledgeable persons,” each as defined in the Investment Company Act of 1940, as amended (the “Investment Company Act”). Investors in the Funds must also meet certain other suitability qualifications prior to making an investment in the Funds. The Funds are not registered or required to be registered under the Investment Company Act; are not made available to the general public, their securities are not registered or required to be registered under the Securities Act and Fund interests are privately placed to qualified investors in the United States and elsewhere. The Funds have required minimum capital commitments from each investor, which have generally ranged from \$1.0 million to \$5.0 million, depending on the Fund and the type of investor being admitted, although lesser commitments have been accepted in the discretion of the applicable Fund’s General Partner (and/or an affiliate of the Fund in the case where such Fund does not have a General Partner).

The investors participating in the Funds include individuals, other investment entities and private funds, university endowments, family offices, pension and profit-sharing plans, trusts, estates or other corporations or business entities and include, directly or indirectly, principals or other employees of MPM and its affiliates and members of their families, as well as service providers retained by MPM.

MPM serves as the investment manager to one co-investment vehicle that invests in a Fund portfolio company (and may in the future serve as an investment manager to additional co-investment opportunities) and also facilitates direct co-investments in a Fund portfolio company. As referenced in Item 4 above, in certain cases, co-investments have been structured either as (i) a separate Fund or (ii) a direct investment by certain investors into a portfolio company or its holding or operating company. When structured as a Fund, MPM considers the investment to be a Fund client, identifies the Fund in its Form ADV Part 1, Schedule D, Section 7.B.(1), obtains an audit for the Fund, reserves the right to assess a Management Fee and/or Carried Interest on such Fund and includes the amount of assets of such Fund in the Firm’s regulatory assets under management. In the case of direct co-investments, MPM does not consider the investment to be a Fund or a client, does not act as the investment manager to the co-investment portion of the investment, does not charge Management Fees or Carried Interest to the investment, does not have custody of the investment or include the amount of assets of the co-investment in the Firm’s regulatory assets under management.

Opportunities to invest in a portfolio company are made available to select persons or entities, including, without limitation, strategic investors, lenders, deal sources, other private equity or venture capital firms, Fund investors, other persons or entities affiliated, associated or otherwise known to MPM or its personnel and unrelated third parties. These arise when MPM has the opportunity for an investment in an existing or prospective portfolio company and MPM determines that all or a portion of the applicable opportunity is not required to be offered to, or is not appropriate for, a Fund. Additionally, certain individuals who source transactions may negotiate co-investment rights or co-investment priority rights as a component of their compensation or other arrangements with the relevant Fund(s). In circumstances where MPM determines to offer a co-investment, the size of the



investment opportunity otherwise available to MPM's Fund(s) may be less than it would otherwise have been without the inclusion of such co-investors.

MPM will select the investors that are permitted to co-invest in a particular portfolio company in its sole discretion based on various factors, including those detailed in its Governing Documents and as outlined in its internal policies and procedures. While one or more investors in the Funds may be invited to co-invest in a Fund's portfolio companies, in MPM's sole discretion any or all of any co-investment opportunity may be offered to investors that are not investors in one or more of the Funds. MPM is permitted, in its sole discretion, to offer co-investment opportunities to some investors in its Funds while not offering them to other investors in its Funds, and may cause some Fund investors and/or other co-investors to bear a Management Fee and/or Carried Interest while not imposing a Management Fee and/or Carried Interest (or imposing a different Management Fee or Carried Interest) on other Fund investors and/or other co-investors. In MPM's sole discretion, some co-investment vehicles and/or co-investors may bear all or a portion of certain expenses (*e.g.*, legal and other expenses associated with a portfolio company investment), while other co-investment vehicles and/or co-investors do not share in such expenses. In certain cases, co-investment opportunities may include opportunities to invest in Fund portfolio companies at a time when there is not a corresponding Fund investment or on different terms than a Fund investment.

Some co-investors may also be provided the opportunity to sit, or have a representative sit, on the board of directors or board of advisers of an MPM portfolio company. Positions on boards of directors or advisers of such portfolio companies may provide such persons with voting rights, access to information and potentially the ability to influence the operations and decision-making of the portfolio company that are not necessarily available to other investors. Any board fees received by such co-investors are paid by the relevant portfolio company and are not subject to the offset against Management Fees. As mentioned above in Items 5 and 6, the current co-investment vehicle pays no Management Fees, is allocated a reduced Carried Interest and is responsible for its own fees and expenses.

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

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.**

The Funds focus on achieving attractive risk-adjusted returns primarily by making privately negotiated equity and equity-related investments in private companies. The Funds make both control and non-control investments, and in both cases, require there to be material ownership from company management. The applicable Governing Documents of each Fund set forth more detailed descriptions of each Fund's investment strategies and methods of analysis. While MPM will make investment recommendations in accordance with the investment strategies described in the applicable Governing Documents, there can be no assurance that MPM will achieve the investment objectives of any of its Funds and a loss of investment may be possible.

In implementing its strategy, MPM focuses on the key tenants of its investment philosophy:

*Source Privately Negotiated Deals from an Established Industry Network.* MPM's record in deal sourcing is rooted in the Firm's privately developed network of attorneys, accountants, management consultants, regional boutique investment bankers and management teams. MPM seeks to source potential investments through this network in underserved markets in the Midwest and select regional markets rather than relying on national investment banks to "shop" investment opportunities through widely marketed auctions. The Firm believes its ability to directly and discretely source privately negotiated deals through this intermediary network is a vital part of the Firm's investment strategy. The Firm believes it has developed a reputation as an organization that can offer both certainty of close and follow-through on its commitments to management.

The Firm believes these relationships have enabled MPM to develop off-market deal flow, pre-empt sale processes and identify latent value in acquisition candidates. Rather than participate in competitive auctions, the Firm generally works directly with management teams and owners. The Firm believes this process improves information flow, reduces pricing competition and can foster a more effective and well-aligned partnership with management, often at attractive valuations.

*Alignment of Interests with Growth-Oriented Management Teams Having Material Capital at Risk.* At the core of MPM's investment philosophy is its desire to align its interests with experienced management teams willing to place material capital at risk. There is a strong preference to partner with incumbent teams who are seeking guidance to grow the company and effect ownership change through a partial buyout or recapitalization.

By aligning interests through ownership, the Firm believes it is able to confirm that the management team is dedicated to continuing to grow the business and does not simply view the Firm's investment as a source of liquidity. The Firm believes this core principle enables MPM to partner with management teams that share its values, business practices and vision for growing the business.

*Strong Business Models with Sound Fundamentals.* MPM seeks to invest in companies with strong business models that have been profitable, have an established customer base and have an attractive market position. The Firm believes these enterprises often require the expertise, capital and guidance that MPM can provide to scale the business to a higher level of efficiency and profitability.

MPM prefers to invest in companies which it believes have an opportunity for significant scale. Conversely, the Firm historically has avoided sectors with what it views as significant technological risks and capital-intensive business models.

While the Firm takes a generalist approach and maintains the flexibility to invest across diverse industries segments to seek to take advantage of the most compelling opportunities, it has historically invested in and has significant industry knowledge of, the following sectors: business services, technology and software, media and communications, finance and insurance, consumer products, government services, telecommunications and security and healthcare services. MPM does not pursue

investments in the following: transactions where management does not desire to retain meaningful ownership, real estate, early or venture capital stage businesses and broad auction processes.

*Maintenance of Conservative Capital Structures with Low Leverage Ratios.* MPM believes that a conservatively valued entry price is necessary to achieve return objectives and to allow for a broader range of exit and liquidity options and that portfolio companies with these characteristics make it possible for the Funds to receive periodic distribution or dividend payments and to gain substantial equity appreciation opportunities.

The historical returns of the Firm's investments have primarily been attributable to revenue and cash-flow growth and to multiple expansion as opposed to relying on a highly levered capital structure to meet targeted returns. MPM typically utilizes conservative debt financing at the time of its initial investment to supplement capital needs. The Firm believes that conservative capital structures enable portfolio companies to pursue more operating and growth initiatives, potentially resulting in greater cash-flow growth and the capacity to fund distributions and recapitalizations.

Furthermore, the Firm believes this conservative approach to leverage allows MPM to focus its operational efforts on growing cash flow, mitigating risks, improving efficiencies and ultimately increasing portfolio company enterprise values and enables management teams to prepare for downside contingencies, weather unforeseen market turmoil and focus on operations instead of capital structure, debt service or refinancing risks. Once a business is consistently meeting its growth and profitability objectives, the company can utilize debt capacity to pursue potential inorganic growth opportunities or make meaningful distributions to its shareholders through a leveraged recapitalization.

*Identifiable Value Creation Initiatives.* MPM employs a well-defined process for seeking to create value throughout the life of each investment. This process begins from the outset with setting the vision and goals of the portfolio company in partnership with existing management and identifying and prioritizing key initiatives. The goal is to capitalize on existing strengths of a company, recognize and address weaknesses and identify risk-appropriate opportunities for growth. Throughout the course of every investment, the Firm prides itself on providing financial and operational advice to management to help guide the portfolio company during crucial stages of business growth, all while respecting the unique nature and culture of the company and its management team.

Once an investment is made, MPM helps to implement the strategic and operational changes conceived and developed in conjunction with management during the comprehensive diligence process.

As the execution plan for each portfolio company begins to take shape, MPM's investment professionals take an active role in the company through the development of investment opportunities, execution of transactions and financings, implementation of growth and efficiency initiatives and maximization of investment returns. Following an initial investment, MPM advises and

assists the management of each Fund's portfolio companies in order to increase the probability that the original risk/return profile established at the inception of each investment is achieved.

*Well-Defined Exit Strategies.* MPM follows a disciplined approach in an effort to assess potential opportune times for realization of its investments by evaluating whether the risk of a longer hold exceeds the potential return. Prior to making an investment, MPM and the portfolio company's management team will determine their joint expectations for an investment horizon and exit process. In most cases, this investment horizon will be five years or more. This long-term view and patient approach are attractive features to management teams and business owners and are cornerstones of MPM's partnership philosophy. MPM's preference is to exit investments when its management partners exit, avoiding the circumstance of having to negotiate price with a partner.

Investments can be realized through numerous means, including divestitures, recapitalizations and sales of securities privately and in registered offerings. MPM's experience indicates that well-run companies with strong management teams are attractive to a multitude of buyers throughout market cycles. In most cases, the Firm makes its investments through a non-competitive process and exits its investments by orchestrating a competitive sales process.

**B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in the Funds involves a high degree of risk, including the risk of a partial or total loss of capital, and investors must be prepared to bear capital losses which might result from investments. An investment in the Funds is speculative, illiquid and long-term in nature, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Funds and for which the respective Fund does not represent a complete investment program. Investors should also refer to a Fund's Governing Documents for a description of the risk factors specific to their Fund. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. Risks and potential conflicts of interest include, but are not limited to, the following:

*Investment in Junior Securities.* The securities in which a Fund invests can 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 an investment by one of the Funds once made.

*Concentration of Investments; Lack of Diversification.* The Funds will participate in a limited number of investments and will in some cases seek to make several investments in one industry or one industry segment or within a short period of time. As a result, it is possible that any particular Fund's investment portfolio will become highly concentrated, and its aggregate return can be affected substantially by the performance of a few holdings. Furthermore, to the extent that the capital raised

is less than the targeted amount for a given Fund, such Fund will likely invest in fewer portfolio companies and thus be less diversified.

The Funds will, in their discretion, provide bridge financing to facilitate portfolio company investments. It is possible that all or a portion of a bridge financing will not be recouped within the time period specified in the Governing Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, a Fund's portfolio has the potential to become more concentrated with respect to such investment than initially expected or otherwise provided for under such Fund's investment limitations, certain of which exclude bridge financing investments.

*Unspecified Investments.* Investors will be relying on the ability of the Firm to locate and evaluate the investments to be made by the Funds using the proceeds of the Fund offerings. The activity of identifying, structuring, 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 the Firm will be able to identify, or the Funds will be able to complete, portfolio company investments that satisfy the applicable Fund's rate of return objectives or, if completed, realize such investments for fair or attractive values or that a Fund will be able to fully invest its committed capital.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. The Funds will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors, including hedge funds, investing directly or through affiliates, and other private equity funds. Over the past several years, an ever-increasing number of investment funds have been or are being formed, and many fund sponsors have increased the size of successor funds as compared to their corresponding prior funds. Other investment funds with similar investment objectives to the Funds likely will be formed in the future by other unrelated parties. In certain cases, some of these competitors will have more relevant experience, greater financial resources, a greater willingness to take on risk and/or more personnel than the Firm, the Funds and their respective affiliates.

To the extent that the Funds encounter significant competition for investments, returns to investors potentially will decrease. In addition, it is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified or consummated. Regardless of the extent to which the commitments of the investors are invested, the investors will be required to bear Management Fees during the investment period based on the entire amount of the investors' commitments and other expenses as set forth in the Governing Documents.

*Dynamic Investment Strategy.* While the Firm generally intends to seek attractive returns for the Funds primarily through making private equity investments as described herein, MPM, at times, will pursue additional investment strategies and modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. MPM may pursue investments

outside of the industries and sectors in which the principals have previously made investments or have internal operational experience.

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

*Impact of Government Regulation, Reimbursement and Reform.* Certain industry segments in which the Funds invest are (or will become) (i) highly regulated at both the federal and state levels in the U.S. and internationally and (ii) subject to frequent regulatory change. Certain segments will be highly dependent upon various government (or private) reimbursement programs. While the Funds intend to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries are complex or ambiguous or lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, would be expected to have a material adverse effect on the operations and/or financial performance of the companies in which the Funds invest.

*Illiquidity; Lack of Current Distributions.* An investment in the Funds should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. It is possible that losses on unsuccessful investments will be realized before gains on successful investments are realized. The Funds' ability to dispose of investments can 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 the Funds. Dispositions of investments are 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 can be obtained upon any disposition thereof. In view of these limitations on liquidity, the Funds generally will not be able to return capital or realize gains, if at all, on an investment in a privately-held entity until the partial or complete disposition of such entity. While such an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to the General Partner (or its designated affiliate)) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded commitments.

*Leveraged Investments; Borrowing.* Some of the Funds make use of leverage by incurring debt to finance a portion of its investment in a given portfolio company, or some Funds make equity investments in leveraged portfolio companies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment, and the magnification of loss has the potential to be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which is impacted by regulatory restrictions and guidelines and which are difficult to accurately forecast, and at times it is difficult to obtain or maintain the desired degree of leverage. The availability of leverage also is subject to governmental and regulatory oversight, and certain governmental bodies (including the U.S. Federal Reserve System, the U.S. Office of the Comptroller of the Currency and the U.S. Federal Deposit Insurance Corporation) restrict or otherwise discourage lending that results in companies carrying large amounts of debt.

The use of leverage imposes restrictive financial and operating covenants on a portfolio company, in addition to the burden of debt service, and impairs its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Funds' investments to any deterioration in a portfolio 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 are likely to suffer a partial or total loss of capital invested in the portfolio company, which is likely to 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 would 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 would hold a larger than expected equity investment in such portfolio company and realize lower than expected returns from the portfolio company that would adversely affect the Funds' ability to generate attractive returns for the Funds as a whole. Any failure by lenders to provide previously committed financing has the ability to expose the Funds to potential claims by sellers of businesses which the Funds have been contracted to purchase. Moreover, the companies in which the Funds will invest will not necessarily be rated by a credit rating agency.

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. Any use of leverage by the Funds will result in interest expense and other costs to the Funds that will sometimes exceed, or otherwise not be covered by, distributions made to the Funds or appreciation of its investments. The Funds will, in their discretion, incur leverage on a joint and several basis with one or more other investment funds and/or other entities managed by or otherwise affiliated with the Firm or any of its affiliates and, in connection with incurring such indebtedness, the Firm will, in its

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 would otherwise be unenforceable. In addition, to the extent the Funds incur leverage (or provide any guaranty), such amounts would be secured by the commitments or other Fund assets. The inability of the Funds to repay any leverage secured by the commitments will, in some circumstances, enable a lender to issue a capital call on behalf of the General Partners of the Funds.

*Use of Credit Facility.* The Funds will be permitted to borrow funds pursuant to a revolving credit facility or other debt facility, including a facility based on the aggregate commitments available to be called. The Funds' use of such facilities will be determined by MPM, and the performance of the Funds would be impacted by how MPM causes the Funds to utilize such facilities. Although the use of such a facility increases the Funds' ability to swiftly invest capital, it also will cause the Funds to incur interest expense and other costs. Conflicts of interest will arise in that the use of such facilities would likely delay the need for investors to make certain contributions to the Funds, which enhances the Funds' performance figures and thereby benefit the Firm and its affiliates.

*No Market for Interests; Restrictions on Transfer; No Right of Withdrawal.* Investor interests in the Funds cannot generally be transferred, sold, assigned, pledged or otherwise encumbered without the prior written consent of the relevant General Partner, which can be withheld pursuant to the Governing Documents, and the volume of transfers permitted in any calendar year will, at times, be restricted to comply with certain safe harbors under tax regulations promulgated under the U.S. Internal Revenue Code of 1986, as amended. Voluntary withdrawals from the Funds will not be permitted except in very limited circumstances generally involving situations where retaining an interest in the Funds would violate certain laws or regulations or otherwise have a detrimental effect on the Funds or any of its investors. In addition, interests in the Funds are not redeemable. There will be no public market for interests in the Funds, and none is expected to develop. Interests in the Funds have not been registered under the Securities Act, the securities laws of any U.S. state or the securities laws of any non-U.S. 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 the Fund will ever be affected. Investors will not necessarily be able to liquidate their investments prior to the end of the Funds' term and must be prepared to bear the risks of an investment in the Funds for an indefinite period of time.

*Investments Longer than Term.* The Funds will, in some instances, make investments which will not necessarily be capable of being advantageously disposed of prior to the date that a particular Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although it is expected that investments will be either disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, a Fund would 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 would 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 investors will occur.

*Distributions in Kind.* Although prior to the termination of a Fund, such Fund intends to make distributions in cash or marketable securities, it is possible that under certain circumstances (including the winding-up of such Fund), distributions of investments for which there is no readily available public market and/or which is subject to substantial restrictions on sale or transfer will sometimes be made in-kind. It can be difficult for investors to liquidate the investments received at a price or within a time period that is ideal, and significant administrative burden would be involved. After a distribution of investments is made, some of the recipients will, in their discretion, decide to liquidate such investments within a short period of time, which has the potential to have an adverse impact on the price of such investments. Investors in receipt of a distributed investment will have no guidance from the Funds or the Firm with respect to the disposition of such investment (including timing of such disposition). The price at which such investments are sold by such investors can be lower than the value of such investments determined pursuant to the Governing Documents, including the value used to determine the amount of Carried Interest accruing to the General Partners with respect to such investment. In addition, the direct holding of certain investments subjects the holder to suit or taxes in jurisdictions in which such investments are located.

*Reliance on the General Partners, Affiliates and Portfolio Company Management.* Control over the operation of each Fund, including decisions with respect to structuring, negotiating, purchasing, financing and eventually divesting Fund investments, will be vested with the General Partner and/or an affiliate of that Fund in the case where such Fund does not have a General Partner, and the Fund's future profitability will depend largely upon MPM's business and investment acumen. The loss or reduction of service of one or more of MPM's investment professionals has the potential to have an adverse impact on a Fund's ability to realize its investment objectives. In addition, the principals currently, and will likely in the future, manage or advise other investments and/or investment funds besides the current Funds and the principals would need to devote substantial amounts of their time to the investment activities of such other investments and/or funds, which pose conflicts of interest in the allocation of the time of the principals. In addition, certain changes in the General Partners or circumstances relating to the General Partners would have an adverse effect on the Funds or one or more of its portfolio companies, including potential acceleration of debt facilities.

The success of many of the Funds' 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 portfolio company's management team. Additionally, MPM will generally establish the capital structure of companies in which the 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 MPM will be responsible for monitoring the performance of each portfolio company investment and the Funds generally intend 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 management team will be able or willing to successfully

operate a portfolio company in accordance with the Funds' objectives. Portfolio companies need to attract, retain and develop executives and members of their management teams. The market for executive talent can be extremely competitive. There can be no assurance that the management team of a portfolio company on the date an investment is made will remain the same or continue to be affiliated with the portfolio company throughout the period the investment is held by the applicable Fund. There can also be no assurance that a portfolio company will be able to attract, develop, integrate and retain suitable members of its management team, and the relevant Fund would be adversely affected as a result.

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

*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 diverts the attention of key personnel and disrupts normal business. There can be no assurance that the Funds will be able to successfully identify and implement such improvements or that any such successfully implemented improvements will result in a return on invested capital with respect to such portfolio company.

*Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.* Before making investments, MPM will typically conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence entails evaluation of important and complex business, financial, tax, accounting, technical, environmental, regulatory and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties are involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and the Firm will likely rely on the advice received from such third parties. Investment analyses and decisions by MPM will often be undertaken on an expedited basis for the Funds to take advantage of investment opportunities and/or consummate investments. In such cases, the information available to the Firm at the time of an investment decision will likely be limited, and MPM would 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 would 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.

*Conflicting Investor Interests.* Investors have conflicting investment, tax and other interests with respect to their investments in the Funds, including conflicts relating to the structuring and timing of investment acquisitions and dispositions. As a consequence, conflicts will arise in connection with decisions made by MPM regarding an investment that is more beneficial to one investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, the Firm generally will consider the investment, tax and other relevant objectives of the Funds and their investors as a whole, not the investment, tax or other objectives of any investors individually.

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

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the 2007-2008 downturn in the U.S. and global financial markets, has the potential to complicate or prevent the Funds' efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, the Funds will likely invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than they otherwise would have.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, a Fund will frequently decide to provide additional funds to such portfolio company or 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 a 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 can have a substantial negative impact on a portfolio company in need of such an investment or result in a lost opportunity for such Fund to increase its participation in a successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company.

*Over-Commitment.* To facilitate the acquisition of a portfolio company, the Funds will in some cases make (or commit to make) an investment in such portfolio 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, the Funds will bear the risk that any or all of the excess portion of such investment will not be sold or will only be sold on unattractive terms and that, as a consequence, the Funds would 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 realize lower than expected returns from such investment.

*Non-Controlling Investments.* The Funds will, in some cases, hold meaningful minority stakes in privately held companies and in such cases, expect to have limited minority protection rights. In addition, during the process of exiting investments, the Funds at times will hold minority equity stakes of any size such as would be expected to occur if portfolio companies are taken public. As is the case with minority holdings in general, any such minority stakes that the Funds hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

To the extent the Funds invest alongside third parties, such as institutional co-investors or private equity funds of other sponsors, or make a minority investment, the relevant portfolio companies can be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of the Funds or their investors. Such third parties will sometimes be in a position to take action contrary to the Funds' business, tax or other interests, and the Funds would not be in a position to limit such contrary actions or otherwise protect the value of its investment. Where a Fund holds a minority stake, it would be more difficult for such Fund to liquidate its interests than it would be had the Fund owned a controlling interest in such company. When taking non-control positions, a Fund generally will seek to obtain negative controls and veto rights on major decisions, but there can be no assurance that the Funds will be able to control the timing or occurrence of an exit strategy for such portfolio companies in a manner that maximizes or protects value. Even if a Fund has contractual rights to seek liquidity of its minority interests in such companies, it will sometimes be very difficult to sell such interests or seek a sale of such company upon terms acceptable to the Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals. The Funds generally will seek to negotiate certain negative controls and veto rights on major decisions, but there can be no assurance that the Funds will be able to control the timing or occurrence of an exit strategy for such portfolio companies in a manner that maximizes or protects value.

*Director Liability.* The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. In those instances where the Funds are not the sole shareholder of the applicable portfolio company, a board representative would have duties to persons other than the Funds. Serving on the board of directors of a portfolio company exposes the Fund's representatives (typically MPM employees), and ultimately the Fund, to potential liability. Although portfolio companies often have insurance to protect directors and officers from such liability, such insurance could, in some cases, prove to be insufficient if obtained. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from the Funds' investment activities.

*Advisory Committee.* The General Partners will appoint one or more investor representatives to the advisory committee. The Governing Documents provide that to the fullest extent permitted by

applicable law, none of the advisory committee members shall owe any fiduciary duties to the Funds or any other investor. In addition, representatives of the advisory committee have various business and other relationships with MPM and its partners, officers, directors, employees and affiliates. These relationships can influence their decisions as members of the advisory committee.

*Cybersecurity Risk and Identity Theft.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. The Funds and their 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 MPM intends 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, the Firm, 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 MPM's, the Funds' and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm MPM's, the Funds' and/or a portfolio company's reputation, subject any such entity and its respective affiliates to legal claims and/or regulatory actions or otherwise affect their business and financial performance. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company would be subject to potentially substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks would be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company or the Funds to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at MPM or one of its affiliates or service providers holding its financial or investor data, MPM, its affiliates or the Funds would also be at risk of loss.

*Agreements with Certain Investors.* The Funds and/or MPM will, at times, enter into a side letter or other similar agreement with a particular investor in connection with its admission to the Funds without the approval of any other investor, which would have the effect of establishing rights under, altering or supplementing the terms of (including economic terms), or confirming the interpretation of an applicable Governing Document with respect to such investor in a manner more favorable to such investor than to other investors, and such rights have the potential to be significant. Such rights, terms or confirmations in any such side letter or other similar agreement include, without limitation, (i) excuse, exclusion or withdrawal rights applicable to particular investments or investors (which increase the percentage interest of other investors in, and contribution obligations of other investors with respect to, certain investments); (ii) reporting obligations of MPM; (iii) waiver of certain confidentiality

obligations; (iv) consent of MPM to certain transfers by such investor; or (v) rights or terms necessary in light of particular legal, regulatory or public policy characteristics of such investor.

*Disclosure of Confidential Fund and Investor Information.* The investors include entities that are subject to public disclosure requirements, including state public records or similar freedom of information laws which compel public disclosure of confidential information regarding the Funds, 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. The Funds incur expenses in connection with responding to any such disclosure requests, even if the Funds ultimately succeed in asserting confidentiality for any requested documentation. Moreover, notwithstanding the obligation that the investors will have pursuant to the Governing Documents to maintain the confidentiality of the Funds' information, there can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement or otherwise. MPM will 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 an investor, as more fully described in the Governing Documents. There can be no assurance that such information will not be disclosed by the Funds, MPM, 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 will become subject. In addition, under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has the authority to require private equity fund advisers, such as MPM, to file additional reports with the SEC regarding their funds and investment activities. Any public disclosure of the Funds' information has the potential to have an adverse effect on the Funds and their investors, for example, by affecting the Funds' competitive advantage in finding attractive investment opportunities.

*Recycling; Reinvestment.* The General Partners generally have the right to recall certain capital returned or distributed to the investors. Accordingly, during the term of the relevant Fund, an investor would be required to make capital contributions in excess of its commitment (with certain limitations as provided in the Governing Documents), and to the extent such recalled or retained amounts are reinvested in investments, an investor will remain subject to investment and other risks associated with such investments.

*Economic Disruptions Due to Coronavirus.* The recent spread of COVID-19 (the "coronavirus") in certain countries, including the United States, has shown an ability to result in a broad-based economic decline and significant market volatility. The outbreak has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. This is a new and developing threat and therefore presents material uncertainty and risk with respect to the Funds' performance and financial results. The global impact of the outbreak has been rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. The extent of the impact of any public health

emergency on the Funds' and its portfolio investments' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted.

Aside from the broad effects on the economy, the coronavirus may also have specific implications for the Firm's operations and activities of its personnel, which may range from employees needing to work from home to more significant impacts such as illness, restrictions on non-essential travel, difficulty hosting fundraising meetings and absence from board meetings. The Firm has instituted procedures, as it deems appropriate, to deal with operational impacts from the coronavirus. Many of these procedures may mirror procedures currently contained in the Firm's Business Continuity Plan for dealing with other significant business disruption events. The Firm may consider additional or modified safeguards in the event employees are required to work from home for an extended period of time, such as if any changes are required to be instituted for remote login and/or to protect the privacy of Firm, Fund and investor data. Additionally, although the Funds generally invest on a long-term basis in privately held companies that are less correlated to broader market forces, the impact of a global economic slowdown has the potential to impact the Funds' performance and/or financial results by negatively effecting the Firm's ability to, among other things, source new investments, diligence such potential investments, exit current investments (or exit them at the valuations previously expected) or obtain financing. Depending on the specific industries in which the Funds' portfolio companies operate and where their supply and distribution chains are located, it is possible that the coronavirus could have an outsized impact on individual portfolio companies.

In addition to the potential impact on the Firm's operations and the overall profitability of a Fund, the Firm's portfolio companies may face their own challenges in dealing with a pandemic. These include, but are not limited to, the possibility that employees will have to work remotely or that their supply chain may be disrupted. The Firm may assist a portfolio company with implementing procedures to mitigate the impact of the coronavirus; however, there can be no assurance that such measures will be effective or that even if effective, that such portfolio company will not sustain significant financial losses.

Depending on the length and severity of the pandemic, it is possible that Firm personnel will spend a significant amount of time and attention addressing implications from the coronavirus, including minimizing the impact at the Firm, the Funds or a specific portfolio company which time generally would have been devoted to activities on behalf of the Funds.

## **Conflicts of Interest**

The material conflicts of interest that a Fund encounters include those discussed below and elsewhere in this Brochure. The following summary is not intended to be an exhaustive list of all conflicts or their potential consequences. Identifying potential conflicts of interest is complex and fact intensive

and it is not possible to foresee every conflict of interest that will arise during a Fund's life. Investors should be aware that MPM, its personnel, and its affiliates will likely in the future engage in further activities that can result in additional conflicts of interest not addressed below. There can be no assurance that MPM will identify or resolve all conflicts of interest and, if resolved, that such conflicts will be resolved in a manner that is favorable to the Funds. To the extent that MPM identifies conflicts of interest in the future, the Firm intends to, but is under no obligation to, disclose these conflicts and their implications to investors through a variety of channels, including in subsequent Brochures or in other written or oral communications to the advisory committees or to investors.

*Time and Attention of Principals.* The principals expect to spend a portion of their business time and attention pursuing investment opportunities for multiple Funds or accounts rather than on behalf of a single Fund. The principals and the Firm's investment staff will continue to manage and monitor multiple Funds, accounts and investments. MPM believes that the significant investment of the principals in each Fund, as well as the principals' interest in the Carried Interest, operate to align, to some extent, the interest of the principals with the interest of the partners, although the principals generally have or expect to have economic interests in such other investment funds, accounts and investments as well and receive Management Fees and Carried Interest relating to those interests. Other Funds, accounts and investments that the principals control or manage will, in some cases, compete with an individual Fund or portfolio companies acquired by such Fund or, as detailed further below, expect under certain conditions to invest in different parts of the capital structure of portfolio companies acquired by such Fund. At such time as MPM is permitted to raise successor investment funds to the current Fund, the principals will continue to manage such prior Fund's investments, but also likely will focus investment activities on other opportunities and areas unrelated to the prior Fund's investments. Certain investments can, and in some cases will be, allocated between a Fund and any successor or predecessor fund in a manner as set forth in the Governing Documents.

*Allocation of Investment Opportunities.* Until such time as MPM is permitted under the Governing Documents to raise a successor investment fund, the principals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of the current Fund principally for the benefit of such Fund, subject to certain exceptions set forth in the relevant Governing Documents. However, the principals currently, and likely will in the future, manage other Funds and, in such circumstances, will direct certain relevant investment opportunities among those Funds. Over time, certain investment opportunities suitable for one Fund are likely also to be suitable for other Funds. In determining which Funds should participate in such investment opportunities, subject to the Governing Documents, the Firm, the principals and their affiliates are subject to potential conflicts of interest among the investors in the Funds. To determine which Funds will participate in the relevant investment opportunity, MPM generally assesses whether an investment opportunity is appropriate for each relevant Fund or account based on the terms of such Fund's or account's Governing Document(s), as well as factors including, but not limited to: each Fund's or account's investment restrictions and objectives (including those set forth in the relevant Fund's or account's Governing Document(s), where applicable), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable



regulatory restrictions, life cycle and structure. A Fund will potentially invest together with other Funds advised by the Firm in the manner set forth in the relevant Governing Document(s). MPM will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with MPM's obligations and will take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which a Fund will invest exceeds an amount appropriate for such Fund, such excess will, at times, also be offered to one or more potential investors.

MPM's allocation of investment opportunities among a Fund and any other Funds or accounts managed by MPM may not always, and often will not, be proportional. Therefore, such allocations may be more advantageous to one Fund relative to another Fund. While MPM will allocate investment opportunities in a way that it believes in good faith is fair and equitable to the Funds, 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 the Firm may be subject did not exist.

While the intent is that investment opportunities will be apportioned among the Funds on a fair and reasonable basis and in compliance with the Governing Documents of each Fund, there is no assurance that any particular Fund will be offered any specific investment opportunities that come to MPM's attention or that any particular Fund will be permitted to invest the full amount it desires to invest in any such opportunity that is made available.

*Investor Transfer of Interest.* In certain cases, MPM will have an opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interest in a Fund. In the case of ordinary transfers, MPM will not receive compensation for identifying such transferees and will use its discretion to select such transferees based on eligibility and other factors, and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

*Certain Affiliate Transactions.* Conflicts of interest can arise if a Fund makes an investment in a portfolio company in conjunction with an investment made by another Fund or account managed by MPM or an affiliate. For instance, a Fund will not necessarily invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such other Fund or account. This can result in differences in price, investment terms, leverage and associated costs between one Fund and another investing Fund or account managed by MPM or an affiliate. There can be no assurance that each Fund will exit the investment at the same time or on the same terms, and there can be no assurance that a Fund's return on such an investment will be the same as the returns achieved by any other Fund participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to any given Fund.

It is expected that, in accordance with the Governing Documents, McCarthy Group, an entity managed by the Firm or its affiliates, will, directly or indirectly through its subsidiaries, make preferred equity and/or debt investments in certain portfolio companies acquired by the Funds (collectively, “McCarthy Group Investments”). As a result of McCarthy Group Investments, the interests of McCarthy Group will, from time to time, be adverse to those of any such portfolio company and the Funds and, thus, the existence and concurrent operation of McCarthy Group and the Funds will give rise to a range of potential conflicts of interest. For example, in connection with drafting, negotiating, renegotiating and/or modifying the terms of McCarthy Group Investments, the Firm or its respective affiliates will, in certain instances, have an incentive to cause a Fund portfolio company to enter into or otherwise agree to McCarthy Group Investment terms and conditions that are less favorable to such portfolio company than it otherwise would if such McCarthy Group Investment was made by an unaffiliated third party. Questions will potentially arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether McCarthy Group Investments should be refinanced or restructured. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, will raise conflicts of interest. In the event of a breach, default, failure to perform or any other circumstance that arises in connection with certain McCarthy Group Investments which affords McCarthy Group or a Fund portfolio company the opportunity for legal or other recourse against the other party, the Firm or its respective affiliates will, in certain instances, have an incentive to take certain actions (or choose not to act) that favor McCarthy Group over a Fund portfolio company and the Fund. In the event that a portfolio company in which a Fund and McCarthy Group have made investments defaults on a payment obligation to McCarthy Group or otherwise proposes to restructure all or a portion of the securities of such portfolio company, the Firm or its respective affiliates will potentially be required to take actions consistent with those of McCarthy Group with respect to such portfolio company and shall not be deemed to have violated any duty to the Funds in such scenario. Because of the different legal rights associated with owning debt and equity of the same portfolio company, the Firm and its respective affiliates can face a conflict of interest in respect of the advice given to, and the actions taken (or not taken) on behalf of the Fund versus McCarthy Group (*e.g.*, the terms of McCarthy Group Investments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies), and the action taken for McCarthy Group will, at times, be adverse to the Funds, particularly in the case of financial distress of a Fund portfolio company. Given the nature of such conflicts, there can be no assurance that any such conflict will be resolved in a manner that is beneficial to each of the Funds and McCarthy Group. In a bankruptcy proceeding, the Funds’ interests will potentially be subordinated or otherwise adversely affected by virtue of McCarthy Group’s involvement and actions relating to its McCarthy Group Investment. This can result in loss or substantial dilution of a Fund’s investment, while McCarthy Group recovers all or part of amounts due to it. In addition, where McCarthy Group is a creditor or preferred equity holder of a portfolio company in which a Fund holds more junior securities, McCarthy Group will typically take actions in its own interest with respect to its rights as a creditor (*e.g.*, with respect to breaches of covenants) or

preferred equity holder that may be adverse to the interests of the Fund as an equity (or more junior equity) holder.

McCarthy Group will typically be granted general voting rights and/or certain approval and/or voting rights with respect to major decisions concerning the management and disposition of the equity and/or assets of a Fund portfolio company, which would increase the risk of deadlocks. A deadlock is likely to delay and/or prevent the execution of the business plan for such portfolio company or require the Fund to engage in a buy-sell of such portfolio company with McCarthy Group or conduct the forced sale of such portfolio company. As a result of these risks, a Fund would be unable to fully realize its expected return on any such investment. In addition, McCarthy Group and certain members thereof, which are sometimes affiliates of MPM, regularly provide services to, or in connection with, one or more portfolio companies. Pursuant to the Governing Documents, fees and expenses associated with such services are typically paid and/or reimbursed by applicable portfolio companies and do not offset the Management Fee.

In the event that a follow-on investment opportunity arises in respect of a portfolio company in which both a Fund and McCarthy Group are invested, McCarthy Group will not be prohibited from participating in such follow-on opportunity. Investments by McCarthy Group in Fund portfolio companies sometimes involve the allocation between such Fund and McCarthy Group of expenses incurred and fees generated in the course of evaluating and making such investments.

*Portfolio Company Board Service.* The Funds will typically make controlling investments in portfolio companies. As a result of any such significant investments, the Funds will generally have the right to appoint portfolio company board members (including current or former MPM personnel or persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, while it has not happened in the past, it is possible that a portfolio company board will approve compensation and other amounts payable to MPM in connection with services provided by MPM and its affiliates to such portfolio company, and, except to the extent such amounts are subject to the relevant Governing Document's offset provision, are in addition to the Management Fee or Carried Interest discussed herein. MPM's authority to appoint or influence the appointment of portfolio company board members who may be involved in approving compensation payable to the Firm subjects the Firm and any such portfolio company board appointees to potential conflicts of interest.

Additionally, a portfolio company typically will reimburse MPM or service providers retained at MPM's discretion for expenses (including, without limitation, travel expenses) incurred by MPM or such service providers in connection with the performance of services for such portfolio company. This subjects the Firm to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the relevant Governing Document and its internal reimbursement policies and practices, the Firm determines the amount of these reimbursements for such services in its own discretion.

*Relationship with Third Parties.* MPM will also, from time to time, employ personnel with pre-existing ownership interests in or who were employed by portfolio companies owned by the Funds or investment vehicles advised by MPM or an affiliate; conversely, former personnel or executives of MPM will sometimes serve in significant management roles at portfolio companies or service providers recommended by the Firm. Similarly, MPM and/or its personnel often maintain relationships with (or invest in) financial institutions, service providers and other market participants, and their respective affiliates and personnel, including managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will often invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, the Firm and/or the Funds or other investment vehicles that MPM or an affiliate advises. MPM will potentially have a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or a portfolio company owned by the Funds if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds that MPM or an affiliate advises, will provide the Firm with information about markets and industries in which the Firm operates (or is contemplating operations) or will provide other services that are beneficial to MPM. The Firm will potentially have a conflict of interest in making such recommendations, in that the Firm has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies for the Funds and investment vehicles that MPM or an affiliate advises, while the products or services recommended will not necessarily be the best available to the portfolio companies held by the Funds.

Over the life of the Funds, the Firm expects to exercise its discretion to recommend to the Funds or to a portfolio company thereof that such Fund or portfolio company contract for services with various service providers, potentially including, among others: (i) MPM (or an affiliate, which generally includes other portfolio companies of the Funds or other investment funds or accounts managed by MPM or an affiliate) and at rates determined or substantively influenced by the Firm; (ii) an entity with which the Firm or its affiliates or current or former members of their personnel has a relationship or from which such persons derive a financial or other benefit; or (iii) an investor (or an investor of another Fund) or its affiliates. This subjects the Firm to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance portfolio company performance, the Firm will potentially have an incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that the Firm, because of such incentive or for other reasons (including whether the use of such persons will establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to the Firm, the Funds or other investment funds or accounts managed by the Firm or its affiliates), will favor such retention or continuation even if a better price and/or quality of service provider can be obtained from another person. Whether or not the Firm has a relationship with or receive 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 can provide such services at lesser cost.

*Expense Allocations.* Subject to any relevant restrictions or other limitations contained in the Governing Documents of each Fund, MPM will allocate fees and expenses in a manner that it believes in good faith is fair and equitable under the circumstances and considering such factors as it in its sole discretion deems relevant. In exercising such discretion, MPM will often be faced with a variety of potential conflicts of interest. As a general matter, expenses incurred on behalf of multiple Funds will be allocated among such Funds. Investors in a Fund are typically allocated (or otherwise bear) their pro rata share of such fees and expenses, which are generally calculated based on capital commitments, invested capital, available capital or other metrics as determined by MPM in its sole discretion and in accordance with its policies and procedures regarding expense allocation. The allocations of such expenses will, in certain circumstances, not be proportional.

MPM and its affiliates will from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the 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. To the extent such fees, costs and expenses are not charged to a portfolio company, they will be paid by each Fund that participated or was expected to participate in such investment. The 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 MPM considers, in good faith, to be fair and equitable.

There are occasions when one Fund (the “Payor Fund”) pays an expense common to multiple Funds (the “Allocated Funds”). On such occasions, each Allocated Fund will reimburse the Payor Fund for its share of such expense, without interest, promptly after the payment is made by the Payor Fund. There will also be occasions where the Firm or a Payor Fund pays an expense on behalf of a portfolio company. On such occasions, the portfolio company will reimburse the Firm or Payor Fund for the expense, without interest, and such reimbursement will not be subject to the fee offset provision.

Some expenses are incurred on behalf of one Fund which have the potential to benefit other Funds. For example, information MPM obtains in connection with a Fund’s research, due diligence and investment activities will be valuable to other Funds. Additionally, tools and resources developed at MPM’s expense will be the intellectual property of MPM and not the Fund.

A conflict of interest is likely to arise in MPM’s determination of whether certain costs or expenses that are incurred in connection with the operation of the Funds meet the definition of Fund operational expenses for which the Funds are responsible, whether such expenses should be borne by MPM or the manner in which MPM allocates expenses among the Funds. The Funds will be reliant on the determinations of MPM in this regard. From time to time, it is possible that subsequent review of allocations will result in an identification of expenses that should have been allocated in a different manner, in which case measures would be undertaken to correct such circumstance, which can include

a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by MPM to be the most appropriate corrective measure.

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

*Intangible Benefits.* MPM and its employees receive certain intangible and/or other benefits or perquisites arising or resulting from their activities on behalf of a Fund, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Fund Expenses often result in “miles” or “points” or credit in loyalty/status programs to MPM and/or its employees, and such rewards or amounts will exclusively benefit MPM and/or such employees and will not be subject to the offset arrangements or otherwise shared with such Fund, its investors or the portfolio companies.

*Co-Investments.* The Firm will, in its sole discretion, provide or commit to provide co-investment opportunities to one or more investors and/or other persons, in each case on terms to be determined by the Firm in its sole discretion. Conflicts of interest will arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which will be made to one or more persons for any number of reasons as determined by the Firm in its sole discretion, will not necessarily be in the best interests of the Funds or any individual investor. In exercising its sole discretion in connection with such co-investment opportunities, including with respect to allocating a particular investment to and among potential co-investors and determining the terms thereof, the Firm will consider some or all of a wide range of factors (some or all of which will benefit the Firm or its affiliates). Furthermore, decisions regarding whether and to whom to offer co-investment opportunities are made by the Firm in consultation with other participants in the relevant transactions, such as a co-sponsor. Additionally, from time to time, certain service providers (e.g., lenders) seek to negotiate co-investment rights as a component of their compensation or in exchange for granting better terms to MPM, a fund or portfolio company in connection with the services provided. Co-investment opportunities typically will be offered to some and not to other investors. The Firm’s allocation of co-investment opportunities will, in some cases, result in allocations that are not proportional to the amounts committed, if any, by the relevant potential co-investors to the Funds or any other co-

investment vehicle, and such allocations will likely be more or less advantageous to some persons or entities than to others.

The Funds co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments involve risks not present in investments where a third party is not involved, including the possibility that a third-party co-venturer or partner will at any time have economic or business interests or goals that are inconsistent with those of the Funds, or be in a position to take action contrary to the investment objectives of the Funds. In addition, the Funds will in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that the Funds' 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.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities will be made by MPM or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities will typically be offered to some and not to other investors. When and to the extent that employees and related persons of MPM make capital investments in or alongside the Funds, MPM is subject to conflicting interests in connection with these investments. MPM's allocation of co-investment opportunities among the persons and in the manner discussed herein often will not result in proportional allocations among such persons, and such allocations would be more or less advantageous to some such persons relative to others.

**C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

For information regarding the types of securities and portfolio companies in which Funds invest, please see Item 4.B and Item 8.A, above.

## **Item 9 – Disciplinary Information**

**If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.**

Like other registered investment advisers, MPM is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor's evaluation of MPM or the integrity of MPM's management. MPM and its management persons have not been subject to any material legal or disciplinary events applicable to this Item.

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

**A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

Neither MPM nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

**B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities, disclose this fact.**

Neither MPM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing.

**C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. Other investment adviser or financial planner
4. Futures commission merchant, commodity pool operator, or commodity trading adviser
5. Banking or thrift institution
6. Accountant or accounting firm
7. Lawyer or law firm
8. Insurance company or agency
9. Pension consultant
10. Real estate broker or dealer
11. Sponsor or syndicator of limited partnerships.

MPM does not have arrangements with a related person who is a broker-dealer, municipal securities dealer, government securities dealer or broker, investment company, financial planning firm, futures commission merchant, commodity pool operator, commodity trading adviser, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate



broker or dealer, or sponsor or syndicator of limited partnerships that are material to its advisory services, the Funds or its investors. MPM has and will continue to develop relationships with professionals who provide services it does not provide, including legal, accounting, banking, investment banking, tax preparation, insurance brokerage and other personal services.

MPM has a relationship with two registered investment advisers and one trust company, which are portfolio holdings of one of the MPM Funds. Specifically, the following investment advisers are related persons of MPM as described in MPM's Form ADV Part 1: Lateef Investment Management, L.P. and Bridges Investment Management, Inc. Bridges Trust Company, a thrift institution, is affiliated with Bridges Investment Management, Inc. and also a portfolio investment of MPM. Because each of these affiliated entities performs services which are distinct from those performed by MPM, the Firm does not believe such relationships create a conflict of interest. In the event there were a conflict of interest, MPM would bring such conflict to the relevant Fund advisory committee, as applicable.

As described above in Item 4, MPM is affiliated with the Funds' General Partners and affiliated advisers and related entities, all of which are deemed registered with the SEC under the Advisers Act pursuant to MPM's registration. These General Partner entities operate as a single advisory business together with MPM and serve as the general partner, affiliate or managing members of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions. These General Partners do not have employees of their own.

From time to time, MPM receives training, information, promotional material, meals, entertainment, gifts or prize drawings or other perquisites from vendors and others with whom it does business or to whom it makes referrals. However, at no time will MPM accept any benefits, entertainment, gifts or other arrangements that are conditioned on directing individual Fund transactions to a specific investment, product or provider. Similarly, MPM employees have in the past spoken, and expect to in the future, speak at or attend conferences and programs for potential investors interested in investing in private funds and other events that are sponsored by various investment bankers, broker-dealers or others. Through such capital introduction and other events, prospective investors have the opportunity to meet with MPM. Neither MPM nor any Fund compensates these investment bankers, broker-dealers or others for organizing such events or for investments ultimately made by prospective investors attending such events other than registration, sponsorship, membership or other similar fees paid to attend such events.

**D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

MPM does not recommend or select other investment advisers for the Funds.

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

**A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.**

Pursuant to Rule 204A-1 of the Advisers Act, MPM has adopted a written code of ethics (the “Code”) that sets forth standards of conduct expected of supervised persons and addresses personal trading and reporting of personal securities transactions, gifts and entertainment and outside business activities, among other topics. The Code requires all supervised persons to place Fund interests ahead of the Firm’s interests, to avoid taking advantage of his or her position and to maintain full compliance with the federal securities laws.

Supervised persons are required to certify to their compliance with the Code upon hire and on an annual basis. Supervised persons who violate the Code will be subject to remedial actions, including, but not limited to, censure, suspension or dismissal. Supervised persons are also required to promptly report any violations of the Code of which they become aware.

MPM will provide a copy of its Code to any existing investor upon request to its Chief Compliance Officer, Teri Mercer at (402) 991-8430 or [tmercerc@mccarthycapital.com](mailto:tmercerc@mccarthycapital.com).

**B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

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

Certain MPM employees and their family members have invested in the Funds through such Funds’ General Partner(s), affiliates and/or as investors. McCarthy Partners, LLC is an employee-owned vehicle which invests side-by-side with certain MPM Funds in portfolio companies. In their capacities as investors or members of the General Partners of certain of these Funds, MPM and/or its affiliates share in the profits and losses generated by the investments of those Funds. MPM generally reduces all or a portion of the Management Fee and Carried Interest related to investments held by such persons.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account buys from or sells any security to any advisory client. This also applies to any affiliates or controlling persons of the adviser (*i.e.*, an owner, employee or affiliate of the adviser). Cross trades between funds can also be deemed to be principal transactions if the adviser (and/or its affiliates, owners, or controlling persons) own, in the aggregate, 25% or more of either fund. In the context of MPM’s business, a principal transaction would most likely refer to the practice of warehousing an

investment for the formation of a future fund or MPM or a Fund General Partner purchasing the interest of an existing investor.

Agency cross transactions occur where an adviser or an affiliate arranges a transaction (*i.e.*, as a broker-dealer) between two or more different funds or accounts that are managed by that same adviser or an affiliate or has an affiliated broker-dealer. Agency cross transactions can also arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. An adviser is not “acting as a broker” if the adviser receives no compensation (other than the advisory fee earned in the ordinary course of managing the assets) for effecting the transaction and therefore is not considered to be conducting an agency cross transaction under Section 206(3). In the context of MPM’s business, an agency cross transaction would occur when selling a portfolio company, investment or other asset from one Fund to another.

In the event MPM were to recommend a principal transaction or agency cross transaction, it would only be after: (i) the Firm has determined the transaction to be in the best interest of participating Funds; (ii) the transaction is permitted by the relevant Governing Documents; (iii) proper disclosure is given to the relevant General Partner, advisory committee or investors, as appropriate; (iv) consent is obtained from the appropriate parties; and (v) the Firm ensures that best execution is achieved for the transaction.

### **Conflicts of Interest**

MPM’s Code requires Firm principals and employees to place the interests of the Funds first, and on an annual basis each principal and employee must certify that he or she has read and understands the Code and has complied with its provisions. If any matter arises that MPM determines in its good faith constitutes an actual conflict of interest, MPM will take such actions as are necessary or appropriate, within the context of any applicable Fund’s Governing Documents, to address the conflict. In situations where actual or potential conflicts of interest between MPM and/or its affiliates and the Funds are identified, procedures contained in the Governing Documents of the affected Funds generally provide for submission of the proposed transaction to an investor advisory committee for review and resolution. The specific procedures for each Fund MPM advises are set forth in such Fund’s Governing Documents.

**C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

### **Personal Trading**

The personal trading policy for MPM supervised persons is set forth in MPM’s Code and is acknowledged as received and understood by each supervised person. MPM’s personal trading policies are designed to ensure that no Fund is disadvantaged by the transactions executed by any

supervised person and that supervised persons in no respect misappropriate any benefit properly belonging to a Fund.

MPM's supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding publicly traded securities or communicating material non-public information about such securities to others. The Code establishes guidelines for personal trading requirements, insider trading and reporting of personal securities transactions, including certain pre-clearance and reporting obligations. The Firm maintains a restricted list regarding issuers about whom it has or may have material non-public information. Pre-clearance is required by supervised persons for certain personal securities transactions, including trading in restricted list securities, initial public offerings and limited offerings. In addition, supervised persons are required to file certain reports and submit their brokerage account statements to the Chief Compliance Officer for review.

The principals and employees of MPM carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and in connection therewith, can potentially give advice and recommend securities which differs from advice given to, or securities recommended or bought for, the Funds or that are outside of the investment mandate of the Funds.

**D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Because of the private nature of its portfolio investments, MPM does not typically face a situation where a supervised person buys or sells a security for his or her own account at or about the same time that the Firm is also buying or selling the same securities for the Funds. A supervised person wishing purchase or sell an interest in an MPM portfolio company is required to seek pre-approval from the Chief Compliance Officer for such transaction.

## **Item 12 – Brokerage Practices**

**A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).**

MPM focuses on securities transactions of private companies and generally purchases and sells such companies through privately negotiated transactions. In pursuing privately negotiated transactions, MPM will, on occasion, engage the services of a broker-dealer or investment banker in connection with the purchase or sale of an investment. In such privately negotiated transactions, best execution is met by the consummation of the deal with the best possible terms for the Fund. Whether for private or public securities transactions, MPM selects a broker-dealer or investment banker based on

MPM's judgment regarding a variety of factors which will not be limited solely to ultimate deal price, including but not limited to: (i) MPM's prior experience in working with the broker-dealer or investment banker; (ii) the broker-dealer or investment banker's execution capability, financial responsibility, reputation and expertise within the industry; (iii) the broker-dealer or investment banker's responsiveness to the Firm; (iv) the broker-dealer or investment banker's expertise in dealing with investments that are restrictive or illiquid in nature; and (v) the commission rates, among other factors.

Although MPM generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent, especially in private securities transactions that rely heavily on the specialty services or experience of a broker-dealer or investment banker that operate outside of a competitive bidding environment. Transactions that involve such specialized services on the part of the broker-dealer or investment banker can thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

**1. *Research and Other Soft Dollar Benefits.***

MPM does not receive research or other soft dollar benefits in connection with securities transactions for the Funds.

**2. *Brokerage for Client Referrals.***

MPM does not receive client referrals in connection with selecting or recommending broker-dealers for the Funds.

**3. *Directed Brokerage.***

MPM does not engage in directed brokerage.

**B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

In the event MPM were to aggregate the purchase or sale of securities for Fund accounts, it would do so on a pro rata basis.

### **Item 13 – Review of Accounts**

**A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.**

The investment portfolios of each Fund are generally private, illiquid and long-term in nature and accordingly MPM's review of them is not directed toward a short-term decision to dispose of securities. MPM closely monitors the portfolio companies of its Funds and maintains an ongoing oversight position in such portfolio companies. A team of investment professionals reviews each Fund's portfolios on an on-going basis. These reviews include, without limitation, sales trends, margins, profitability, debt to equity ratios, material business developments, competitive landscape and management. The team includes principals and other investment professionals of MPM. Decisions as to when to purchase or sell a portfolio company are made by the relevant investment committee.

**B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.**

The Firm's investment committee or its Chief Compliance Officer would perform additional reviews in the event that a portfolio company needed subsequent financing, in the event of a potential acquisition or liquidity event or if there were a serious performance issue.

**C. Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.**

Annually, MPM provides investors on behalf of each of its Funds: (i) audited financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP"), as promulgated by the Financial Accounting Standards Board ("FASB"), accompanied by the report of the independent certified public accountant within 120 days of fiscal year end; (ii) tax information necessary for the completion of tax returns (K-1s); and (iii) a statement of the determination of the value of each investment as of the end of the preceding calendar year. In addition, on a quarterly basis, MPM provides investors on behalf of each of its Funds: (i) unaudited financial statements for the first three quarters of each fiscal year; (ii) capital account summaries; and (iii) portfolio company reviews. All reports are sent to investors in writing and are delivered electronically through the Firm's investor portal. The Firm also has contact with investors (personal visits, telephone and email) throughout the year as conditions warrant.

In the course of conducting due diligence or otherwise, Fund investors periodically request information pertaining to their investments. MPM responds to these requests, and in answering these requests provides information that is not generally made available to other Fund investors who have not requested such information. While MPM does not have an obligation to update any such information provided, the Firm endeavors to provide the information requested in the most current

form available. Upon request, certain investors receive additional information and reporting that other investors do not receive.

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

**A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

As described in Item 5 above, MPM does not normally receive transaction fees, monitoring fees and reimbursements from the portfolio companies held by the Funds. In the event that MPM receives any fees or other remuneration directly from a portfolio company of a Fund (such as board of director fees), those fees will be used to offset the Management Fees otherwise payable by the relevant Fund in the following year or quarter, as applicable, based on the provisions of the relevant Fund's Governing Documents.

**B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.**

When raising capital for a new Fund, MPM typically engages the service of a registered broker-dealer to serve as a placement agent for Fund units. Placement agent fees and related expenses (including, without limitation, placement agent travel, meals and entertainment expenses) are borne by MPM and not by any investor.

#### **Item 15 – Custody**

**If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.**

MPM is deemed to have custody of the Funds' assets because of its affiliation with each Fund's General Partner (and/or the Firm or an affiliate of the Fund in the case where such Fund does not have a General Partner) and the General Partners' (and/or the Firm or an affiliate of the Fund in the case where such Fund does not have a General Partner) ability to deduct fees from investor accounts. In order to comply with Advisers Act Rule 206(4)-2 (the "Custody Rule"), MPM has elected to undergo an annual GAAP financial statement audit by a Public Company Accounting Oversight Board registered and inspected auditing firm for each of the Funds over which it is deemed to have custody, copies of which are (or will be, for newly closed Funds) delivered to the Funds and their respective

investors within 120 days of fiscal year end. In addition, upon the final liquidation of a Fund, MPM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all underlying investors promptly upon completion of the audit. Investors in the Funds should carefully review such financial statements.

MPM does not accept physical custody of any Fund assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Called capital is directly sent or wired to the relevant Fund's qualified custodial account. MPM receives monthly statements from each of its qualified custodians on behalf of the Funds. For more information about MPM qualified custodians, please see Form ADV Part 1, Schedule D, Section 7.B.(1).

#### **Item 16 – Investment Discretion**

**If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

MPM generally receives and exercises complete discretionary authority to manage investments on behalf of the Funds as per the Governing Documents of each Fund. Investment advice is provided directly to the Funds, subject to the discretion and control of the relevant General Partner (and/or the Firm or an affiliate of the Fund in the case where such Fund does not have a General Partner), and not to investors in the Funds individually. To become an investor in a Fund, an investor must execute, among other documents, a subscription agreement and a limited partnership agreement with such Fund. Such Governing Documents generally contain a power of attorney that grants MPM or the applicable Fund's General Partner (and/or the Firm or an affiliate of the Fund in the case where such Fund does not have a General Partner) certain powers related to the orderly administration of the affairs of the Funds. Once an investor executes these documents, with limited exceptions, such as certain conflicts of interest as discussed elsewhere in this Brochure, MPM is not required to contact an investor prior to transacting business in such Fund.

Generally, MPM's only restrictions with respect to managing a Fund, such as (but not limited to) the type of securities in which a Fund may invest, will be contained in the relevant Fund's Governing Documents. However, an investor can seek to impose limitations on MPM's authority through a side letter agreement and the Firm can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed by an investor must be presented to MPM in writing and agreed to by MPM and such investor. Other investors meeting certain commitment thresholds are often provided with notification provisions regarding such side letter agreements but are not provided with consent rights over such agreements.



## Item 17 – Voting Client Securities

**A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.**

By virtue of the applicable Governing Documents, MPM has the authority to vote proxy statements on behalf of most of its Funds, with the exception of McCarthy Mortgage and McCarthy Group (the procedures for which are described in the following paragraph). The majority of “proxies” received by MPM, however, are written shareholder consents or similar instruments for private companies owned by such Funds. As such, MPM has adopted proxy voting policies and procedures pursuant to Advisers Act Rule 206(4)-6. MPM’s proxy voting policy seeks to ensure that it votes proxies in the best interest of the Funds, including where there are material conflicts of interest in voting proxies. MPM generally believe its interests are aligned with those of the Funds’ investors through the principals’ beneficial ownership interests in the Funds. In the event that there is a conflict of interest in voting proxies, MPM’s proxy voting policy provides that the Firm can address the conflict using several alternatives, including by seeking the approval or concurrence of an advisory committee on the proposed proxy vote, or through other alternatives as set forth in MPM’s proxy voting policy. Investors in the Funds cannot direct how MPM votes proxies or shareholder consents, nor is MPM required to seek investor approval or direction from investors when voting proxies or giving consent on any matter requiring the consent of shareholder.

With respect to McCarthy Mortgage and McCarthy Group, in the event there is a proxy to vote, such proxy will be forwarded to each of these Funds’ respective authorized representative who will vote the proxy on behalf of the relevant Fund.

Firm principals and affiliated or unaffiliated third parties appointed by MPM often sit on the boards of portfolio companies to which MPM provides operational, management and consulting services and, as such, exercise authority with respect to various issues faced by the portfolio companies. MPM does not consider service on portfolio company boards by MPM personnel and affiliated and unaffiliated third parties appointed by MPM or their receipt of nominal board fees, if any, to create a material conflict of interest in voting proxies with respect to such companies.

MPM will provide a copy of its proxy voting policy to any existing investor upon request to Teri Mercer, MPM’s Chief Compliance Officer, at (402) 932-8600 or tmercerc@mccarthycapital.com. Investors can also obtain information from the Firm, free of charge, about how MPM voted previous proxies, if any.

**B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

This Item is not applicable to MPM.

#### **Item 18 – Financial Information**

**A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

MPM does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance.

**B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

MPM has no financial condition that impairs its ability to meet contractual and fiduciary commitments to the Funds or their underlying investors.

**C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

MPM has not been the subject of a bankruptcy petition.