

**INVESTMENT ADVISER BROCHURE**  
**STELLEX CAPITAL MANAGEMENT LLC**

**Stellex Capital Management LLC**  
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**August 30, 2021**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Stellex Capital Management LLC (“Stellex Capital Management”). If you have any questions about the contents of this Brochure, please contact us at (212) 710-2323. 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 authority.**

Stellex Capital Management is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

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

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## MATERIAL CHANGES

Stellex Capital Management LLC (“**Stellex Capital Management**”) filed its most recent Form ADV Part 2 on March 31, 2021.

This other-than-annual amendment updates this Brochure to reflect the transfer of a portion of the Adviser’s management fee and carried interest revenue to a third-party institutional investor.

## ADVISORY BUSINESS

Stellex Capital Management, a Delaware limited liability corporation and a registered investment adviser, Stellex Partners LP, Stellex Partners II LP and Stellex Management II LP (collectively, with Stellex Capital Management, “**Stellex**”) provide investment advisory services to private investment funds. Stellex Partners LP and Stellex Partners II LP each serve as general partners (each a “General Partner,” collectively, the “General Partners”) to private investment funds. Stellex commenced operations in March 2014.

Stellex provides investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. Among such investment funds, are Stellex Capital Partners LP and Stellex Capital Partners II LP (each a “**Main Fund**” and together, the “**Main Funds**”), funds that invest all of their assets into a Main Fund (each a “**Feeder Fund**”), funds that invest *pari passu* alongside a Main Fund (each a “**Parallel Fund**”) and funds and vehicles formed from time to time to effectuate co-investments (each a “**Co-Investment Fund**”) (each investment fund a “**Fund**,” and collectively, the Main Funds, the Feeder Funds, the Parallel Funds, any Co-Investment Funds, together with any future private investment fund to which Stellex Capital Management or its affiliates provide investment advisory services, “**Private Investment Funds**”).

Stellex Capital Management and its affiliates that serve as general partners to certain of the Private Investment Funds, are subject to the Advisers Act pursuant to Stellex Capital Management’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each Stellex Partners LP, Stellex Partners II LP and Stellex Management II LP which operate as a single advisory business together with Stellex Capital Management. Unless the context otherwise requires, “**Stellex**” should be construed to mean the relevant Stellex entity arranging such services from Stellex Capital Management and/or its affiliates and their respective personnel on behalf of the Funds.

The Main Funds and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities. Stellex’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Stellex expects investments to be made predominantly in non-public companies, although investments in public companies are part of Stellex’s strategy to obtain control positions. Where such investments consist of portfolio companies, the senior principals or other personnel of Stellex have and may continue to serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Private Investment Funds.

Stellex's advisory services for Private Investment Funds are detailed in the applicable private placement memoranda and limited partnership agreements or other operating agreements (each, a "**Partnership Agreement**" and, as applicable, together with any relevant Memorandum, the "**Governing Documents**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but in certain circumstances are excused from a particular investment due to legal, regulatory or other applicable constraints; such arrangements generally do not and will not create an adviser-client relationship between Stellex and any investor. The Funds or Stellex have and may continue to enter into side letters or other similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the terms (including economic or other terms) of, a Fund's limited partnership agreement with respect to such investors.

Additionally, from time to time, Stellex provides (or agrees to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Stellex's personnel and/or certain other persons associated with Stellex and/or its affiliates alongside a particular Private Investment Fund's transactions. Such co-invest vehicles typically invest and dispose of their investments in the applicable portfolio company at the same time and on the same terms as the Private Investment Fund making the investment. However, from time to time, for strategic and other reasons, a co-invest vehicle (including a co-investing Private Investment Fund) purchases a portion of an investment from a Private Investment Fund after such Private Investment Fund has consummated its investment in the portfolio company. Any such purchase from a Private Investment Fund by a co-invest vehicle generally occurs shortly after the Private Investment Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in Stellex's sole discretion, Stellex reserves the right to charge interest on the purchase to the co-investor or co-invest vehicle and to seek reimbursement to the relevant Private Investment Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Private Investment Fund.

As of December 31, 2020, Stellex advises and manages \$2,632,278,668 of client assets on a discretionary basis and \$100,500,000 on a non-discretionary basis for a total of \$2,732,778,668 of client assets. Ray Whiteman and Mike Stewart, the founding and managing partners, are the indirect principal owners of Stellex Capital Management.

#### **FEES AND COMPENSATION**

In general, Stellex receives a management fee and a carried interest in connection with the provision of advisory services to its clients. Stellex receives additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to Stellex to the extent provided by the relevant Governing Documents. In addition, in certain circumstances Stellex receives compensation for management and other services performed in connection with the co-investments made in portfolio companies of the Funds. Investors in the Funds also bear certain fund expenses.

## Management Fees

A Fund is expected to pay Stellex an annual management fee (the “**Management Fee**”) equal to 2.0% of aggregate investor capital commitments to the Fund (“**Commitments**”) commencing on certain dates as detailed in the relevant Funds’ Governing Documents. The precise amount of, the manner and calculation of and the manner and timing of payment of the Management Fee for each Fund are established by Stellex and are set forth in such Fund’s Governing Documents. The Management Fee is expected to equal 2.0% of: (i) the aggregate contributions, less (ii) the aggregate amount of contributions with respect to the portion of each investment that has been disposed of, completely written-off or permanently written-down. Stellex intends to adjust installments of the Management Fee payable for any period other than a full three-month period on a *pro rata* basis according to the actual number of days in such period.

In addition, each Fund’s Management Fee shall be reduced by 100% of such Fund’s portion of any: (a) directors’ fees, financial consulting fees or advisory fees paid to Stellex with respect to any Fund investment; (b) transaction fees paid to Stellex with respect to any Fund investment; and (c) break-up fees with respect to Fund transactions not completed that are paid to Stellex, but not including, in any event, any amount received by Stellex or other person from a portfolio company as reimbursement for expenses directly related to such portfolio company ) as payment for services provided to any portfolio company in the ordinary course of such portfolio company’s business, as compensation for services provided by such person as a bona-fide employee of such portfolio company or any of its subsidiaries (provided that with respect to any amounts excluded pursuant to this paragraph, the compensation received by such person or its affiliate is correspondingly reduced by the amount of compensation received), fees or other forms of compensation for services rendered by an Operating Partner. To the extent that such an offset credit would reduce the Management Fee for a given three-month period below zero, the credit will be carried forward for future application against payable Management Fees and if a credit remains upon liquidation a payment will be made crediting limited partners of the relevant Fund unless such limited partner has elected to waive such amount (*e.g.*, where an adverse tax consequence potentially will result).

As a matter of practice, Stellex is typically paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors in an investment, as well as other fees relating to the structuring and administration of co-investment arrangements. The receipt of such fees will not reduce the Management Fee payable by any Private Investment Fund(s) that have also invested in such investment, and as a result a Private Investment Fund will, in most cases, only benefit with respect to its allocable portion on a fully diluted basis of any such fee and not the portion of any fee that relates to such co-investors or potential co-investors. Additionally, as further described below, it is Stellex’s practice to use or retain certain Operating Partners to provide services to certain portfolio companies in which one or more Funds invest. Such Operating Partners generally receive compensation and other amounts described herein from the relevant portfolio companies or Funds to which they provide services, but no such amounts will offset or reduce the Management Fee.

As permitted under the Governing Documents, Stellex may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital Stellex would otherwise be required to contribute to a Fund. The limited partners of a Fund would, in such circumstances, be required to make a *pro rata* contribution according to their

respective Commitments to fund any contribution that would otherwise be required of Stellex in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced Management Fees are not expected to be subject to the Management Fee offsets described above.

### **Carried Interest**

Stellex expects to receive a carried interest with respect to the Funds equal to 20% of all realized profits subject to an 8% compound preferred return, as more fully described in the Governing Documents. The carried interest distributed to Stellex is subject to a potential giveback at the end of life of the Funds if Stellex has received excess cumulative distributions and at certain interim intervals as provided in the Governing Documents.

It is expected that any future Private Investment Funds will have also have a similar fee structure.

### **Other Information**

Stellex may exempt certain investors in Private Investment Funds from incurring a portion or all of the charges associated with Management Fees and/or carried interest. Such exemptions may be granted to various parties including Stellex advisers and any other person or parties designated by Stellex, based on certain factors including but not limited to strategic or other relationship with Stellex or size of investment. The General Partner reserves the right to make any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by Stellex, or Private Investment Funds which co-invest with a Fund. In general, the Management Fee offsets described above apply only with respect to the capital commitments of fee-paying investors.

The Main Funds and other Private Investment Funds intend to invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Governing Documents, over the term of such Main Fund (or the relevant Private Investment Fund, as applicable) and investors generally are not permitted to withdraw or redeem interests in the Main Funds (or other relevant Private Investment Fund, as applicable).

Principals or other employees of Stellex may receive a portion of the Management Fee, carried interest or other compensation received by Stellex or its affiliates.

In addition to the Management Fee and carried interest payable to Stellex, Stellex expects each Fund to bear certain expenses. As set forth more fully in the Governing Documents, a Fund bears all fees, costs, expenses, liabilities and obligations relating to the Fund's activities, investments and business to the extent not reimbursed by a portfolio company or applied to reduce Management Fees, including: costs and expenses attributable to structuring, organizing, negotiating, consummating, financing, refinancing, acquiring, managing, operating, holding, valuing, winding up, liquidating, dissolving and disposing of such Fund's investments, indebtedness of, or guarantees made by a Fund, the General Partner or any affiliated Partner on behalf of the Partnership, legal, filing, accounting, auditing, investment banking, travel, consulting, research, brokerage, dealer, underwriting, loan administration, finder's fees, financing, real estate title, appraisal, printing, reporting, custody, depositary, transfer, registration, insurance, advisory

board, limited partner meetings and related meal and entertainment expenses, interest, taxes, extraordinary expenses and other similar fees and expenses, break-up, termination and other similar fees or other liabilities or obligations incurred for transactions not consummated (“Broken Deal Expenses”), including Broken Deal Expenses relating to transactions that have been offered to co-investors, but not Stellex expenses in connection with maintaining and operating its offices (such as compensation of its employees, rent, utilities and general office expenses).

As is typical for private equity funds, the Private Investment Funds are likely to bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds, and there can be no assurance that the benefits to investors will be commensurate with such expenses. Brokerage fees may be incurred in accordance with the practices set forth in “Brokerage Practices.” In certain circumstances in the future, one Private Investment Fund may pay an expense common to multiple Private Investment Funds (*e.g.*, legal expenses for a transaction in which all such Funds participate), and be reimbursed by the other Private Investment Funds by their share of such expense, without interest. While highly unlikely, it is possible that one of the other Private Investment Funds could default on its obligation to reimburse the paying Private Investment Fund.

The Feeder Funds, Parallel Funds and any Co-Investment Funds generally bear their own direct expenses and their pro rata share of expenses of the relevant Main Funds which shall be borne in the same manner as described above.

As described above, in certain circumstances, Stellex permits and expects to permit in the future certain investors to co-invest in portfolio companies alongside one or more Private Investment Funds, subject to Stellex’s related policies and the relevant Governing Documents and/or side letter(s). Where a co-invest vehicle is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Main Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all Broken Deal Expenses relating to such unconsummated transaction will be borne by either the Main Fund(s), or any prospective co-investors based upon agreed upon terms.

Stellex and/or its affiliates generally will have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the rate, timing, method and/or amount of such compensation, as well as to charge such amounts at varying levels in a portfolio company’s holding or operating structure. The receipt of such compensation may give rise to conflicts of interest between Private Investment Funds, on the one hand, and Stellex and/or its affiliates on the other hand.

Each General Partner intends to obtain the services of Operating Partners for the benefit of the relevant Fund and its portfolio companies. Operating Partners may receive compensation, including fees, incentive equity or other stock awards and reimbursement of certain travel and other costs, and such amounts may be borne directly by a portfolio company (or prospective portfolio company) or by the relevant Fund, and such amounts shall not offset the Management Fee. Compensation in the form of profits or equity interests in a portfolio company or intermediate holding company generally has a dilutive impact on the Fund’s investment, and the relevant Fund

typically will bear the costs of all Operating Partner compensation as well as fees, costs and expenses of structuring Operating Partner arrangements. An **“Operating Partner”** means any person who has been designated by the General Partner as an Operating Partner to provide industry advice, consulting, sourcing, diligence, monitoring, operational or other services directly to any portfolio company or prospective portfolio company or to a Fund and the General Partner with respect to such entities. Operating Partners may or may not provide services exclusively to the General Partner. Operating Partners shall not include any officer, director or person serving on the investment committee of the General Partner, or any salaried employee of the General Partner or its affiliates; provided that an individual that is an Operating Partner may coinvest in transactions of a Fund and may receive certain benefits or remuneration and may hold an investment interest, including a right to receive carried interest, from the General Partner or its affiliates.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Fees and Compensation,” Stellex expects to receive a carried interest allocation on certain realized profits in the relevant Funds. Stellex also manages accounts that are not charged performance-based compensation. This practice could present a conflict of interest because Stellex has an incentive to favor accounts for which it receives the highest performance-based compensation. Stellex may waive carried interest with respect to certain investors as described under “Fees and Compensation.”

The existence of performance-based compensation has the potential to create an incentive for the General Partner to make more speculative investments on behalf of a Private Investment Fund than it might otherwise make in the absence of such arrangement, although Stellex generally considers performance-based compensation to better align its interests with those of its investors.

#### **TYPES OF CLIENTS**

Stellex provides investment advice solely to its Private Investment Funds clients, including the Main Funds, and references throughout this Brochure to “clients” and to Stellex’s related duties to and practices on behalf of its clients and/or investors should be construed accordingly. Private Investment Funds generally include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds generally include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and from time to time include, directly or indirectly, principals or other employees of Stellex or its affiliates, as well as executives of portfolio companies.

The Main Funds generally have a minimum investment amount of \$10 million for third-party investors, and the Main Funds’ interests are offered and sold solely to qualified purchasers (or qualified knowledgeable Stellex personnel). Stellex generally is permitted to waive such minimum investment amount.



## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### General

Stellex seeks to primarily invest in deep-value middle-market companies within both the United States and Europe that represent an attractive opportunity to generate desirable risk-adjusted returns. Stellex believes that distress and the opportunity to invest in distressed companies are systemically inherent to both geographies, regardless of the stage in the overall economic cycle. Stellex expects the combined skill sets, experience and location of its investment team to enable the Funds to be well-positioned to take advantage of these opportunities.

Once an investment opportunity has been identified, Stellex seeks to implement an effective operating strategy to improve the performance of the acquired company by (i) developing restructuring and operating plans, (ii) driving business improvement and (iii) controlling the implementation of such plans and improvements by obtaining board representation and/or management installation.

The following is a summary of the investment strategies and processes generally expected to be employed by Stellex on behalf of the Funds. *There can be no assurance that Stellex will achieve the investment objectives of a Fund and a loss of investment may be possible.*

### Investment Strategy and Process

When considering potential investment opportunities, Stellex generally intends to rely on the following set of investment criteria:

Target Investment Attributes	
<b>Situation</b>	<ul style="list-style-type: none"><li>• Companies or operating assets that are experiencing financial, operational or industry-driven uncertainty Underperforming and mismanaged companies or divisions within larger entities and enterprises</li><li>• Operationally sound companies that are over-levered</li><li>• Buy-and-build platforms</li><li>• Special situations that involve sectors or businesses where Stellex has significant in-house knowledge</li></ul>
<b>Industries</b>	<ul style="list-style-type: none"><li>• Asset intensive businesses that allow for downside protection</li><li>• Cyclical industries</li><li>• Businesses with proven applications or markets</li></ul>
<b>Size</b>	<ul style="list-style-type: none"><li>• Annual revenues, generally, of \$100 million to \$500 million</li><li>• Situations where Stellex can deploy \$25 to \$100 million of capital</li></ul>

<b>Location</b>	<ul style="list-style-type: none"><li>• United States and Europe</li></ul>
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The investment strategy of Stellex is premised upon identifying and executing investments that meet these investment criteria and that can provide desirable private-equity type returns with meaningful downside protection. Stellex believes it can successfully implement this strategy due to the Stellex team's expertise in the middle market, their flexibility in creating investments, the ability to leverage the investment and industry expertise of the Stellex team and the physical proximity of the Stellex platform to local opportunities in the United States and Europe. Stellex transaction opportunities will be subject to an intense due diligence process and thoughtful consideration of potential downside risks, and will be implemented through a measured investment pace and approach. These investment opportunities optimally will have collateralization or current income features that facilitate the management of downside risk and protection of capital. Stellex anticipates that the appreciation potential in a Fund's investments will be enhanced by an emphasis on investing at attractive initial valuations and employing a "hands-on" sponsorship style that works with portfolio companies to maximize value post-transaction.

Regardless of the geographic location of the investment opportunity, Stellex expects that there will be uniformity in its approach to identifying and executing investment transactions across the Stellex platform on behalf of the Funds.

*Sourcing.* Stellex's and its senior investment team have a long history of creating proprietary, "below the radar" deal flow. This deal flow has been generated through a variety of means, including their extensive networks and relationships in the middle market, including significant dealmakers in the financial advisory, legal and turnaround professions. In addition to exclusive investment opportunities expected to be sourced through relationships maintained by Ray Whiteman and Mike Stewart, each a managing partner of Stellex (together, the "**Managing Partners**"), Stellex also expects a significant contribution in the sourcing of deals from the rest of the Stellex team. Furthermore, Stellex has developed various deal-screening methodologies that, when coupled with its in-house information resources and data tools, are expected to allow the entire Stellex investment team to closely monitor developing situations that may be appropriate for a Fund's investment.

*Evaluation and Initial Due Diligence.* Once an opportunity that meets Stellex's investment criteria is identified, a deal team will be established and typically will include at least one member of the Investment Committee (as defined below), who will be expected to lead the deal team and provide strategic oversight, along with a senior team member and additional investment professionals. As part of each potential investment's initial evaluation, Stellex intends to conduct a bottom-up review of the company's market position, industry prospects and products, based upon independent research, discussions with industry experts within the Stellex network, as well as conversations with competitors, suppliers and industry consultants, as applicable.

This initial diligence process will also typically include, but not be limited to:

- Onsite meetings with existing management and ownership to establish Stellex's credentials and develop rapport with the target's decision makers;

- Identification and quantification of key initial business improvement levers for value creation;
- Development of financial models to analyze and sensitize a broad range of negotiation, liquidity and exit scenarios; and
- An assessment of the liquidation value for purposes of determining a range of recovery values for its investment and downside protection.

As the investment opportunity progresses beyond its screening and evaluation period, due diligence is expected to be enhanced by the engagement of accounting, legal, consulting, tax, and environmental professionals to complete a more thorough analysis of the target company. As part of this process, Stellex expects to frequently have prospective board members and/or management teams fully engaged to augment the assessment, as well as to assist Stellex in developing an aligned operational plan to revitalize the company's operations and capital structure.

*Investment Execution.* The Funds' investments generally will be made via direct acquisition of a portfolio company in a single investment transaction. Stellex may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a 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 can be no assurance that any Fund will make add-on investments or that any Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make add-on investments or its inability to make such investments may have a substantial negative impact on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made) or may result in a lost opportunity for such Fund to increase its participation in a successful operation.

In some cases, Stellex will seek to make "seed" or "toehold" investments in companies that meet the Fund's investment criteria by purchasing their credit claims (e.g., bank debt or bonds) in the secondary market. Seed investments are expected to enable Stellex to obtain better information, gain access to management and conduct more in-depth due diligence prior to committing additional capital and/or seeking significant influence or control. Based on Stellex's view of fundamental value, Stellex will decide whether to increase, maintain or reduce the size of such investments on behalf of such Fund.

Messrs. Whiteman, Stewart and Achar compose the investment committee (the "Investment Committee") and it plays an active role in the investment execution process. In most instances, a member of the Investment Committee will be taking the lead on evaluating an investment opportunity. At the outset, the investment team will present an initial overview presentation of the prospective investment to the Investment Committee. This presentation will contain the team's thesis, situation analysis and, at times, it may also include a third-party review and assessment. Such presentations will be presented in an Investment Committee meeting where a short review of the opportunity is conducted to allow the Investment Committee to get up to speed on the prospective investment and provide guidance on the structuring and negotiation processes. The Investment Committee will use this meeting to surface potential "show-stoppers"

or other threshold issues that will require additional attention from the deal team before presenting the opportunity again to the Investment Committee. As the situation evolves, the deal team will have subsequent meetings with the Investment Committee and provide more detailed analyses and informational support, including third party reporting of accountants, environmental, insurance other retained consultants. Often, these meetings will include presentations from operating executives chosen by Stellex to assist the deal team with their analytical work. In the case of buy-and-build or similar strategies, the Investment Committee will also play a guiding role overseeing the investment teams' execution. As with the initial investment process, the deal teams will present these growth opportunities to the Investment Committee for discussion and approval, supported with a similar level of input from third party diligence sources and, where applicable, Stellex's own senior operating managers.

In the case of secondary market investments, the Investment Committee may authorize the purchase of a small toehold position to allow for further data access in order to develop insights as to whether the investment should be expanded further. Additional analysis by the investment team and incremental third-party work by Stellex deal team members would be typical at this stage. Subsequent increases or decreases in the size of a debt investment by a Fund would again be brought before the Investment Committee for approval.

*Investment Management and Exit.* Once a Fund has gained control or significant influence over the strategic direction of the underlying business, Stellex will seek to take an active role guarding its investment through various means, including board representation and management installation. Stellex believes that the Stellex team's extensive experience dealing with distressed companies and troubled industries, augmented by their long-standing participation in the capital markets, provides them with a sound basis for formulating investment monetization options to achieve desired outcomes for a Fund. This experience comes from their many years of involvement in recruiting key managers, evaluating corporate strategic opportunities, sponsoring recapitalizations and developing appealing divestiture alternatives.

## **Risks of Investment**

A Fund and its investors bear the risk of loss that Stellex's investment strategy entails. The risks involved with Stellex's investment strategy and an investment in a Fund include, but are not limited to:

*Business Risks.* A Fund's investment portfolio is expected to consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Future and Past Performance.* The performance of the Managing Partners' prior investments is not necessarily indicative of a Fund's future results. While Stellex intends for a Fund to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

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

*Concentration of Investments.* Each Fund will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment or within a short period of time. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund may invest in fewer portfolio companies and thus be less diversified. Furthermore, a Fund may provide bridge financing to facilitate portfolio company investments. If such bridge financing is not recouped within the time period specified in the Partnership Agreement, the investment would be treated as a permanent investment of a Fund and such Fund's portfolio could become more concentrated than initially expected or otherwise provided for under a Fund's investment limitations.

*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. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. However, the limited partners of a Fund will be required to bear the Management Fees during the Investment Period based on the entire amount of such limited partners' Commitments and other expenses as set forth in the Governing Documents.

*Dynamic Investment Strategy.* While Stellex generally intends to seek attractive returns for a Fund primarily through making private equity investments as described herein, Stellex is permitted to pursue additional investment strategies and/or modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. Stellex is permitted to pursue investments outside of the industries and sectors in which the Managing Partners have previously made investments.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee payable to Stellex) may exceed its income, thereby requiring that the difference be paid from a Fund's capital, including, unfunded Commitments. In addition, there can be no assurance that a Fund will have sufficient cash flow to permit it to make annual distributions in the amounts necessary for the limited partners to pay all tax liabilities resulting from the limited partners' ownership of limited partner interests.

*Leveraged Investments.* A Fund is permitted to make use of leverage by incurring or having a portfolio company incur debt to finance a portion of its investment in such portfolio company. Leverage generally magnifies both such Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the

broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. In addition, this leverage could accelerate and magnify declines in the value of a Fund's 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, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of a Fund. Furthermore, should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, a Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, some of the companies in which a Fund will invest generally will not be rated by a credit rating agency.

A Fund is also permitted to borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt, a letter of credit or other forms of promise to provide funding) or otherwise be liable therefor, and in such situations, it is not expected that such Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund generally also will result in fees, interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. A Fund is permitted to incur leverage on a joint and several basis with one or more other Funds and entities managed by Stellex or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts are permitted to be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.

*Limited Transferability of Fund Interests.* There will be no public market for Fund interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under the Governing Documents and applicable securities laws. In general, withdrawals of Fund interests are not permitted. In addition, Fund interests are not redeemable.

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

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as

legal fees relating to the establishment, structuring and negotiation of the terms of the borrowing facility, as well as expenses relating to the maintenance, renegotiating or terminating the facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than a Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases a Fund's reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Fund-level borrowing typically delays the need for limited partners to make contributions to a Fund, which in certain circumstances enhances the relevant Fund's internal rate of return calculations and thereby may be deemed to benefit the marketing efforts of the General Partner and its affiliates. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors (including one or more co-investing Funds), as to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither the relevant Fund nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

A credit agreement frequently will contain other terms that restrict the activities of a Private Investment Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Private Investment Fund or impose concentration or other limits on the Private Investment Fund's investments. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

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

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

*Reliance on the General Partner and Portfolio Company Management.* Control over the operation of a Fund will be vested with the relevant General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of the Managing Partners. The loss or reduction of service of one or more of the Managing Partners could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, the Managing Partners currently, and may in the future, manage other investment funds besides the Funds and the Managing Partners may need to devote substantial amounts of their time to the investment activities of such other funds, which may pose conflicts of interest in the allocation of the time of the Managing Partners. Limited partners of a Fund generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of a Fund will depend on the actions of Stellex. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on a Fund or one or more of its portfolio companies, including potential acceleration of debt facilities.

Although the General Partner will monitor the performance of a Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day to day basis. Although a Fund generally intends to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with a Fund's objectives.

*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 a Fund's activities, including the ability of a Fund to effectively and timely address such regulations, implement operating improvements or otherwise execute its investment strategy or achieve its 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 recent downturn in the U.S. and global financial markets, may complicate or prevent a Fund's 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, a Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.



*Data Protection Compliance.* Compliance with current and future privacy data protection and information security laws and regulations (“Privacy Laws”) could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned business activities of the Management Company, the General Partner, the Funds and its portfolio investments, and as such could increase costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Fund performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for the Funds and/or its portfolio investments are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

For example, California has passed the California Consumer Privacy Act of 2018 (the “CCPA”), as amended. The CCPA generally applies to businesses that collect personal information about California consumers and meet certain thresholds with respect to revenue or buying and/or selling consumers’ personal information. The CCPA imposes stringent legal and operational obligations on such businesses as well as certain affiliated entities that share common branding. The CCPA is enforceable by the California Attorney General. Additionally, if unauthorized access, theft or disclosure of a consumer’s personal information occurs, and the business did not maintain reasonable security practices, consumers could file a civil action (including a class action) without having to prove actual damages. Statutory damages range from \$100 to \$750 per consumer per incident, or actual damages, whichever is greater. The California Attorney General also may impose civil penalties of up to \$7,500 per violation.

The European Union has enacted a similar law in the form of the General Data Protection Regulation (EU 2016/679) (the “GDPR”). The GDPR seeks to harmonize national data protection laws across the European Union, while at the same time, modernizing the law to address new technological developments. The GDPR notably has a greater extra territorial reach than pre-existing legislation and has a significant impact on data controllers and data processors, (i) with an establishment in the European Union, (ii) which offer goods or services to European Union data subjects, or (iii) which monitor European Union data subjects’ behavior within the European Union. The GDPR imposes more stringent operational requirements on both data controllers and data processors, and introduces significant penalties for non-compliance with fines of up to 4% of total annual worldwide turnover or €20 million (whichever is higher), depending on the type and severity of the breach. The current ePrivacy Directive will be repealed by the European Union Commission’s Regulation on Privacy and Electronic Communications (the “ePrivacy Regulation”), which aims to reinforce trust and security in the digital single market by updating the legal framework on ePrivacy.

The GDPR principles on the processing of personal data have been implemented into laws enforceable in the UK by the Data Protection Act 2018. As noted in the below section “United Kingdom Exit from the European Union,” the terms of the UK’s exit from the European Union are unclear and it is uncertain whether a transitional arrangement or a withdrawal of similar agreement will be agreed between the UK and the European Union. In the event that an

arrangement is not agreed, and the UK leaves the European Union without a deal, the UK will be deemed a “third country” for the purposes of European Union data protection law. To the extent the Funds and/or its portfolio investments transfer personal data from the European Union to the UK, additional mechanisms may be required to legitimize such transfers. The UK’s exit from the European Union is therefore likely to lead to an increase in data protection compliance costs.

Other jurisdictions, including other U.S. states, have proposed or are considering similar Privacy Laws, which if enacted could impose similarly significant costs and operational and legal obligations. Such Privacy Laws and regulations are expected to vary from jurisdiction to jurisdiction, thus increasing costs and operational and legal burdens on regulated entities. Further, compliance with current and future Privacy Laws could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of our current and planned business activities. Any such Privacy Law could materially and adversely affect results of operations and overall business, as well as have a negative impact on Fund performance.

*Projections.* Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company’s management, with adjustments to such projections made by Stellex in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and 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 may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, a Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. 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 may have a substantial negative effect on a portfolio company in need of such an investment. Additionally, such failure to make such investments may result in a lost opportunity for a Fund to increase its participation in a successful portfolio company or the dilution of a Fund’s ownership in a portfolio company if a third party invests in such portfolio company.

*Non-U.S. Investments.* A Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and non U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on a Fund and/or the partners with respect to such Fund’s income, and possible non-U.S. tax return filing requirements for a Fund and/or the partners.

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

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

*Outbreaks of Infectious or Contagious Diseases; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19 have and are resulting in market volatility and disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity, all of which may result in significant losses to a Fund. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including “stay-at-home” and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. In many jurisdictions, restrictive measures have been re-imposed to address subsequent waves of infection. As a result, COVID-19 significantly diminished global economic production and activity of all kinds and contributed to both volatility and declines in markets for financial assets as well as commodities and other assets. Among other things, these unprecedented developments resulted in material reductions in demand across some, many or all categories of consumers and businesses, dislocation (or in some cases a complete halt) in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, and strain and uncertainty for businesses and households. Certain industries are likely to feel such impacts particularly acutely, for instance industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment and industries related to natural resources production and development.

The COVID-19 crisis and any other public health emergency could result in significant adverse impacts on the Funds. The extent of the impact of any such emergency depends on many

factors, all of which are highly uncertain and cannot be predicted, which may impact Stellex's or the Funds' ability to source, diligence and execute new investments and to manage, finance and exit investments in the future, or cause significant changes or reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. Likewise, social or governmental mitigation actions may (among a wide variety of other potential effects) constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy Funds intend to pursue, all of which could adversely affect Funds' ability to fulfill their investment objectives. They may also impair the ability of Funds' investments or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their investments, the applicable General Partner, Stellex and their respective affiliates may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other social, political, financial, legal, regulatory and other factors related to an actual or threatened public health emergency (such as COVID-19), including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Remote Work Environment* The COVID-19 pandemic significantly affected firms' day-to-day operations across the securities industry, including requiring firms to transition most or all their staff to remote work environments and implement remote supervisory practices. Stellex and the Funds' business operations may be vulnerable to disruption related to Stellex's ongoing supervision and monitoring of staff, communication with investors, protection of Stellex and investor information and other privacy and information security concerns. Although Stellex has implemented various measures to manage such risks related to maintaining remote work environments, there can be no assurances that all such measures will be successful. If such vulnerabilities continue for extended periods of time, the Funds may be adversely affected.

*Business Continuity and Disaster Recovery.* Stellex and the Funds' business operations may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster (e.g., tornadoes, floods, hurricanes and earthquakes), terrorist attacks or other circumstances resulting in property damage, network interruption and / or prolonged power outages. Although Stellex has implemented various measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. If such business operations are disrupted or suspended for extended periods of time, the Funds may be adversely affected.

*Reliance on Service Providers.* Stellex relies upon the performance of service providers to perform certain critical functions in connection with its own operations and its management of the Funds (collectively, "relevant service providers"). There is a risk that a relevant service provider will fail to carry out its contractual and other legal obligations, fail to exercise due care and skill in the provision of services to its customers or clients, or fail to maintain and implement a business continuity plan that is reasonably designed to ensure that it meets such obligations and exercises

such skill during an emergency or significant business disruption. There is also a risk that the occurrence of any of such events (collectively, “Service Failures”) could arise from insolvency, bankruptcy or other causes. A Service Failure could materially disrupt Stellex’s business and have a material adverse effect on Stellex’s provision of services to the Funds. The termination of Stellex’s relationship with any relevant service provider, or any delay in appointing a replacement for such service provider, could materially disrupt Stellex’s business and have a material adverse effect on Stellex’s provision of services to a client.

*Market Conditions.* The capital markets have experienced great volatility and financial turmoil. Moreover, governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) may have a negative effect on market conditions. General fluctuations in the market prices of securities and economic conditions generally may reduce the availability of attractive investment opportunities for a Fund and may affect such Fund’s ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a Fund’s investments and could have a negative impact on the performance and/or valuation of the portfolio companies. A Fund’s performance can be affected by deterioration in the capital markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors’ risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and a Fund’s performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of a Fund to sell and/or partially dispose of its portfolio company investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event a Fund is not able to close a transaction (whether due to the lenders’ unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that the General Partner believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund’s ability to raise funding to support its investment objective.

*Distressed Securities Generally.* Distressed debt securities are subject to the significant risk of an issuer’s inability to meet principal and interest payments on the obligations (credit risk) and also may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Distressed securities may react to developments affecting market and credit risk more than non-distressed securities. A wide variety of other considerations exist, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of Stellex to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is unusually high. There is no assurance that Stellex will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating

to a company in which a Fund invests, a Fund may lose its entire investment or may be required to accept cash or securities with a value less than a Fund's original investment.

*"Blocking Positions".* In connection with a Fund's distressed investment strategy, such Fund expects to acquire plan of reorganization "blocking positions" in securities of portfolio companies. This strategy entails significant risks. If Stellex's evaluation of the anticipated outcome of such a blocking position or any investment situation should prove incorrect, a Fund could experience substantial losses.

*Investment in Restructurings.* A Fund may make investments in restructurings which involve portfolio companies that are experiencing or are expected to experience severe financial difficulties, which may never be overcome and may cause a portfolio company to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a Fund to certain additional potential liabilities, which may exceed the value of a Fund's original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a Fund and distributions by a Fund to the limited partners of a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment or a similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by local statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims.

*Public Company Holdings.* A Fund's investment portfolio may contain securities and debt issued by publicly held companies. Such investments may subject a Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including Stellex's principals, and increased costs associated with each of the aforementioned risks.

*Material, Non-Public Information* From time to time, Stellex and its personnel may come into possession of confidential or material, non-public information concerning specific companies, including as a result of certain Stellex personnel serving as officers or on the boards of directors. Under applicable securities laws, this may limit Stellex's flexibility to buy or sell securities issued by such companies. A Fund's investment flexibility may be constrained as a consequence of Stellex's inability to use such information for investment purposes, and such Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Stellex's internal policies and practices.

*Lack of Unilateral Control.* Even if a Private Investment Fund is the majority investor or controlling shareholder, as applicable, of a portfolio company, in certain circumstances it may not have unilateral control of the portfolio company. To the extent a Fund invests alongside third

parties, such as institutional co-investors or private equity funds of other sponsors, or makes a minority investment, the relevant portfolio companies may 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 Private Investment Funds or their limited partners. Such third parties may be in a position to take action contrary to a Fund's business, tax or other interests, and a Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment.

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

*Hedging Arrangements; Related Regulations.* Stellex is authorized (but not obligated) to endeavor to manage a relevant Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements may create for Stellex and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Private Investment Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

*Unfunded Pension Liabilities of Portfolio Companies.* Recent court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although Stellex intends to manage a Fund's investments to minimize any such exposure, a Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where a Fund may own an 80% or greater interest in such a portfolio company. If a Fund (or other 80%-owned portfolio companies of such Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of a Fund and the companies in which a Fund invests.

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

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. 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 may be subject to 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 may be the subject of civil litigation or regulatory or other action. The use of internet- or cloud-based programs, technologies and data storage applications generally heightens these risks. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses, including losses relating to: misappropriation of assets, intellectual property or confidential information; corruption, deletion or destruction of data; physical damage and repairs to systems; reputational harm; financial losses from remedial actions; and/or disruption of operations. Third parties, including activist, criminal, nation-state or terrorist actors, may also attempt fraudulently to induce portfolio companies or their personnel to disclose sensitive information (including passwords) in order to gain access to data, accounts, funds or other assets, or otherwise to inflict harm. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Stellex or one of its affiliates or service providers holding its financial or investor data, Stellex, its affiliates or the Private Investment Funds may also be at risk of loss.

*Alternative Investment Fund Managers Directive.* The European Union ("EU") Alternative Investment Fund Managers Directive (the "AIFMD") regulates the activities of certain



private fund managers undertaking fund management activities or marketing fund interests to investors within the European Economic Area (“EEA”).

To the extent a Fund is actively marketed to investors domiciled or having their registered office in the EEA: (i) the Funds and the Managers will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which will result in such Fund incurring additional costs and expenses; (ii) the Funds and the Managers may become subject to additional regulatory or compliance obligations arising under national law in certain EEA jurisdictions, which would result in the Funds incurring additional costs and expenses or may otherwise affect the management and operation of the Funds; (iii) the Managers will be required to make detailed information relating to the Funds and its investments available to regulators and third parties; and (iv) the AIFMD will also restrict certain activities of the Funds in relation to EEA portfolio companies including, in some circumstances, the Funds’ ability to recapitalize, refinance or potentially restructure an EEA portfolio company within the first two years of ownership, which may in turn affect operations of the Funds generally. In addition, it is possible that some EEA jurisdictions will elect to restrict or prohibit the marketing of non-EEA funds to investors based in those jurisdictions, which may make it more difficult for the Funds to raise its targeted amount of Commitments.

*Significant Adverse Consequences for Default.* The Partnership Agreement provides for significant adverse consequences in the event a limited partner defaults on its Commitment or any other payment obligation. In addition to losing its right to potential distributions from a Fund, a defaulting limited partner may be forced to transfer its interest in a Fund for an amount that is less than the fair market value of such interest and that may be paid over a period of up to ten years, without interest.

*Transfer by General Partner.* To the extent a General Partner, its partners, the Managing Partners and/or their respective affiliates commit to make a direct or indirect investment in or along-side a Fund, a participation in or a portion of such investment may thereafter be transferred to others, subject to any express limitations thereon in the Partnership Agreement.

*Director Liability.* A Fund will often seek to obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Serving on the board of directors (or similar governing body) of a portfolio company exposes a Fund’s representatives, and ultimately such Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from a Fund’s investment activities.

*Advisory Board.* A General Partner will appoint one or more limited partner representatives to a Fund’s advisory board. The Partnership Agreement will provide that to the fullest extent permitted by applicable law, none of the advisory board members shall owe any fiduciary duties to a Fund or any other partner. In addition, representatives of the advisory board may have various business and other relationships with Stellex and its partners, employees and affiliates. These relationships may influence their decisions as members of the advisory board.

*Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments.* A deterioration of the global credit markets may make it more difficult for investment funds such as the Funds to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, may dramatically reduce investor demand for high-yield debt and senior bank debt, which in turn may lead some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. A Fund's ability to generate attractive investment returns may be adversely affected to the extent such Fund is unable to obtain favorable financing terms for its investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

*Co-Investments.* A General Partner may, in its sole discretion, provide or commit to provide co investment opportunities to one or more limited partners and/or other persons, in each case on terms to be determined by such General Partner in its sole discretion. Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by a General Partner in its sole discretion, may not be in the best interests of a Fund or any individual limited partner. In exercising its sole discretion in connection with such co-investment opportunities, a General Partner may consider some or all of a wide range of factors, which may include factors that benefit the General Partner such as the likelihood that an investor may invest in a future fund sponsored by the General Partner or its affiliates.

A Fund may co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a Fund, or may be in a position to take action contrary to the investment objectives of such Fund. In addition, a Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

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

*High-Yield, Low or Unrated Securities.* A Fund may invest in “high-yield” bonds and preferred stock or debt securities which are unrated or rated in the lower categories by the various credit rating agencies (or in comparable non-rated securities.) Securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*Defaulted Securities.* A Fund may invest in the securities of companies involved in bankruptcy proceedings, reorganizations or financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject a Fund to litigation risks or prevent a Fund from disposing of securities. In a bankruptcy or other proceeding, a Fund as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While a Fund will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that a Fund will be able to successfully defend against them.

*Other Equity and Non-Distressed Investments.* A General Partner is authorized to cause a Fund to make investments other than in distressed securities. Such investments may include publicly traded equity securities, post-reorganization securities, special situation equities, securities of non-U.S. issuers, private debt or equity securities, convertible securities, warrants, futures, options and risk arbitrage, which involve special risks. Investments in publicly traded equity securities typically will be based primarily on fundamental research regarding the issuer and its industry. However, the market price of a publicly traded equity security can be adversely affected by a wide variety of broad macroeconomic and market factors unrelated to the financial condition and prospects of the issuer. For example, a Fund’s investments in securities of publicly traded companies may be sensitive to movements in the stock market and trends in the overall economy. Because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities. Special situation equities are event driven, and may be subject to greater volatility than other equity securities. Investments in non-U.S. markets and issuers may be less liquid and subject to greater price volatility than investments in U.S. markets and issuers. Dividends and interest paid by foreign issuers may be subject to withholding and other foreign taxes.

Futures and options involve risks of pricing differences between the market value of the underlying securities and the futures and options and a possible lack of a liquid secondary market for a futures or options contract and the resulting inability to close a futures or options position, which could adversely affect a Fund. Risk arbitrage is subject to high risk because of the uncertainty of the outcome of an arbitrage situation, which may depend on the outcome of

litigation, changes in the terms of a transaction or regulatory developments or actions. If a General Partner's or Managers' evaluation of an anticipated outcome of an arbitrage situation should prove incorrect, a Fund could experience substantial losses as a result of a decline in the market value of securities in which a Fund holds a long position or an increase in the value of securities in which a Fund holds a short position. Furthermore, a Fund may hold significant equity investments in post-reorganization portfolio companies, which pose a different risk/reward and risk mitigation profiles than do distressed debt securities.

*General Credit Risks.* While loans originated by a Fund or its affiliates are intended to be over-collateralized, a Fund may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. A Fund cannot guarantee the adequacy of the protection of a Fund's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, a Fund cannot assure that claims may not be asserted that might interfere with enforcement of a Fund's rights. In the event of a foreclosure, a Fund or an affiliate of a Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to a Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

*Loan Participations and Assignments.* A Fund may invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. When purchasing loan participations, a Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. The participation interests in which a Fund invests may not be rated by any nationally recognized rating service. Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks. For example, if a loan is foreclosed, a Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, a Fund could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, a Fund relies on a General Partner's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect a Fund.

*Ability to Source and Purchase Loans on Advantageous Terms; Competition and Supply.* A Fund's success will depend, in part, on the ability of a Fund or its affiliates to source and purchase loans on advantageous terms. In sourcing and purchasing loans, a Fund or its affiliates compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are more well-known than a Fund. Increased competition for, or a diminishment in

the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

*Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. While believed to be unlikely, because of the nature of certain of a Fund’s investments, such Fund could be subject to allegations of lender liability. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain of a Fund’s investments, such Fund could be subject to claims from creditors or shareholders of an obligor that a Fund’s investments issued by such obligor that are held by a Fund should be equitably subordinated. A significant number of a Fund’s investments may involve investments in which such Fund would not be the lead creditor. Accordingly it is possible that lender liability or equitable subordination claims affecting a Fund’s investments could arise without the direct involvement of a Fund.

*Risks Associated with Bankruptcy Cases.* A Fund’s investment activities, particularly involving companies in distressed situations, may result in it becoming involved as a creditor in bankruptcy cases. In addition, a General Partner may purchase securities or assets of, or claims against, companies in bankruptcy.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of a Fund.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and a Fund; it is subject to unpredictable and lengthy delays; and during the process the company’s competitive position may erode, key management may depart and the company may not be able to reorganize and may be required to liquidate assets.

The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer’s fundamental values. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Fund’s influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority over the claims of certain creditors (for example, claims for taxes) may be quite high.

There are instances where creditors and equity holders lose their ranking and priority such as when they take over management and functional operating control of a debtor. In those cases where a Fund, by virtue of such action, is found to exercise “domination and control” of a debtor, a Fund may lose its priority if the debtor can demonstrate that it was adversely impacted or other creditors or equity holders were harmed by a Fund. A Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

*Investments in Undervalued Assets.* A Fund may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. A Fund may be forced to sell, at a substantial loss, assets which it believes are undervalued, if they are not in fact undervalued. In addition, a Fund may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of a Fund’s funds would be committed to the assets purchased, thus possibly preventing such Fund from investing in other opportunities.

*Potential Involvement in Litigation.* As a result of a Fund’s activities generally, including investments in distressed investments and a General Partner’s participation in restructuring activities, it is possible that a Fund may become involved in litigation, including litigation respecting creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against a Fund including the General Partners and the Managers and ultimately judgments may be rendered against a Fund for which such Fund does not carry insurance. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of a Fund. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

*Derivative Instruments.* A Fund may use various derivative instruments which may be volatile and speculative, and which may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. For example, a Fund may enter into credit default swaps and may either buy protection or sell protection from losses caused by the occurrence of a negotiated default event with respect to an obligation of a corporate or

sovereign borrower or obligor. A Fund may enter into interest rate swaps on either an asset- or liability-based basis, depending on whether it is hedging its assets or its liabilities. The parties with which a Fund enters into such derivatives are expected to be banks, broker dealers and other financial institutions.

*Board Participation and Bankruptcy Creditors' Committees.* A General Partner anticipates that a Fund's investment program will enable such Fund to place its representatives on bankruptcy creditors' committees and/or boards of certain companies in which such Fund has invested. While such representation may enable the General Partner to enhance the value of its investments, it may also prevent a Fund from freely disposing of its investments and may subject such Fund to additional liability. A Fund will indemnify the General Partner, the Managers or any other person designated by the General Partner or the Managers for claims arising from such board and/or bankruptcy creditors' committee representation. A Fund will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations. Such representation may also adversely impact the ability of a Fund to acquire additional investments in such companies.

*Limitation of Recourse and Indemnification.* The Partnership Agreement will limit the circumstances under which a General Partner and its affiliates will be held liable to a Fund. As a result, limited partners may have a more limited right of action in certain cases than they would have in the absence of such provision. In addition, the Partnership Agreement will provide that a Fund will indemnify a General Partner and its affiliates for certain claims, losses, damages and expenses arising out of their activities on behalf of a Fund. Such indemnification obligations could materially impact the returns to limited partners.

*Litigation.* In the ordinary course of its business, a Fund may be subject to litigation from time to time. The outcome of such proceedings may materially adversely affect the value of a Fund and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of a General Partner's and the managing partners' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

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

*United Kingdom Exit from the European Union.* On March 29, 2017, the United Kingdom formally notified the European Council of its intention to leave the EU (“Brexit”). The UK formally left the EU on January 31, 2020, and entered a transition period that ended on December 31, 2020. On December 24, 2020, the UK government and the EU Commission provisionally agreed a trade and cooperation agreement governing their future relationship, which, following a ratification process, is expected to apply on a provisional basis through an additional transition period.

Although provisionally agreed, the terms of UK’s ongoing and future relationship with the EU are still uncertain, including the extent to which UK businesses will have access to the EU single market and the extent to which EU businesses have access to the UK market. There is also risk of significant disruption to trade between the UK and the EU, particularly as new trade arrangements are intended to be ratified and implemented. There can be no assurance that any renegotiated laws or regulations will not have an adverse impact on a Fund and its investments, including the ability of a Fund to achieve its investment objectives.

*Certain Consultants.* A General Partner expects to retain, on behalf of a Fund and/or the portfolio companies, as applicable, operating managers and other consultants, which may be affiliates of the General Partner, employees of such affiliates, portfolio companies of other funds managed by the General Partner or its affiliates, third party consultants (including individual consultants and external executives), “strategic partners,” “executive partners” or “senior advisors.” The Operating Partners may regularly provide services to, or in connection with, a Fund in relation to its activities, or to one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies (“Services”).

Pursuant to the Partnership Agreement, fees and expenses associated with the Services (collectively “Consulting Fees and Expenses”), may be paid and/or reimbursed by applicable portfolio companies and/or a Fund, and Consulting Fees and Expenses do not offset the Management Fee. Consulting Fees and Expenses are expected to include cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company and/or other incentive-based compensation to the Operating Partner, which may be determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Additionally, portfolio companies may provide opportunities for Operating Partners to invest in such portfolio company and reimburse costs and expenses incurred by Operating Partners. Operating Partners also may receive remuneration from a General Partner and/or a Fund or affiliates and/or be entitled to other forms of compensation, including equity grants in portfolio companies. Such investment opportunities, reimbursements and other compensation paid to an Operating Partner will not offset the Management Fee. Operating Partners may have a limited partnership or profit interest in a Fund, a General Partner, one or more other investment funds sponsored by a General Partner or in an affiliate of a General Partner. Although a General Partner intends to retain Operating Partners with a view to reducing costs to portfolio companies (and, ultimately, a Fund) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. In addition, the General Partners intend to retain only such Operating Partners



which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

*Trade Policies.* Changes in trade policies among the United States and other countries, in particular, the imposition of new or higher tariffs, could have a material adverse effect on a Fund's revenues and operating results. In recent months, the United States has imposed or proposed new or higher tariffs on certain products exported by a number of U.S. trading partners, including China, Europe, Canada, and Mexico. In response, many of those trading partners, including China, have imposed or proposed new or higher tariffs on American products. Continuing changes in government trade policies, including Europe, create a heightened risk of further increased tariffs that impose barriers to international trade. A Fund's business and operating results may depend on international trade. Tariffs on a Fund's products or services may adversely affect a Fund's profitability. Portfolio Companies may begin implementing short-term price adjustments to offset any tariffs and adjust their operations in response, which could indirectly disrupt a Fund's business. Increases in tariffs or the failure to resolve current international trade disputes could have a material adverse effect on a Fund's business and operating results.

*Other Regulatory Restrictions.* Anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent Stellex or the funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the U.S. Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Private Investment Fund's acquisition of a portfolio company may preclude other Private Investment Funds from making an attractive acquisition or require one or more other Private Investment Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Private Investment Fund may be adversely affected because of Stellex's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Private Investment Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by Stellex or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Dilution.* Limited partners admitted or who increase their respective Commitments to a Fund at subsequent closings generally will participate in then-existing investments of such Fund, thereby diluting the interest of existing limited partners in such investments. Although any such

new limited partner will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of a Fund's existing investments at the time of such contributions. Dilution risk applies to limited partners of a Fund as well as any parallel funds. The risk of dilution increases as a Fund's subscription period increases. As described above, the Governing Documents provide the purchase price borne by subsequent limited partners, which includes subscriptions by limited partners to parallel funds, will be the original purchase price plus accrued interest, subject to the General Partner's ability to utilize an equitable adjustment for such subsequent investors. For the avoidance of doubt, equitable adjustments are not expected to occur, except in limited circumstances to account for consummated exits from investments prior to such rebalancing, including full realizations, partial realizations, dividend recapitalizations or similar events. This dilution risk can result in conflicts of interest between the General Partner and limited partners, including but not limited to, unrealized investments that have appreciated in value and the General Partner's interests to increase Fund size and resulting management fees and additional carried interest potential.

### **Conflicts of Interest**

Stellex and its related entities engage in a broad range of advisory and non-advisory activities. Stellex will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Private Investment Funds in an appropriate manner, as required by the relevant Governing Documents, although the Private Investment Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Stellex conducting its activities, the interests of a Fund likely will conflict with the interests of Stellex, one or more other Funds, portfolio companies or their respective affiliates in certain circumstances. Certain of these conflicts of interest are discussed herein. As a general matter, Stellex will determine all matters relating to structuring transactions and Private Investment Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees of the participating Private Investment Funds.

During the Investment Period, all appropriate investment opportunities will be pursued by Stellex principals through the Funds, subject to certain limited exceptions set forth in the Funds' Governing Documents and Stellex's allocation policies. Without limitation, Stellex principals may in the future manage several other investments similar to those in which the Funds will be investing, and expect to direct certain relevant investment opportunities or resources to those investments. Stellex's principals and Stellex's investment staff will manage and monitor such investments until their realization. Such other investments that Stellex principals expect from time to time to control generally have the potential to compete with companies acquired by the Funds. Following the Investment Period, Stellex principals reserve the right to, and likely will, focus their investment activities on other opportunities and areas unrelated to the Funds' investments. Unless restricted by the Governing Documents, Stellex personnel are permitted to serve on boards or act in other roles unaffiliated with Stellex, the Funds or their portfolio companies, including boards of charitable and educational institutions, public companies and former portfolio companies, and receive compensation in connection with such services and roles.

From time to time, Stellex may be presented with investment opportunities that would be suitable not only for the Main Funds, but also for other Private Investment Funds and other

investment vehicles operated by advisory affiliates of Stellex. In determining which investment vehicles should participate in such investment opportunities, Stellex and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Except as required by the relevant Governing Documents, Stellex is not obligated to recommend any investment to any particular investment vehicle. Investments by more than one client of Stellex in a portfolio company also have the potential to raise the risk of using assets of a client of Stellex to support positions taken by other clients of Stellex.

Stellex generally assesses whether an investment opportunity is appropriate for a particular Fund based on such Fund's Partnership Agreement, investment objectives, stage of a Fund's life and the level of a Fund's invested capital. Following such determination of allocation among Funds, Stellex will determine if the amount of an investment opportunity in which the Funds will invest exceeds the amount that would be appropriate for the Funds and Stellex reserves the right to offer any such excess to one or more potential co-investors, as determined by the Funds' Governing Documents, side letters and Stellex's procedures regarding allocation. Stellex's procedures permit it to take into consideration a variety of factors in making such determinations, including but not limited to: (i) the anticipated ability and expected interest of the investor to participate in the applicable investment on the offered terms and meet the desired due diligence, approval and funding timetable, (ii) Stellex's prior experience with the prospective investor, including as an investor and in prior co-investments, as well as the prospective investor's general reputation and experience as a co-investor, (iii) Stellex's anticipated alignment of interest with the prospective investor, including with respect to the co-investor's role, investment objectives, exit timing, risk appetite, interest and ability to fund potential follow-on investments, etc., (iv) any expertise experience or resource of the prospective investor that is expected to be of strategic or other value to Stellex, the Private Investment Funds or the particular investment, (v) any anticipated legal or regulatory complications involving the prospective investor, (vi) Stellex's expectations regarding the portfolio company's and any other investor's view of the prospective investor's participation in the co-investment, (vii) the degree to which the prospective co-investor has committed to and been supportive of a Fund, and Stellex's expectations regarding the prospective co-investor's participation in and support of future Private Investment Funds, (viii) whether the prospective co-investor is willing to bear a carried interest and/or a management fee, and in what amounts; and (ix) side letter provisions, if any. A Fund generally reserves the right to invest together with other Funds advised by an affiliated adviser of Stellex in the manner set forth in the Governing Documents. Stellex will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable to its clients under the circumstances over time consistent with Stellex's obligations and reserves the right to take into consideration factors such as those set forth above.

Stellex or its related persons expect to make decisions regarding whether and to whom to offer co-investment opportunities in consultation with other participants in the relevant transactions, such as a lender or co-sponsor. Co-investment opportunities typically will be offered to some and not to other Fund investors and the consideration of the factors set forth above likely will result in certain investors receiving multiple opportunities to co-invest while others expressing an interest in co-investments have the potential to receive none. Stellex's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. When and to the extent that employees and

related persons of Stellex and its affiliates make capital investments in or alongside certain Private Investment Funds, Stellex and its affiliates are subject to potentially conflicting interests in connection with these investments. There can be no assurance that any Private Investment Fund's return from a transaction would be equal to and not less than another Private Investment Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Potential conflicts are expected to arise when and to the extent a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. In such instance, a Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This likely will result in differences in price, terms, leverage and associated costs. Where multiple Funds invest in the same company at different times, the first Fund to invest typically will bear a higher level of diligence and transaction fees, costs and expenses than later Funds; similarly, to the extent a transaction does not proceed, the first Fund to invest typically will bear the full amount of broken deal expenses relating to the transaction, regardless of whether other Funds could or would have invested in the company in potential future transactions.

Subject to any relevant restrictions or other limitations contained in the Governing Documents, Stellex will allocate fees and expenses in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering such factors as it deems relevant, but in any case in its sole discretion. In exercising such discretion, Stellex expects to be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Private Investment Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Stellex or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional. The Private Investment Funds generally have different expense reimbursement terms, including with respect to Management Fee offsets, which is expected to result in the Funds bearing different levels of expenses with respect to the same investment.

In certain cases, Stellex will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interests in a Private Investment Fund. In such cases, Stellex will use its discretion to select such transferees based on suitability 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.

Because Stellex's carried interest is based on a percentage of net realized profits, it may create an incentive for Stellex to cause the Funds to make riskier or more speculative investments than would otherwise be the case. Since Stellex expects to be permitted to retain certain fees (as described under "Fees and Compensation") in connection with the Funds' investments, a conflict of interest may arise in connection with approving transactions and setting such compensation.

As a result of the Private Investment Funds' controlling interests in portfolio companies, Stellex and/or its affiliates will typically have the right to appoint board members to such portfolio companies, or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members may approve compensation and/or other amounts payable to Stellex and/or its affiliates. Stellex and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Private Investment Funds or other investment vehicles advised by Stellex and/or its affiliates. Additionally, Stellex, its affiliates and/or personnel may maintain relationships with (or may invest in) financial institutions or other service providers, some of which may invest (or will be affiliated with an Investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Stellex and/or its affiliates, and/or the Private Investment Funds or other investment vehicles they advise. In other circumstances, these vendors are expected to provide personal banking, private wealth or lending arrangements (including lending arrangements with respect to personal investments in or through Stellex entities) to Stellex personnel and their estate planning vehicles.

In addition, as described above, portfolio companies and the Funds may pay certain fees to Operating Partners and other consultants (including consultants introduced or arranged by Stellex and/or its affiliates that regularly provide services to one or more portfolio companies), and such fees do not offset or reduce the Management Fee as described herein. Although the use of Operating Partners and the allocation of compensation paid to them by Stellex, its affiliates and/or the portfolio companies subjects Stellex and/or its affiliates to potential conflicts of interest, Stellex believes that such potential conflicts have the potential to be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of the Operating Partner is lower than market rates for the services provided and/or if the services of the Operating Partner align with Stellex's model for the portfolio company and improve portfolio company performance. To the extent that Operating Partners are paid retainers or guaranteed minimum compensation amounts, there is the possibility that certain portfolio companies or Funds will bear a greater share of such compensation due to the utilization of the Operating Partner's services at a time when fewer portfolio companies or Funds make use of such Operating Partner. Although Stellex seeks to retain Operating Partners with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. Stellex also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Stellex believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only Operating Partners and service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

In connection with its services to the Funds and their investments, Stellex, its affiliates and personnel expect to receive the benefit of certain tangible and intangible benefits. For example, in the course of Stellex's operations, including research, due diligence, investment monitoring, operational improvements and investment activities, Stellex and its personnel expect to receive and benefit from information, "know-how," experience, analysis and data relating to Fund or portfolio company (as applicable) operations, terms, trends, market demands, customers, vendors

and other metrics (collectively, “Stellex Information”). In many cases, Stellex Information will include tools, procedures and resources developed by Stellex to organize or systematize Stellex Information for ongoing or future use. Although Stellex expects its Funds and their portfolio companies generally to benefit from Stellex’s possession of Stellex Information, it is possible that any benefits will be experienced solely by other or future Funds or portfolio companies and not by the Fund or portfolio company from which Stellex Information was originally received. Stellex Information will be the sole intellectual property of Stellex and solely for the use of Stellex. Stellex reserves the right to use, share, license, sell or monetize Stellex Information, without offset to Management Fees, and the relevant Fund or portfolio company will not receive any financial or other benefit of such use, sharing, licensure, sale or monetization. Additionally, expenses relating to the Funds or portfolio companies are expected to be charged using credit cards or other widely available third-party rewards programs that provide airline miles, hotel stays, travel rewards, traveler loyalty or status programs, “points,” “cash back,” rebates, discounts and other arrangements, perquisites and benefits under the available terms of such reward programs. Such terms are expected to vary from time to time, and any such rewards (whether or not de minimis or difficult to value) generally will inure to the benefit of the personnel participating in the rewards program, rather than the portfolio companies, the Funds or their respective investors; no such rewards will offset Management Fees.

Stellex and/or its affiliates reserve the right to enter into side letters with certain investors in a Private Investment Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures (including discounted or rebated compensation terms), information rights, specialized reporting, priority co-investment rights or targeted co-investment amounts, and liquidity or transfer rights. Side Letters may also relate to strategic relationships under which an investor agrees to make capital commitments to successor Funds. Except where required by Governing Documents, other investors will not receive copies of Side Letters or related provisions, and as a general matter, the other investors have no recourse against a Fund, the relevant General Partner or any of their affiliates in the event that certain investors have received additional and/or different rights and/or terms as a result of such Side Letters. As a consequence of one or more limited partners being excused or excluded, or from regulatory or other factors limiting their participation in investments, the aggregate returns realized by participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments.

Although uncommon, from time to time Stellex reserves the right to cause a Private Investment Fund to enter into a transaction whereby the Private Investment Fund purchases securities from, or sells securities to, other Private Investment Funds managed by Stellex, or co-investors or co-investment vehicles. Such transactions may arise in the context of automatic or other re-balancing of an investment among parallel investing entities or in contexts where a portfolio company owned by one Private Investment Fund is acquired by a portfolio company acquired by another Private Investment Fund. Certain of such transactions raise potential conflicts of interest, including where the investment of one Private Investment Fund supports the value of portfolio companies owned by another Private Investment Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment’s fair value. Stellex intends that any such transactions be conducted in a manner that it believes to be fair and equitable to each Private

Investment Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Private Investment Fund.

Stellex could, at some time in the future, institute a program under which portfolio companies owned by the Funds are given the option to participate in purchasing, vendor or similar arrangements with Stellex, its affiliates and other portfolio companies. If established, program participants would receive discounts negotiated with various vendors and service providers on a groupwide basis. Stellex believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the Funds that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market.

Under such program, Stellex and its affiliates and personnel could receive the benefit of “friends and family” and similar discounts from portfolio companies owned by the Funds under which such portfolio companies make their goods and/or services available at reduced rates. Stellex, its affiliates and personnel generally refrain from requesting or negotiating for such discounts in the ordinary course. Stellex believes the potential for conflicts relating to such arrangements would be mitigated through appropriate controls.

Certain control persons of Stellex have legacy assets in private investment funds managed by other sponsors and may receive carried interest allocations from such other sponsors (“**Prior Funds**”). The Private Investment Funds may acquire interest in the same vehicle owned by or participate in a co-investment opportunity with such Prior Funds. In such situations, Stellex has established policies and procedures to address any conflicts of interest, including requiring advisory committee approval if a conflict of interest is found.

A certain third-party institutional investor has provided capital to the Managing Partners of the Adviser to facilitate an increase to the general partner commitment in one of the investment vehicles managed by the Adviser, as well as for other purposes. In return, such investor is entitled to certain specified proceeds, including a pledge of a portion of the Managing Partner’s management fee, carried interest streams and investment returns over time and certain customary information rights. Such investor has no ownership interest in the Adviser or its affiliates. Such investor has no authority over the day-to-day management or operations of the Adviser; nor does it have any voting or decision-making authority with respect to portfolio investments of the Funds.

#### **DISCIPLINARY INFORMATION**

Stellex and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Stellex Capital Management is affiliated with other Stellex advisers, including General Partners and equivalent entities formed from time to time and subject to the Advisers Act pursuant to Stellex Capital Management’s registration in accordance with SEC guidance. These advisers also include Stellex’s relying advisers that are registered under the Advisers Act pursuant to Stellex’s registration. These affiliated investment advisers operate as a single advisory business together with Stellex Capital Management and serve as managers or general partners of private

investment funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

Stellex Capital Management is also affiliated with Stellex Capital Management UK LLP (“**Stellex UK**”), a UK limited liability partnership, as a result of its common ownership. Stellex UK advises Stellex’s registered investment adviser entities with regard to Stellex’s clients. Stellex UK a United Kingdom Financial Conduct Authority authorized adviser, is not required to be registered under the Advisers Act, but operates in compliance with certain related requirements and undertakings as prescribed by the SEC.

Stellex Capital Management is also affiliated with Octant, LLC (“**Octant**”), a Wyoming limited liability company, as a result of common ownership. Octant operates as an entrepreneurial investment platform making one-off investments. The relationship between Stellex Capital Management and Octant may give rise to conflicts of interest. The arrangement between Stellex and Octant will have provisions to address and avoid such potential conflicts of interests. For example, the Private Investment Funds have a right of first refusal for investments sourced through Octant. Additionally, conflicts of interest issues are addressed in Stellex’s code of ethics, as discussed herein.

#### **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Stellex has adopted a Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Stellex’s principals and employees and addresses conflicts that may arise from personal trading and/or other activities. Among them, all Stellex personnel must put the interest of the Stellex clients ahead of their own personal security interests. All Stellex personnel must annually certify to their understanding and adherence to the Code. The Code requires all Stellex personnel to report their personal securities transactions and all Stellex personnel to pre-clear any personal securities transactions, including initial public offerings, by approval of the Chief Compliance Officer (“**CCO**”), or other member of the Compliance Committee except for in limited exceptions. A copy of the Code will be provided to any investor or prospective investor upon request to the CCO, at (212) 710-2323. The description of the Code in this section represents only key portions of the Code and cannot address all areas covered by such Code.

Stellex and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, Stellex and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Stellex.

Accordingly, should Stellex or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Stellex would be prohibited from communicating such information to clients, and Stellex will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as



a result of Stellex personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds. Additionally, Stellex maintains a restricted list and restricts trading in companies where material nonpublic or other confidential information has been made available to Stellex.

Principals and employees of Stellex and its affiliates generally are expected to directly or indirectly own an interest in Private Investment Funds, including the Main Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles are expected to invest in one or more of the same portfolio companies as the Main Funds. Co-invest opportunities generally are also expected to be presented to certain affiliates of the Advisers, as well as third party investors and other persons, and such co-investments may be effected through co-investment vehicles, directly in a particular portfolio company or through an intermediate entity in a portfolio company's structure. Additionally, the Main Funds and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of Stellex in the manner set forth in the Governing Documents and Stellex's Investment Allocations/Co-Investment Policy. Stellex expects to typically allocate investment opportunities to the Main Funds and other Private Investment Funds up to an amount of the transaction deemed prudent by Stellex, taking into account conflicts provisions in the relevant fund's operating documents, investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk. Any excess amount over that allocated to the Main Funds or the applicable other Private Investment Fund(s) may be allocated to other clients as described above.

Stellex and its affiliates, principals and employees expect from time to time to carry on investment activities for their own account, for personal or employee investment vehicles and, potentially, for family members, friends or others who do not invest in the Main Funds, as well as give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Main Funds, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Stellex (the "**Reference Funds**") generally restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by investors (or their representatives) in such Reference Funds or be subject to limitations (*e.g.*, by time or percentage of capital deployed).

From time to time, a General Partner reserves the right to borrow funds on behalf of a Main Fund or the Private Investment Funds and contribute such borrowed amounts to a Main Fund (or relevant Private Investment Fund, as applicable) as a special interim capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing typically is borne by the relevant Main Fund (or the relevant Private Investment Fund, as applicable) consistent with the Governing Documents.

In borrowing on behalf of a Main Fund or a Private Investment Fund, Stellex is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Main Fund or Private Investment Fund, as applicable, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund or a Private Investment Fund's preferred return, is expected to have incentives to cause the Main Fund

or a Private Investment Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Main Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had Stellex called capital, and thus could result in Stellex receiving carried interest sooner than it would without borrowing. The relevant General Partner is not always required to participate in a Fund-level borrowing facility or to bear to the related costs attributable thereto, including interest expenses or costs payable, in which case such amounts will be borne solely by the limited partners. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

Stellex will effect such borrowings consistent with a Fund's Governing Documents and in a manner it believes to be fair and equitable under the circumstances to the relevant Fund or Private Investment Fund, as applicable.

### **BROKERAGE PRACTICES**

Stellex expects to focus on securities transactions of private companies and generally to purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, Stellex reserves the right to also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, such as where a public trading market exists. To the extent Stellex engages in public securities transactions, it intends to follow the brokerage practices described below.

If Stellex sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by Stellex. In such event, Stellex will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, Stellex reserves the right to consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered and responsiveness to requests for trade data and other financial information; and (iv) other factors suggested by the SEC from time-to-time.

Stellex has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although Stellex generally seeks competitive commission rates, it may not necessarily pay the lowest commission or

commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with Stellex seeking to obtain best execution, brokerage commissions on client transactions are permitted to be directed to brokers in recognition of research furnished by them, although Stellex generally does not make use of such services at the current time and has not made use of such services since its inception. To the extent that Stellex allocates brokerage business on the basis of research services in the future, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds' interest in receiving most favorable execution.

To the extent that Stellex engages in any public securities transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, Stellex also reserves the right to purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, Stellex expects, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of Stellex is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided Stellex believes they are fair and equitable to its clients under the circumstances over time.

## **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are expected to generally be private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Stellex intends to closely monitor companies in which the Private Investment Funds invest, and the CCO intends to periodically check to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Funds will provide to its limited partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax

information necessary for each partner's U.S. tax returns, and (iv) descriptive investment information for each portfolio company annually.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Stellex and/or its affiliates intend to provide certain business or consulting services to companies in the Funds' portfolio and expect to receive compensation from these companies in connection with such services. As described in the Governing Documents, this compensation may, in many cases, offset a portion of the Management Fees paid by the respective Fund. However, in other cases (*e.g.*, reimbursements for out-of-pocket expenses directly related to a portfolio company), these fees are in addition to Management Fees. See "Fees and Compensation."

Stellex has and expects to continue to enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in the Funds or other Private Investment Fund. Any fees payable to any such placement agents generally will be borne by Stellex indirectly through an offset against the Management Fee under the Governing Documents.

#### **CUSTODY**

All client assets are held in custody by unaffiliated broker/dealers or banks, however, Stellex has access to client accounts because an affiliate serves as the General Partner of the Funds. Limited partners will not receive statements from the custodian. Instead, the Fund is subject to an annual audit and the audited financial statements are distributed to each Limited partner. The audited financial statements will be prepared in accordance with US generally accepted accounting principles and distributed within 120 days of the Funds' fiscal year end.

#### **INVESTMENT DISCRETION**

Stellex has discretionary authority to manage investments on behalf of the Funds. As a general policy, Stellex does not allow clients to place limitations on this authority. Pursuant to the terms of the Governing Documents, however, Stellex has entered and expects to enter into "side letter" arrangements with certain limited partners of the Funds whereby the terms applicable to such limited partner's investment in the Funds are altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Stellex assumes this authority pursuant to the terms of the Governing Documents and powers of attorney executed by the limited partners of the Funds.

#### **VOTING CLIENT SECURITIES**

Stellex has adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for each of the Main Fund's (and any Private Investment Fund's) portfolio investments. Stellex's Funds primarily invests in privately-held portfolio investments that typically do not issue proxies. Therefore, the traditional concept of voting proxies and the specific participation in class actions is not commonly applicable to Stellex. The Proxy Policy seeks to ensure that Stellex votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Stellex generally believes its interests are aligned with those of the Funds' investors through the

principals' beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Stellex may address the conflict using several alternatives set forth in the Proxy Policy, which may include seeking the approval or concurrence of the applicable Fund's advisory board. Additionally, each Fund's advisory board may approve Stellex's vote in a particular solicitation. Stellex does not consider service on portfolio company boards by Stellex personnel or Stellex's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Stellex when voting proxies on behalf of the Funds. If you would like a copy of Stellex's complete Proxy Policy or information regarding how Stellex voted proxies for particular portfolio companies, please contact the CCO, at (212) 710-2323, and it will be provided to you at no charge.

#### **FINANCIAL INFORMATION**

Stellex does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.