

# Stonyrock Partners LP

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## FORM ADV PART 2A

### The Brochure

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**This brochure provides information about the qualifications and business practices of Stonyrock Partners LP. If you have any questions about the contents of this brochure, please contact us at (212) 510-3288. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Stonyrock Partners LP is registered as an investment adviser with the SEC. Registration does not imply that a registered adviser has achieved a certain level of skill, expertise, or training in providing advisory services to its clients.**

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

**ITEM 2. MATERIAL CHANGES**

This is the initial filing for Stonyrock Partners LP. Therefore there are no material changes to be reported.

### **ITEM 3. TABLE OF CONTENTS**

ITEM 2.	MATERIAL CHANGES .....	2
ITEM 3.	TABLE OF CONTENTS .....	3
ITEM 4.	ADVISORY BUSINESS .....	4
ITEM 5.	FEES AND COMPENSATION.....	4
ITEM 6.	PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	6
	Performance Based Fees .....	6
ITEM 7.	TYPES OF CLIENTS .....	6
ITEM 8.	METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	6
	Investment Strategy and Methods of Analysis .....	6
	Strategy Categories.....	7
	Material Risks .....	7
ITEM 9.	DISCIPLINARY INFORMATION .....	17
ITEM 10.	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	17
	Material Financial Industry Affiliations of the Firm .....	17
	Potential Conflicts of Interest .....	18
ITEM 11.	CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	22
	Code of Ethics.....	22
	Interested Transactions .....	22
	Personal Trading .....	23
ITEM 12.	BROKERAGE PRACTICES .....	23
	Investment or Brokerage Discretion. ....	23
	Soft Dollars .....	23
ITEM 13.	REVIEW OF ACCOUNTS .....	23
ITEM 14.	CLIENT REFERRALS AND OTHER COMPENSATION .....	23
ITEM 15.	CUSTODY .....	24
ITEM 16.	INVESTMENT DISCRETION.....	24
ITEM 17.	VOTING CLIENT SECURITIES.....	24
ITEM 18.	FINANCIAL INFORMATION .....	24
ITEM 19.	PRIVACY POLICY .....	24

#### ITEM 4. ADVISORY BUSINESS

NOTE: This Form ADV Part 2A has been prepared on the basis of the facts and circumstances that Stonyrock expects it will apply in March 2021, when the firm intends to commence providing investment advisory services.

Stonyrock Partners LP (“Stonyrock” or “we”) is a limited partnership formed under the laws of the State of Delaware on January 25, 2019. Stonyrock is a joint venture co-owned by Craig Schortzmann, Sean Gallary and Jefferies Asset Management Holdings LLC, a subsidiary of Jefferies Financial Group Inc. (“Jefferies”), a publicly traded corporation listed on the New York Stock Exchange, trading under the symbol “JEF”. This is Stonyrock’s initial registration as an investment adviser with the Securities and Exchange Commission (the “SEC”).

Stonyrock’s principal place of business is in New York City, where we perform portfolio management, research, operations, accounting, legal and compliance functions.

Stonyrock provides advisory and/or sub-advisory services on a discretionary basis to its client, which is a set of pooled investment vehicles (the “Client”) intended for sophisticated and institutional investors. For additional information on the structure of the Client, see Item 7 below.

The material terms applicable to investments in the Client, including the investment objectives of the Client, are set forth in the Client’s organizational documents, which may include a private placement memorandum, investment management agreement, subscription and operating agreements and other agreements (collectively, the “Offering Documents”). Stonyrock does not tailor the investment advice which it provides to its Client to match the needs of any individual investor in the Client (a “Client Investor”). However, Stonyrock may enter into side letters or co-investment arrangements with individual investors in the Client that provide for different substantive terms applicable to such Client Investor. Client Investors and prospective Client Investors must review the pertinent Offering Documents carefully before making or maintaining an investment.

Stonyrock seeks to achieve attractive risk-adjusted absolute returns primarily through investing in alternative investment managers (“AIMs”) via the acquisition of minority, non-controlling equity positions. Stonyrock will seek to structure investments in AIMs such that the Client will share in the income earned by such AIMs, including their affiliated entities (e.g. investment manager, general partner). Stonyrock intends to cause the Client to invest in approximately 10-15 leading middle-market alternative investment firms that invest across both private and public securities. Stonyrock may also cause the Client to make other investments, subject to certain investment guidelines, which Stonyrock determines to be appropriate for the Client and/or it believes would be accretive to other Client investments. A description of the strategies within the Stonyrock program is included in Item 8.

As of February 8, 2021, Stonyrock does not have Regulatory Assets Under Management on a discretionary basis. Stonyrock does not manage assets on a non-discretionary basis. The term “Regulatory Assets Under Management” (“RAUM”) is defined by the SEC in the instructions to Form ADV.

#### ITEM 5. FEES AND COMPENSATION

We typically receive management fees and/or performance-based fees.

Management fees and incentive fees charged to the Client are described fully in the Client’s Offering Documents. Stonyrock reserves the right to charge some Client Investors more or less than other Client

Investors for the same management services, depending on various factors, including, for example, the timing of the investment, the number of related investment accounts or the total size of the Client Investor's investment with Stonyrock. On an annualized basis, the Client's management fees typically range from 2% of capital commitments of the Client Investors during the Investment Period to 1.5% of invested capital after the Investment Period and incentive fees are typically 20% of net investment proceeds calculated by looking at the performance of the Client's investments as a whole.

Fees charged may be deducted directly from the Client account. Management fees are generally paid quarterly in advance or as separately negotiated. Performance-based fees are paid as investment proceeds are distributed as described fully in the Client's Offering Documents.

Other fees and expenses that will be payable by the Client will be set forth in detail in the Client's Offering Documents. Subject to limitations set forth in the Offering Documents, such expenses will include, but are not limited to: (a) legal, auditing, consulting, accounting fees, marketing and information technology systems, printing, travel, organizational and offering expenses of the Client and all ordinary out-of-pocket administrative expenses related to the operation and administration of the Client (including costs of reports to the Client Investors, financial statements, tax returns and K-1s); (b) costs of third-party administrators and custodians (including any expenses and costs associated with any software or online data portal used in connection with the maintenance of the Client's books and reporting by such third-party administrators and custodians); (c) expenses of meetings of and with Client Investors, including travel and costs associated with the preparation of materials; (d) all expenses associated with the acquisition, holding and disposition of its proposed or actual investments, including, without limitation, insurance (including liability insurance for the general partners of the Client entities (together, the "Client General Partner"), directors and officers liability insurance), indemnification expenses, expenses for business development, travel, meals and entertainment directly related to the development and management of Investments and potential Investments (to the extent not reimbursed by such Investment or other third party), fees and expenses paid to certain experienced financial industry veterans who will act as operating advisors to the Client (the "Operating Advisors"), fees and expenses for any services provided on an arms-length basis by any advisors, consultants or service providers (including those who may be employed by, or affiliated with, Jefferies), and other un-reimbursed expenses; (e) all extraordinary expenses (such as litigation); (f) interest on and fees and expenses arising out of all permitted borrowings made by the Client; (g) all third-party expenses relating to the investigation of unconsummated transactions (including broken deal expenses and other expenses associated with originating, evaluating, negotiating, structuring, conducting due diligence, valuing or otherwise acquiring or attempting to acquire the Client's assets); (h) all expenses in connection with the liquidation of the Client; (i) any taxes, fees or other governmental charges levied against the Client, as determined by the Client General Partner, and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Client, in each case, except to the extent such amounts are (A) allocable to, or subject to indemnification by, a Client Investor, and (B) actually borne or paid by such Client Investor; (j) the management fee, the administration fee and a fee for certain strategic services provided by Stonyrock's employees to the Investments (as described in the Offering Documents); (k) the expenses of members of the advisory committee to Client Investors in the Client including, but not limited to, meetings of such advisory committee; (l) expenses related to any liquidity event (including, but not limited to, research and development surrounding any liquidity event); (m) expenses incurred by the "partnership representative" acting in such capacity in respect of the Client; (n) expenses incurred in connection with a purchase, sale, assignment, pledge or transfer of a Client Investor's interest or the withdrawal of a Client Investor (except to the extent allocable to or paid by the applicable purchaser or Client Investor, assignee, pledgee or transferee, as the case may be); (o) costs and expenses of administering side letters entered into with Client Investors, including in connection with the process of distributing and implementing applicable elections pursuant to any "most favored nations" rights in the side letters; (p) expenses incurred in connection with any amendments to the constituent documents of the Client or related entities to the extent necessary to implement an amendment of such documents; (q) expenses and

costs incurred in connection with compliance by the Client with any applicable law, rule or regulation or the registration, qualification or exemption of the Client under any applicable laws or regulations or other governmental or regulatory filings (including, without limitation, Form PF or expenses related to compliance with the Alternative Investment Fund Managers Directive); (r) expenses and costs relating to defaulting Client Investors; and (s) organizational expenses (as described in the Offering Documents).

Each pooled investment vehicle advised by Stonyrock and its respective Client Investors will be responsible for its own tax and other expenses related to investment structuring specific to such pooled investment vehicle, including the costs associated with the establishment of any “blocker” entities or other intermediate entities and any additional tax related thereto.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

### **Performance Based Fees**

Stonyrock will charge performance-based fees.

Stonyrock’s right to receive such performance-based fees may create an incentive for Stonyrock to cause the Client to make investments that are riskier or more speculative than would be the case if Stonyrock did not receive such compensation.

## **ITEM 7. TYPES OF CLIENTS**

We provide advisory services to the Client which is a set of private funds (e.g., private equity funds) organized as either limited partnerships or limited liability companies

The Client will be exempted from the definition of “Investment Company” pursuant to Section 3(c)(7) of the Investment Company Act of 1940. Eligibility requirements for investing in the Client will be described in the Offering Documents.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The following is a summary of the investment strategies and methods of analysis which Stonyrock generally employs on behalf of its Client. Specific descriptions of such strategies and methods are included in the Offering Documents. All investments involve risk of loss that Client Investors should be prepared to bear.

### **Investment Strategy and Methods of Analysis**

The investment objective of Stonyrock is to achieve attractive risk-adjusted absolute returns primarily through investing in AIMs via the acquisition of minority, non-controlling equity positions. Stonyrock will seek to structure investments in AIMs such that the Client will share in the income earned by such AIMs, including their affiliated entities (e.g. investment manager, general partner). The Client’s primary investment focus will be to seek and acquire, through privately negotiated transactions, non-controlling minority equity or equity related interests in AIMs who derive a significant component of their income from the sponsorship and management of alternative investment funds and strategies. The Client will primarily seek returns from the ongoing participation in the securities (including, without limitation, equity, debt or preferred) or interests of such AIMs or shares of the revenues or profits of such AIMs (collectively, the “Economic Interests”). Such targeted AIMs will sponsor both illiquid and liquid alternative investment funds and strategies, including but not limited to, private equity, hedge funds, private credit, venture capital, real estate, infrastructure and other real assets, and other private closed-ended funds and related products,

as well as mutual and other open-ended funds, diversified across investment strategy, geography and asset class.

For such investments, the Client is expected to acquire non-controlling minority interests, with the typical ownership percentage likely to range between 10% and 25%, although certain exceptions may be made from time to time that would result in ownership percentages outside of this anticipated range.

The Client may generate returns by the (i) potential increase in the fair value of the Economic Interests, (ii) potential receipt of buyout consideration or transfer proceeds associated with the Economic Interests upon a partial or complete exit from an investment in an AIM (through, for example, the sale or public listing of the AIM), (iii) potential dividends received from the Economic Interests, and, if applicable, (iv) performance of those other investments described in the following paragraph below, if any.

The Client may, subject to certain investment guidelines (which are set forth in the Offering Documents), without seeking the consent of any Client Investor, also make other investments through privately negotiated transactions that the Client General Partner determines, in its sole discretion, to be appropriate for the Client, including, without limitation, (i) direct investments in private funds or separate accounts for the purpose of generating attractive returns or as partial or full consideration for an Economic Interest in an AIM (“Direct LP Investments”) and (ii) other investments that may provide attractive returns or provide additional benefits that would be accretive to the Economic Interests (“Other Investments”, collectively with clause (i) in this paragraph and with the Economic Interests, the “Investments”).

### **Strategy Categories**

Stonyrock believes that through strategic minority interests, the Client can maximize alignment with underlying AIM senior management teams and key personnel and allow the AIMs to maintain their entrepreneurial flexibility. In addition, Stonyrock can provide strategic capital and advice to continue to strengthen their operational and investment expertise, and where appropriate, invest in attractive franchise enhancing strategic growth opportunities.

Consistent with transaction structures utilized by the investment team in previous investments, the Client’s investments will include a combination of some or all of the following elements:

- **Non-Controlling Equity Stakes:** Management maintains day-to-day operational autonomy and control; principals and key employees retain majority of firm’s economics
- **Structured Investments:** Use of customized transaction structures including earn-outs, earn-ins, equity ratchets and delayed payment schedules, to increase alignment with overall business results and/or provide downside protection;
- **Minority Provisions:** Package of minority provisions to protect the Client’s investment, including, but not limited to, consent rights, specified equity retention by management, anti-dilution, tags/draggs and long-term employment commitments by key personnel, etc.

### **Material Risks**

THE FOLLOWING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE LIST OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE CLIENT. PROSPECTIVE CLIENT INVESTORS SHOULD READ THE OFFERING DOCUMENTS OF THE CLIENT, WHICH WILL INCLUDE THE MATERIAL RISKS ASSOCIATED WITH THE INVESTMENT STRATEGIES EMPLOYED BY STONYROCK IN THE CLIENT’S PORTFOLIO, AND

CONSULT WITH THEIR OWN ADVISERS BEFORE DECIDING WHETHER TO INVEST. AN INVESTMENT IN THE CLIENT ACCOUNT IS SUITABLE ONLY FOR SOPHISTICATED EXPERIENCED CLIENT INVESTORS.

Investments in the Client account managed by Stonyrock involve significant risk factors and are suitable only for Client Investors that can bear the economic risk of the loss of their entire investment, have limited need for liquidity in their investment and meet the conditions set forth in the Client's Offering Documents. There can be no assurances that Stonyrock will achieve its investment objective. Investments in the Client account managed by Stonyrock involve a high degree of risk, including the risk of loss of the entire amount invested. Moreover, an investment in the Client managed by Stonyrock provides limited liquidity since the interests in the Client are not freely transferable, and the capital accounts are subject to limited withdrawal provisions. Each prospective Client Investor should carefully review the Offering Documents before deciding to invest.

### **Client Related Risks**

**Limited Operating History.** Stonyrock is a newly-created entity with no prior operating history. The Client's investment program should be evaluated on the basis that there can be no assurance that Stonyrock's assessment of the prospects of investments will prove accurate or that the Client will achieve its investment objective.

**Consequences of Default.** If a Client Investor fails to pay in full any requested capital contributions, the Client General Partner may take certain actions that may result in a sale of such Client Investor's interest in the Client or a forfeiture of all or a portion of such Client Investor's interest in the Client as further described in the Offering Documents. Additionally, the Client General Partner may pursue any available legal or equitable remedies, with the expenses of collection of the unpaid amount, including attorneys' fees, to be paid by such defaulting Client Investor. The Client General Partner will be granted additional powers to deal with defaulting Client Investors in the Offering Documents.

**Side Letters.** To the extent permitted by the Offering Documents, the Client General Partner and/or the Client may enter into side letters with one or more Client Investors (without the approval of each other Client Investor). These side letters may entitle a Client Investor to make an investment in the Client on terms other than those described herein (including, without limitation, special economic and co-investment rights), in the Offering Documents and in other related documents. Any such terms may be more favorable than those offered to any other Client Investors. Absent any agreement to the contrary, none of the Client General Partner, the Client, Stonyrock or any of their respective affiliates will be required to notify the other Client Investors of the existence of any such side letters nor be required to offer such additional or different rights to such other Client Investors.

**Joint Venture with Jefferies.** The Client General Partner and Stonyrock were formed as part of a strategic partnership between Jefferies and Messrs. Schortzmann and Gally. The cooperation among joint venture partners will be an important factor for the sound operation and financial success of the Client General Partner, Stonyrock and the Client. Disputes among joint venture partners over joint venture obligations or otherwise could have an adverse effect on the financial conditions or results of operations of the Client General Partner, Stonyrock and the Client. In addition, under certain circumstances regulatory considerations may restrict the ability of Jefferies to exercise its rights with respect to the Client and its investments.

**Subscription Line Facilities.** The Client may enter into a subscription line credit facility (a "Subscription Line Facility"), secured by the Client's pledge of its rights in the Client Investors' unfunded capital commitments, to enable the Client to pay expenses, make deposits and originate investments through borrowings in advance of capital contributions. Drawing funds under a credit facility may cause the Client



to incur risk, including default risk in the event that unfunded capital commitments have been pledged under a credit facility and Client Investors do not timely fund capital commitments to the Client, as well as interest costs and other expenses with respect to any borrowed funds. Additionally, any credit extended pursuant to a credit facility may be payable on the demand of the lender whether or not an event of default has occurred or is continuing under such credit facilities.

**Co-Investments.** The Client General Partner, in its sole and absolute discretion, may offer third parties, some or all of the Client Investors (in their individual capacities and not as Client Investors), Jefferies and/or affiliates of the Client General Partner the opportunity to participate in co-investment or “overflow” opportunities that arise in connection with the Client’s investments (as determined by the Client General Partner); *provided* that such offer is consistent with (i) Stonyrock’s investment opportunity allocation policies and (ii) the interest of the Client and any other advisory clients of Stonyrock and its affiliates. Neither the Client nor any Client Investor will have any rights in connection with any such co-investment or “overflow” opportunities.

**Leveraged Investments.** The Client may make use of leverage by incurring debt to finance a portion of its investment in an Investment. Leverage generally magnifies both the Client’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. The leveraged capital structure of Investments will increase the exposure of the Client to any deterioration in a company’s condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Investments in a down market. In the event the Client cannot generate adequate cash flow to meet its debt service, the Client may suffer a partial or total loss of capital invested in an Investment, which would adversely affect the returns of the Client. Furthermore, should the credit markets be limited or costly at the time the Client determines that it is desirable to sell all or a part of an Investment, the Client may not achieve an exit multiple or enterprise valuation consistent with its forecasts.

The Client may also borrow money or guarantee indebtedness (such as a guaranty of an Investment’s debt) or otherwise be liable therefore, and in such situations, it is not expected that the Client will be compensated for providing such guarantee or exposure to such liability. The use of leverage by the Client also will result in interest expense and other costs to the Client that may not be covered by distributions made to the Client or appreciation of its investments. The Client may incur leverage on a joint and several basis with one or more other investment funds and entities managed by the Client General Partner 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 the Client incurs leverage (or provides such guarantees), such amounts may be secured by capital commitments made by the Client Investors and such Client Investors’ contributions may be required to be made directly to the lenders instead of the Client.

**Pre-Closing or “Warehoused” Investments.** Stonyrock and/or its respective affiliates have made certain investments in AIMs for the benefit of the Client prior to the initial closing date applicable to the Client (“Warehoused Investments”), which Warehoused Investments will be transferred to the Client after the Initial Closing upon the satisfaction of certain conditions, including consent of the Client Investors pursuant to Section 206(3) of the U.S. Investment Advisers Act of 1940, as amended. Each of the Warehoused Investments will be sold to the Client at cost, together with a carrying cost to compensate the warehouse provider for its cost of capital. Given the illiquid nature of the Warehoused Investments, it will be impossible to know their true fair market value at the time they are purchased by the Client, which value may be substantially less (or more) than the price at which the Client is purchasing such asset. As such,

investors in the Client will be assuming the risk of market value of the Warehoused Investments from the date such assets were initially acquired.

### **“AIM” Risks**

**Minority Equity Interests.** The Client will hold non-controlling equity interests of AIMs and will make passive investments in private equity funds and other types of funds and, therefore, may have a limited ability to protect its position in such Investments. As a condition to an investment in such alternative investment managers, it is expected that appropriate rights generally will be sought to protect the Client’s interests to the extent possible. However, there can be no assurance that such minority shareholder rights will be available. Generally the Client will have a limited ability to create additional value in the entities in which it invests by effecting changes in the strategy and operations of these entities or to protect its positions in such entities or to create or take advantage of exit opportunities. The Client’s inability to control the timing of the making, restructuring, refinancing and exiting of its investments may adversely affect performance. The timing and extent to which the Client realizes proceeds from any disposition, listing, financing or other liquidity event with respect to any investment in the “Economic Interests” will depend on the decisions and actions of AIMs. The management of Investments may make business, financial or management decisions with which the Client General Partner does not agree or management may take risks or otherwise act in a manner that does not serve the Client’s interests. In addition, there can be no assurance that third parties will similarly conclude that such investments are non-control investments or that investments by the Client will not be deemed to have control elements for certain contractual, regulatory or other purposes.

**Attractiveness to Alternative Investment Managers of an Investment by the Client.** The Client’s structure and investment objective may restrict its ability to complete Investments. Among the realization and monetization strategies that may be pursued by the Client General Partner is seeking a public listing of the Client or selling all or substantially all of the assets of the Client. Potential AIMs may not be interested in an investment by the Fund if required to disclose information that may be made public as part of a restructuring, or any liquidity event. Potential AIMs may not be interested in a transaction with the Client that might result in an interest in such company eventually becoming one of several investments held in a publicly traded vehicle with the potential of the publicly traded vehicle not devoting substantial attention or resources to the investment. If the Client becomes a listed vehicle with ongoing public reporting obligations, the Client may be excluded from certain investment opportunities if sponsors of potential Investments are not prepared to permit the Client to disclose information required to meet its public reporting obligations. Furthermore, other investors that may be competing with the Client to make investments may have objectives (e.g., obtaining preferred access to the investment funds for potential investors) that result in more attractive business opportunities or in a longer term investment horizon than those offered by an investment by the Client, which may be more appealing to owners of the alternative investment managers. In addition, private equity fund and hedge fund managers operate in a hypercompetitive industry, and may not view the Client as an acceptable investment partner due to the Client’s intention to invest in multiple alternative investment managers, some or all of which may be competitors of such managers. As a result, the universe of potential investment opportunities for the Client could be significantly limited.

**Trading Volatility.** Certain alternative investment managers may engage in the trading of securities, currencies, commodities, derivatives and other speculative instruments. A principal risk in such trading is the traditional volatility in the market prices of instruments. Generally, price movements in the markets in which such alternative investment managers may invest can be volatile and are influenced by, among other things: changing supply and demand relationships; government trade and fiscal policies; national and international political and economic events; changes in currency exchange rates; and changes in interest

rates. If alternative investment managers incorrectly predict price movements, large losses could result, including the loss of their entire capital.

**Revenue Participation Rights; Equity Interests.** While investments in Economic Interests offer the opportunity for significant capital gains, such investments involve a high degree of business and financial risks that can result in substantial losses. These may include the risks associated with investments in businesses at an early stage of development or with little or no variations in operating results. The Client intends to own Economic Interests in AIMs and may seek to have observer rights and other transparency rights with respect to the Investments. It is possible that regulators or third parties will try to impose liability on the Client in connection with the operations of such AIM. If successful, any such liability could adversely affect the performance of the Client. Economic Interests may be subordinated to indebtedness or other equity securities that rank senior to the Client's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of the Client's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to the Client's investment would typically be entitled to receive payment in full before distributions could be made to the Client. After repaying senior security holders, the Investment may not have any remaining assets to use for making distributions to or repaying amounts owed to the Client. To the extent that any assets remain, holders of claims that rank equally with the Client's investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets.

Certain AIMs have "benchmarks" or "hurdle rates" whereby the investment management company does not earn performance-based income during the current period, as a result of losses in prior periods (or where current period results did not satisfy such benchmarks or hurdles), even though the managed investment funds had positive returns in the current period. If a private equity fund or hedge fund of an AIM experiences losses (or fails to meet performance benchmarks, including by providing its investors with a "preferred return" on their invested capital), such AIM will not be able to earn performance-based returns from that fund until it satisfies such benchmarks. The returns on the Economic Interests held by the Client will depend on the profitability of AIMs, who will retain control over the operations, budgets, expenses, compensation and revenues of their firms. It is possible that AIMs will make decisions in the exercise of their discretion over these items that may adversely affect the performance of the AIMs or cash flows available for distribution by AIMs to the Client.

**Termination or Redemption of Certain Investments.** The organizational documents of an investment fund managed by an AIM may permit investors to terminate that investment fund, or an AIM's investment management agreement with such fund, in either case without the approval of the applicable AIM. In the event that a fund or an investment management agreement is terminated pursuant to such a provision, the applicable AIM will no longer be able to earn income from management of such fund, which would adversely affect the profitability of the Client's investment in such AIM. In addition, the organizational documents of an investment fund may permit the investors in such fund to redeem their interests upon short, or no, notice. To the extent that investors redeem their interests in a fund, the applicable Investment may be required to liquidate the investments of such fund at an undesirable time, which would reduce the return on such investments and adversely affect the investment management company's compensation. Further, any such redemptions would reduce the amount of the fund's assets under management, which would negatively impact the Investment's ability to deploy capital and earn management and performance-based fees. Similar risks arise with respect to an AIM that needs to continually raise new funds to replace private equity funds that are liquidating.

**Investment Concentration.** Other than as described in the Offering Documents, Client Investors have no assurance regarding the degree of diversification of the Client's investments. Accordingly, the Client's investments may be concentrated in a limited number of Investments. The Client may invest in a limited

number of companies, sectors, countries, or regions. To the extent the Client concentrates its investments in a particular company, sector, country, or region, its investments will become more susceptible to fluctuations in value resulting from adverse business or economic conditions affecting that particular company, country, or region. As a consequence, the aggregate return of the Client may be adversely affected by the unfavorable performance of one or a small number of companies, sectors, countries or regions in which the Client has invested.

The Client's investments will be concentrated in the alternative asset management industry (and, specifically, institutionalized private equity fund managers, including, but not limited to, hedge funds and other private-closed end funds). At times, the performance of securities of companies in the alternative asset management industry will lag the performance of other industries or the broader market as a whole. In addition, any tax or regulatory changes that are adverse to such industries could have a larger negative impact on the Client than on funds with a different investment focus.

**Multi-Investment Management Company Approach.** While investment in multiple investment management companies may provide some diversification of investment risk, no assurance can be given that such diversification will occur, or if it does, that it will not reduce, rather than increase, potential net profits. Investment in multiple investment management companies may cause the Client indirectly to hold opposite positions in an underlying investment, thereby decreasing or eliminating the possibility of positive returns from such investment. On the other hand, Investments may employ similar investment strategies and make overlapping investments, in which case the Client may have increased exposure with respect to those underlying investments.

**Importance of General Market Conditions to Profitability; Uncertainty of Assets Under Management (“AUM”) Growth.** The Client's strategy is based on a number of premises, each of which may be adversely impacted by market conditions. Such premises include, among others, that (i) AIMs will experience AUM and earnings growth after an investment by the Client; (ii) the Client can source investment opportunities and acquire stakes in AIMs and make other investments at favorable prices; (iii) AIMs may experience monetization or liquidity events such as refinancings, sales, or public listings, and that such events will be effected at favorable prices; and (iv) the Client may achieve the liquidity strategies described in the Offering Documents at favorable prices. No assurance can be given that any or all of these premises will be achieved, since this will depend upon market conditions and other events and factors outside the control of the Client.

The Client's strategy is based, in part, upon the premise that Investments will be available for purchase by the Client and a liquidity event (as described in the Offering Documents) may be achieved, in each case at prices considered favorable to the Client. Further, the Client's strategy relies upon favorable market conditions existing during the term of the Client and prior to the occurrence of a liquidity event, including AUM growth of AIMs relative to current levels. The Client's investment strategy depends on capturing an outsized portion of industry growth, generating significant enterprise value and seeking a means to monetize this value. No assurance can be given that Investments can be acquired or disposed of at favorable prices, that the market for such Investments will be favorable, that a liquidity event will be achieved or that the AUM of the AIMs will grow since this will depend upon events and factors outside the control of the Client. Failure of AIMs to grow their AUM in accordance with the Client's base case assumptions would materially adversely affect the Client's investment returns. There can be no assurance that AUM growth will occur as projected. Actual results and events may differ significantly from projections.

**Lack of Information for Investments in Non-Traded Companies.** The Client's investment strategy involves investments in private companies for which no market exists. Little public information exists about many of these companies, and the Client will be required to rely on its diligence efforts to obtain adequate information to evaluate the potential risks and returns involved in investing in these companies. Incomplete

or inaccurate information could impact both initial and ultimate valuations of Investments, as well as the Client's operating plan for such Investments. Therefore, the risk that the Client may invest on the basis of incomplete or inaccurate information may adversely affect the Client's investment performance. The uncertainty regarding information about its prospective investments subjects the Client to greater risk than investments in publicly-traded companies. There is no assurance that the Client's diligence efforts will result in it obtaining fully complete and accurate information about prospective investments or that any Investment will be successful.

**Clawback Payments to AIMS.** AIMS may make distributions to the Client that are subject to clawback arrangements with those AIMS. Accordingly, the Client may set aside amounts it could otherwise reinvest or distribute to Client Investors for the purpose of fulfilling clawback obligations to the AIMS, should these obligations arise. Amounts set aside to fund potential clawback payments will reduce the amount of funds available to make distributions to the Client Investors or additional investments in AIMS. In addition, to the extent that the Client distributes to Client Investors amounts that are subject to clawback obligations or does not set aside sufficient amounts to make clawback payments, Client Investors may be required to return amounts distributed to them to fund any such clawback obligations to AIMS, subject to certain limitations as described in the Offering Documents, which may reduce a Client Investor's overall returns from the Client.

**Competition for Investments.** The Client will compete with other entities for the acquisition of investments. Such competition may come from groups such as institutional investors, investment managers, industrial groups, and merchant banks, which have greater resources than the Client and are owned by large and well-capitalized investors. There may be intense competition for investments of the type in which the Client intends to invest, and such competition may result in less favorable investment terms than would otherwise be the case. The Client may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. There can, therefore, be no assurance that investments of the Client will meet all the investment objectives of the Client, or that the Client will be able to invest all of its available capital.

**Unspecified Investments.** The capital commitments received from the Client Investors pursuant to this offering are generally going into a blind pool. The Client has not identified all of the particular investments it will make. Accordingly, an investor in the Client must rely upon the ability of the Client General Partner in making investments consistent with the Client's investment objectives and policies. A Client Investor will not have the opportunity to individually evaluate the relevant economic, financial and other information that will be utilized by the Client General Partner in its selection of investments or otherwise approve of such investments.

**No Assurance of Investment Return.** The Client's task of identifying investment opportunities managing such investments and realizing a significant return for Client Investors is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage, and realize such investments successfully. There is no assurance that the Client will be able to invest its capital on attractive terms or generate returns for its investors. There is no assurance that the Client's investments will be profitable and there is a risk that the Client's losses and expenses will exceed its income and gains. As such, there is no assurance of any distribution to the Client Investors prior to, or upon, liquidation of the Client.

**Difficulty in Valuing Investments.** Generally, there will be no readily available market for a substantial number of the Client's investments and hence, most of the Client's investments will be difficult to value. Despite the Client General Partner's efforts to acquire sufficient information to monitor certain of the Client's investments and make well-informed valuation and pricing determinations, the Client General Partner may only be able to obtain limited information at certain times. It is possible that the Client General

Partner may not be aware on a timely basis of material adverse changes that have occurred with respect to certain of the Client's investments.

The Client General Partner may have to make valuation determinations without the benefit of an adequate amount of relevant information. Prospective Client Investors should be aware that as a result of these difficulties, as well as other uncertainties, any valuation made by the Client General Partner may not represent the fair market value of the investments acquired by the Client. Such valuations may turn out to be inaccurate and therefore may affect the calculated returns with respect to such assets.

**Economic Conditions.** Changes in economic conditions, including, for example, interest rates, credit availability, inflation rates, industry conditions, government regulation, competition, technological developments, political and diplomatic events and trends, tax and other laws, and innumerable other factors, can affect the Client's investments and prospects materially and adversely. None of these conditions is within the Client General Partner's control, and it may not be able to effectively anticipate these developments. These factors may affect the volatility and the liquidity of the Client's investments. Unexpected volatility or illiquidity could impair the Client's profitability or result in losses.

**Economic and Political Risks.** Governments of many foreign countries have exercised and continue to exercise substantial influence over many aspects of the private sector. The availability of investment opportunities for the Client depends in part on governments in such foreign countries continuing to liberalize their policies regarding foreign investment and to further encourage private sector initiatives. Accordingly, future government actions could have a significant effect on the economic environment in such countries, which could affect the availability, purchase price, and returns of portfolio investments.

**COVID-19.** The recent global outbreak of the novel coronavirus (COVID-19) is currently creating unprecedented economic and social uncertainty throughout the world. The ultimate impact of the COVID-19 outbreak is difficult to predict, but it is likely that COVID-19 will have a materially adverse impact on global, national and local economies in the immediate future and that such negative impact is likely to persist for some time. In particular, disruptions to commercial activity across economies due to the imposition of quarantines, remote working policies, "social distancing" practices and travel restrictions, and/or failures to contain the outbreak despite these measures, could materially and adversely impact the Stonyrock's investments. Similar disruptions may occur in respect of service providers and counterparties (including providers of financing), which could also have a negative impact. While there are indications of various governmental responses to the potential negative effects of COVID-19, it is unclear how effective these responses will be and what other impacts such responses may have on the overall performance of markets or Stonyrock.

**Foreign Currency and Exchange Rate Risks.** Client assets and income may be denominated in various currencies. Contributions and distributions, however, will be denominated in U.S. dollars. As a result, the return of the Client on any investment may be adversely affected by fluctuations in currency exchange rates, any future imposed devaluations of local currencies, inflationary pressures, and the success of the investment itself. In addition, the Client may incur costs in connection with conversions between various currencies.

**Borrowing and Leverage.** The Investments (especially Direct LP Investments, if any) may be significantly leveraged. In addition, certain Investments that are not highly leveraged at the time an investment is made may increase their leverage after the time of investment. Consequently the leveraged capital structure of such Investments will increase their exposure to adverse factors such as rising interest rates, downturns in the economy or a deterioration in the business of an Investment or its industry, and may impair such companies' ability to meet their debt obligations.

**Client Investors Will Not Have any Direct Interest in any Investment.** The offering of the Interests does not constitute a direct or indirect offering of interests in any Investments. Client Investors (in their capacity as investors) will not be limited partners of, or equity holders in, any Investments, will have no direct interest in the Investments and will have no voting rights in the Investments or standing or recourse against any of the Investments. Moreover, none of the Client Investors will have the right to participate in the control, management or operations, or have any discretion over the management, of any of the Investments by reason of their investment in the Client.

**Changes in Expected Investment Objectives of Investments May Be Adverse to The Client.** Investments may have the ability to change their investment objectives and strategies and economic and other terms after the Client has made its investments in such Investments. Such changes in these investment objectives and strategies may have an adverse effect on the Client's returns in respect of such Investments. The Client may not have the ability to reduce or withdraw its investments in such Investments.

**Ability of AIMS and Clients to Enter New Lines of Business.** The Investments may enter into new lines of business not anticipated by the Client at the time the Client made such investments. The Client will likely not have the ability to prevent the Investment from taking such action and may not have the ability to reduce or withdraw its investments in such Investment following such decisions to enter into new lines of business. As a result, such decisions by the Investment may negatively impact the performance of the Client.

**Conflicts Between Investments.** The sponsors and managers and others affiliated with any of the Investments may have conflicts of interest. In addition, such Investments may engage in transactions with affiliated parties on terms and conditions not determined through arm's-length negotiations.

**Multiple Levels of Expense.** Direct LP Investments, if any, made by the Client, may significantly increase the fees, costs and expenses payable by the Client and borne by the Client Investors. Both the Client and the Direct LP Investments impose management fees and/or performance fees or incentive allocations on the Client Investors. In addition, there will be organizational and operating expenses associated with the Client and the Investments. These various levels of fees, costs and expenses will be charged whether or not the performance of the Client generates positive returns for the Client Investors. As a result, the Client, and indirectly the investors in the Client, will bear multiple levels of fees and expenses. In addition, because of fees and expenses payable by the Client, its returns on Investments will be lower than the returns to a direct investor in the Investments.

**Multiple Levels of Performance Fees.** The Client General Partner will be entitled to carried interest, and the alternative investment managers of certain Investments will also receive performance fees and allocations. The existence of this carried interest and performance fee and allocations could create an incentive for the Client General Partner or the relevant investment management company to choose investments that are riskier or more speculative than would otherwise be the case. Additionally, the performance-based compensation for an AIM is determined by the performance of the private equity funds and/or hedge funds it manages. Accordingly, performance fees may be paid to certain AIMS periodically even though the overall investment of the Client Investors, as a whole, is unprofitable. An AIM may receive performance payments with respect to unrealized appreciation of the relevant private equity funds' and/or hedge funds' investment portfolio.

To the extent the Client General Partner receives carried interest in the form of equity of a listed vehicle in connection with a liquidity event, Client Investors will be diluted.

**Potential Exposure to Claims.** Although the Client does not intend to control the Investments, ownership positions through Economic Interests as well as other rights could potentially expose the assets of the Client to claims by such Investment's other equity holders, clients, creditors and other third parties. In addition,

the Client may not be in a good position to limit or otherwise protect the value of its Investments, as an Investment may have economic or business interests or goals that are inconsistent with those of the Client. Investments may accumulate substantial positions in the securities of a specific company. An Investment may engage in a proxy fight, become involved in litigation or attempt to gain control of a company. Under such circumstances, such Investment might be named as a defendant in a lawsuit or regulatory action.

**Increase in Amount of AUM.** Although the Client intends to assist its Investments in the growth of such Investment's AUM, it is not known what effect, if any, such increase in the amount of AUM will have on the investment strategies utilized by such Investments or their investment results. No assurance can be given that their strategies will continue to be successful in light of such an increase in AUM.

**AIM Misconduct or Bad Judgment.** It will be difficult, and likely impossible, for the Client General Partner or the Investment Manager to protect the Client from the risk of AIM fraud, misrepresentation or material strategy alteration. AIMS may be motivated to pay out greater portions of their revenue as salaries, bonuses, and other similar expenses, in order to shift income that would otherwise be shared with the Client to expenses that are payable to other principals of the AIM that are also employees. If an AIM acts inconsistently with applicable laws and regulations or takes actions that cause disrepute, such actions may adversely affect the Client, as an investor in the AIM, and may damage the Client's reputation, which may adversely impact the Client's ability to complete investments in other AIMS and the Client's ability to realize its investment objective. If an Investment underreports to the Client the amount of income it has generated or attempts to use other accounting methods in order to avoid its obligations to share income with the Client, the Client may be adversely affected.

**Key Person Risks.** Some Investments may consist of only one or a limited number of principals. If the services of such principals became unavailable, the Client might sustain losses. The Client expects to be entitled to receive a portion of an Investment's income, thereby reducing the income that can be received by such principals. This may motivate key managerial personnel of the Investment to leave to seek employment at a new entity that is not subject to a requirement to share income with the Client.

**Underlying Investment Risks.** The success of the Client's investments in private equity funds, and the investment management companies advising and managing private equity funds and hedge funds, will depend on the successful implementation of their respective investment strategies and the alternative assets industry generally. Stonyrock has limited to no information available on the investments the AIMS are entering into. This creates additional risks for Client Investors.

**Minority Investments.** Investments may make minority equity investments in entities in which such Investments do not control the business or affairs of such entities. In addition, Investments may co-invest with other parties through partnerships, joint ventures or other entities. Although in some cases Investments have control over, or significant influence on, the decision making of joint ventures, certain decisions may require approval of all the directors or shareholders of the joint ventures. The cooperation among the joint venture partners of such companies on existing and future business decisions will be an important factor for the sound operation and financial success of these businesses. There is the possibility that the entity in which the an Investment's investment is made or such co-investor may have economic or business interests or goals that are inconsistent with those of such Investment, and such Investment may not be in a position to limit or otherwise protect the value of its investment in the entity. Disputes among joint venture partners over joint venture obligations or otherwise could have an adverse effect on the financial conditions or results of operations of these businesses. In addition, an Investment may in certain circumstances be liable for actions of its co-investors.



## **ITEM 9. DISCIPLINARY INFORMATION**

There are no legal or disciplinary events to report that are material to the Client's or a prospective Client's evaluation of our advisory business or the integrity of our management.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Material Financial Industry Affiliations of the Firm**

Jefferies LLC is the principal subsidiary of Jefferies Group LLC. Jefferies Group LLC, a direct, wholly-owned subsidiary of Jefferies, is a global investment banking firm that provides clients with capital markets and financial advisory services, institutional brokerage and securities research, as well as wealth and asset management. Jefferies provides research and execution services in equity, fixed income, derivatives and foreign exchange markets, and a full range of investment banking services including underwriting, merger and acquisition, restructuring and recapitalization and other advisory services.

Jefferies LLC and its affiliates may act as a placement agent for the private funds which we manage. At the current time, no placement fees are charged to a Client Investor; however, Stonyrock may pay a portion of its fees to Jefferies LLC or other placement agents, whether affiliated or unaffiliated, for having introduced a Client Investor to the Client.

Stonyrock has operational and administrative support arrangements with Jefferies. We reimburse Jefferies for the reasonable cost of services provided by Jefferies to Stonyrock, as well as any salary and benefits provided by Jefferies to our employees.

The various divisions of Stonyrock and/or our affiliates may be advising, or may in the future play an advisory role or perform other services for, the Client. Using information walls and similar policies and procedures, we seek to avoid becoming aware of the roles our affiliates are playing. However, if one of our affiliates decides to play such a role, e.g., act as adviser to a portfolio company, and in the unlikely event that we are aware or are deemed to be aware of that role, the Client may be required or expected to liquidate its position in such portfolio company. Such a transaction may cause the Client to realize reduced profits or losses. If the Client is permitted to maintain its position in such instance, our affiliate may take actions or provide advice with respect to the portfolio company that could result in adverse consequences to the Client and the restriction on the ability to close such position.

By reason of the advisory, investment banking and/or other activities of Jefferies, Jefferies, its affiliates and employees may acquire confidential or material non-public information or be restricted from initiating transactions in certain financial instruments. Jefferies, its affiliates and employees will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, we may not be able to initiate a transaction for the Client that we otherwise might have initiated. In the event any material, non-public information is disclosed to any person responsible for the affairs of the Client, the Client may be prohibited by applicable securities laws and material non-public information procedures from acting upon any such information. Due to these restrictions, the Client may not be able to initiate a transaction or sell a portfolio investment that it otherwise might have initiated. In other cases, because of confidential or material non-public information acquired by other business units of Jefferies, the Client may also be prohibited from acquiring an investment that it otherwise might have acquired.

Certain of our affiliates are investment advisers and other financial institutions whose businesses have no material relationship to our business. Certain of our officers and directors also serve as officers and directors of other Jefferies companies.

## Potential Conflicts of Interest

**Compensation.** The Management Fee payable to Stonyrock is payable without regard to the overall success of or income earned by the Client.

Additionally, Stonyrock could receive substantial compensation in the event that the Client generates positive returns (through carried interest distributions). Prospective Client Investors should note that the fact that carried interest distributions are payable only out of profits of the Client may create an incentive for Stonyrock to make investments that are riskier or more speculative than would otherwise be the case.

**Advisory Time.** Stonyrock and its affiliates and their key personnel will devote substantially all of their respective business time to the activities of the Client, any related vehicle, successor fund and their respective investments. However, they may also provide investment advisory services for certain other clients (including other pooled accounts and separately managed accounts) and engage in other business ventures in which the Client and the Client Investors have no interest. As a result of these separate business activities, Stonyrock and its affiliates may have conflicts of interest in allocating management time, services and functions among the Client and such other business ventures or clients.

**Transactions with Affiliates.** Stonyrock or the Client may, from time to time, enter into services agreements with affiliates of Stonyrock or affiliates of Jefferies, or with businesses, including financial services businesses, owned by Stonyrock or by Jefferies (each a “Stonyrock or Jefferies Affiliate”), such as a services agreement entered into between Stonyrock and certain affiliates of Jefferies (the “Services Agreement”). It is the intention of Stonyrock that any such agreements will be entered into at arm’s-length and will be on terms no more favorable to the applicable Stonyrock or Jefferies Affiliate than would have been entered into between two completely unrelated parties. Fees and expenses payable under the Services Agreement are not borne by the Client but fees and expenses payable under other services agreements entered into in the future with affiliates of Stonyrock or affiliates of Jefferies may be borne by the Client.

In addition, the Operating Advisors will act as operating advisors to the Client and certain of these advisors will provide operational support for the Client and its Investments. The Operating Advisors will provide such services as consultants or otherwise to Stonyrock, the Client or its Investments and/or their respective affiliates but it is not expected that they will be retained as employees of Stonyrock or its affiliates. In exchange for such services, the Operating Advisors will be paid fees which will be borne by the Client and which will not offset the Management Fee.

**Warehoused Investments; Principal Trades; Cross Trades.** The owners of any Warehoused Investments (i.e., Stonyrock and/or its respective affiliates) are subject to conflicts between acting in the best interests of the Client and assisting themselves by selling the Warehoused Investments. In addition, such owners may have information regarding the Warehoused Investments that is not available to prospective Client Investors. By making a Capital Commitment, each Client Investor will be deemed to have agreed that it does not wish to receive any such information, would not rely on such information if received, and that it has determined to make a Capital Commitment to the Client regardless of whether such information is or may be material to such Client Investor’s determination to do so. Similar conflicts will apply with respect to any other principal trades between the Client, Stonyrock or an affiliate. Principal trades will be effected at fair market value except in the case of Warehoused Investments, which may be transferred at cost, together with a carrying cost to compensate the warehouse provider for its cost of capital.

Stonyrock may also cause the Client to purchase securities or other assets from or sell securities or other assets to, or engage in other transactions with, other clients or vehicles when Stonyrock believes such transactions are appropriate and in the best interests of the Client. In the event Stonyrock wishes to reduce the investment of one or more of such funds in a security or other asset and increase the investment of other

funds in such security or other asset, they may effect such transactions by directing the transfer of the securities or other assets (or the economics thereof) between funds. Stonyrock may also cause the Client to purchase or sell an investment that is being sold or purchased, respectively, at the same time by Stonyrock, its principals or affiliates or another advisory client.

**Sourcing of Investment Opportunities.** Jefferies or its affiliates may, from time to time, be presented with certain potential investment opportunities that may fall within the investment objective of the Client (each a “Potential Investment Target”). In such circumstances, however, Jefferies or its affiliates will have no duty or obligation to offer such investment opportunity in a Potential Investment Target to the Client. Further, Jefferies may owe a duty to a Potential Investment Target to provide such company with access to the most beneficial sources of capital, which may or may not include Stonyrock or the Client. Notwithstanding the foregoing, conflicts of the nature described in this paragraph are relatively unlikely to arise because the Client’s primary investment focus will be to seek and acquire non-controlling minority equity or equity related interests in AIMs, while Jefferies typically seeks to obtain a larger percentage ownership or revenue share interests when it invests in AIMs. In addition, Jefferies or its affiliates may participate in a co-investment opportunity alongside the Client in the underlying portfolio investments. Such participation may not be on the same terms and conditions as the participation of the Client. For example, an investment made in a particular portfolio investment may not be made at or disposed of at the same time as the Client makes or disposes of such investment, or the percentage ownership or revenue share interests in such portfolio investment may be different between the Client and the co-investor, which may mean that the co-investor could be in a position to take action contrary to the objectives of the Client.

**Jefferies May Have Conflicting Interests and Duties.** Jefferies is a full service financial institution engaged in a wide range of investment banking and other activities (including, but not limited to, investment management, corporate finance, securities underwriting, trading and research and brokerage activities). Jefferies is a diversified holding company engaged through its consolidated subsidiaries in a variety of businesses, including buying and selling companies and business lines and making strategic investments in other companies and businesses, in each case from which conflicting interests, or duties, may arise. In particular, the Client may invest in, or pursue transactions with, any issuer of a financial instrument for whom Jefferies is also providing investment banking and other services. Neither Jefferies nor any of its affiliates has or will have any duty to disclose to Stonyrock or use for the Client’s benefit any non-public information acquired in the course of providing services to any other party, engaging in any transaction (on its own account or otherwise) or otherwise carrying on its business.

**Material Non-Public Information.** By reason of the advisory, investment banking, and/or other activities of Jefferies, Jefferies, its affiliates and employees may acquire confidential or material non-public information or be restricted from initiating transactions in certain financial instruments. Jefferies, its affiliates and employees will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, Stonyrock may not be able to initiate a transaction for the Client that it otherwise might have initiated. In the event any material, non-public information is disclosed to any person responsible for the affairs of the Client, the Client may be prohibited by applicable securities laws and material non-public information procedures from acting upon any such information. Due to these restrictions, the Client may not be able to initiate a transaction or sell a portfolio investment that it otherwise might have initiated. In other cases, because of confidential or material non-public information acquired by other business units of Jefferies, the Client may also be prohibited from acquiring an investment that it otherwise might have acquired.

**Financing Arrangements.** Certain conflicts of interest may arise should the Client enter into financing arrangements with any affiliates of Stonyrock or Jefferies or its affiliates. In such situations, Stonyrock will have a conflict between its obligation to act in the best interests of the Client Investors on the one hand, and

any interest it may have in generating fees and other revenues for itself or its affiliates and Jefferies or its affiliates, on the other. If Stonyrock engages in repurchase agreements with an affiliate or with Jefferies or its affiliates, the terms of any particular transaction, including any pricing rate, repurchase price or margin percentages negotiated with such party may not individually or in the aggregate be the most favorable available.

**Broad and Wide Ranging Activities.** Investments may involve (directly or indirectly) new or follow-on investments in entities in which Stonyrock, Jefferies or other funds sponsored or managed by Stonyrock or Jefferies have made or will make, including funds managed by AIMs or portfolio companies of funds managed by AIMs. Such investments or commitments may have been or may be made at different prices and on different terms. No assurance can be given that the Client will realize identical economic results from such an investment, and as a result thereof the interest of Stonyrock, Jefferies, or other funds sponsored or managed by Stonyrock or Jefferies, and the interest of the Client in restructuring, exercising with respect to or realizing an investment may differ (particularly where the Client also holds an Economic Interest in the related AIM but the other fund or account managed by Stonyrock does not).

**Investment Management Companies – Other Clients; Conflicts of Interest.** Investment management companies have exclusive responsibility for making investment decisions and may make trading decisions for other investment vehicles or managed accounts similar to those in which the Client invests and may have incentives to favor such other investment vehicles or managed accounts. From time to time an investment management company may buy or sell securities for the benefit of one or more other investment vehicles or managed accounts at the same time that such manager buys or sells those same securities with respect to vehicles in which the Client invests. Such activity may adversely affect the price paid or received for the security. The situation may also arise in which activities of an investment management company on behalf of other clients may disadvantage the Client. The Client may elect not to, or may be restricted from, investing in certain asset managers that otherwise present attractive investment opportunities in situations where such managers are, or are suspected or purported to be, engaged in investment strategies that the Client or Stonyrock considers inconsistent with sound business practices, applicable rules and regulations, or ethical conduct.

**Fees Payable to Jefferies.** Jefferies and its affiliates also may provide a broad range of financial and other services to AIMs, private equity funds and other entities in which the Client invests and Jefferies generally will be paid fees (which may include warrants or other securities) for such services. In addition, Jefferies or its affiliates may act as financial advisor in connection with the public or private sale of the Client or its Investments, and Jefferies generally will be paid customary fees for such services. None of Jefferies' or its affiliates' fees for any of the foregoing will be shared with the Client or reduce the Management Fee or the Administration Fee. The fee potential inherent in a particular investment or transaction could be viewed as an incentive for Stonyrock to seek to refer or recommend an investment or transaction to the Client.

**Investment in Money Market Funds and Other Clients Managed or Sponsored by or Affiliated with Stonyrock or Jefferies.** To the extent permitted by applicable law, including applicable provisions of ERISA and Section 4975 of the Code, the Client may (i) make direct or indirect short term investments of excess cash in money market funds sponsored or managed by Jefferies and (ii) invest in other investment vehicles managed or sponsored by or affiliated with Stonyrock or Jefferies. In connection with any of these investments, the Client will pay fees, directly or indirectly, pertaining to such investments and no portion of any fees otherwise payable by the Client will be offset against fees payable in accordance with any of these investments (i.e., there could be double fees involved in making any of these investments). In these circumstances, as well as in other circumstances in which Stonyrock, Jefferies or their affiliates received any fees or other compensation in any form relating to the provision of services, no accounting or repayment to the Client will be required.

**Direct LP Investments.** The Client may invest in certain Direct LP Investments if the Client General Partner determines that it is advisable for the Client to make such Direct LP Investments for purpose of generating attractive returns or as partial or full consideration for an Economic Interest in an AIM. Although it is expected that the Client would only make a Direct LP Investment if it were determined that such investment was suitable and attractive (taking into account the acquisition of the associated Economic Interest in the AIM), there can be no assurance that a Direct LP Investment made by the Client will be profitable (either on a standalone basis or taking in account the associated Economic Interest in the AIM). In addition, in the event such Direct LP Investments are made by the Client, the Client will become a limited partner in the fund or other entity managed by the AIM, and the interest of the Client as a limited partner in the AIM, on the one hand, and the interest of the Client as a holder of an Economic Interest in such AIM, on the other, may conflict with one another in certain situations.

**Allocation of Co-Investment Opportunities.** The Client General Partner or one or more of its affiliates, in its sole discretion, may, but will not be obligated to, provide co-investment opportunities to Client Investors, strategic investors that provide (or are expected to provide) strategic benefits to an Investment or the Client (such as, for example, sourcing or consummation of an investment opportunity), Stonyrock or its affiliates and associated persons, and/or other third parties, provided that, such opportunities will not reduce the Client's level of investment in such deal below that which Stonyrock, in its sole discretion, deems appropriate.

Stonyrock will allocate co-investment opportunities among co-investors or among the Client and any co-investors in any manner it so determines, taking into account those factors that it deems relevant under the circumstances, including, but not limited to: (i) whether a prospective co-investor has expressed an interest in participating in co-investment opportunities (including, for example, by election in such investor's side letter); (ii) the character or nature of the co-investment opportunity (e.g., its size, structure, geographic location, relevant industry, tax characteristics and any contemplated minimum commitment threshold); (iii) the level of demand for participation in such co-investment opportunity; (iv) the ability of a prospective co-investor to analyze or consummate a potential co-investment opportunity on an expedited basis; (v) whether a prospective co-investor has previously declined to participate in a co-investment opportunity (and the number of times such prospective investor has previously declined); (vi) whether or not the prospective co-investor is willing to pay carried interest and management fees; (vii) the size of a prospective co-investor's investment; and (viii) as noted above, whether a prospective co-investor is also a strategic co-investor. Notwithstanding the foregoing, Stonyrock may in the future develop policies and procedures to address or formalize the allocation of co-investments. Such policies and procedures may differ from Stonyrock's current practice.

The Client General Partner will be under no obligation to provide co-investment opportunities to any particular person and may offer a co-investment opportunity to one or more of the categories of co-investors described above without offering such opportunity to the other categories of co-investors. Co-investment opportunities may be offered on a reduced or no fees and carried interest basis in Stonyrock's sole discretion.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Our employees are subject to a Code of Ethics (the “Code”). The purpose of the Code is to identify the ethical and legal framework in which we and our personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding our standard of business conduct. A complete copy of the Code is provided to clients and prospective clients upon request.

The Code is based on a few basic principles: (i) the interests of our clients come before our interests and those of our personnel; (ii) the professional activities and personal investment activities of our personnel must be consistent with the Code and avoid any actual or potential conflict between the interests of clients and those of our firm or our personnel; (iii) the activities of our personnel must be conducted in a way that avoids any abuse of any such person’s position of trust with and responsibility to our firm and its clients; and (iv) our personnel may not engage in any act, practice or course of conduct that would violate the provisions of the federal securities laws.

### **Interested Transactions**

**Participation or Interest in Client Transactions.** We and our affiliates may have an interest in transactions for the Client to the extent permitted by law and by the constituent documents of the Client. For example, from time to time, we may take the following actions: (1) buy or sell instruments in which we or our related persons have an interest and (2) buy or sell instruments in which we or our related parties are at the same time effecting a sale or purchase. Furthermore, we may act as investment adviser for related persons. We have adopted policies and procedures with respect to permitted transactions with our affiliates designed to assure that our clients are treated fairly.

Various potential and actual conflicts of interest may arise from our overall advisory, investment and other activities and our affiliates and clients. These conflicts are explained more fully in the Offering Documents.

**Instruments in Which We or Our Affiliates Hold Interests.** We may, from time to time, recommend to or purchase or sell on behalf of the Client securities or other investment products in which we, our affiliates or other related persons have a financial interest.

We and our affiliates may receive fees from third parties for performing consulting, merger and acquisition structuring or other financial advisory services or acting as directors, officers or creditors’ committee members. These fees can relate to actual, contemplated or potential investments of the Client. Such fees may be retained entirely by us or our affiliates.

**Proprietary Trading.** Our proprietary activities or portfolio strategies and those of our principals, affiliates and employees or the activities or strategies used for the Client could conflict with the transactions and strategies employed for the Client and affect the prices and availability of the instruments in which the Client invests. Issuers of instruments held by the Client may have publicly or privately traded securities in which we and our affiliates are investors or make a market. Our trading activities and those of our affiliates generally are carried out without reference to positions held directly or indirectly by the Client and may have an effect on the value of the positions so held or may result in us and our affiliates having an interest in the issuer adverse to that of the Client.

Notwithstanding the foregoing, all employees when trading for their own accounts will do so in accordance with our Personal Account Trading Policy (described below).

### **Personal Trading**

**Personal Securities Transactions.** Our policies require that our employees do not trade securities or commodities for their own accounts, except for (i) government and municipal securities, open-ended mutual funds and registered commodity pools, or (ii) otherwise with pre-approval from our compliance personnel. Without limiting the foregoing, we may under certain circumstances permit an employee to maintain a position in a security even if the Client account trades the instrument. There is no current intention to change this policy, but the policy is subject to change in our sole discretion. The records of such trading, whether under the current or a new policy, are not made available to the Client for inspection.

**Insider Trading.** Our personnel may not trade, either personally or on behalf of another, on material non-public information or communicate material non-public information to another person in violation of the law. This policy applies to all of our personnel and extends to their activities both within and outside their duties with us.

## **ITEM 12. BROKERAGE PRACTICES**

### **Investment or Brokerage Discretion.**

In selecting the brokers for performing portfolio executions, we take into account various factors, including a broker's ability to obtain best execution. We also take into account such factors as the financial stability and reputation of the broker and the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other ancillary services provided by the broker. The Client may pay more than the lowest available commission in consideration for our receipt of any or all of the above services.

Stonyrock is not required to allocate either a stated dollar or stated percentage of its brokerage business to any broker for any minimum time period, and Stonyrock reviews brokerage relationships from time to time.

### **Soft Dollars**

"Soft dollars" refers to the provision by brokers of services and equipment to an adviser as a consequence of the adviser directing the trading of accounts it manages through such broker. Stonyrock does not maintain soft dollar arrangements.

## **ITEM 13. REVIEW OF ACCOUNTS**

The Client account is monitored and reviewed as follows. The portfolio managers monitor the performance of their respective account(s) on an ongoing basis.

As pertinent, we, either directly or through the third-party administrator to the Client, provide the following reports to Client Investors: semi-annual statements, annual audit report for the Client and an IRS Schedule K-1. We may provide additional reports to the Client Investors as we deem necessary.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

For a discussion of Jefferies LLC and its role as placement agent, please see Item 10.

We may also, from time to time, have one or more arrangements in place with unaffiliated placement agents. Client Investors solicited by such placement agents will be informed of any placement fee paid by us to the placement agent, and will be informed of any placement fee to be paid by the Client Investor, each to the extent required by law.

We do not direct brokerage for client referrals.

#### **ITEM 15. CUSTODY**

We are typically deemed to have custody of the assets of our Client since we serve as managing member of the Client. Client Investors will not receive statements from the Client's custodian with regard to portfolio holdings and transactions. Instead, the Client is subject to an annual audit, and the audited financial statements are distributed to the Client Investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days' of the Client's fiscal year end (or as soon as reasonably practicable thereafter).

#### **ITEM 16. INVESTMENT DISCRETION**

Stonyrock will have full discretionary authority with respect to investment decisions and advice to the Client it manages. This advice is provided in accordance with the investment objectives and guidelines as set forth in the Offering Documents.

#### **ITEM 17. VOTING CLIENT SECURITIES**

Stonyrock has adopted Voting Policies and Procedures (the "Procedures") that are designed to ensure that in cases where Stonyrock votes with respect to investments of the Client, such votes are voted in the best interests of the Client. The Procedures also require that Stonyrock identify and address conflicts of interest between Stonyrock and the Client. If a material conflict of interest exists, Stonyrock will determine whether voting in accordance with the guidelines set forth in the Procedures is in the best interests of the Client or take some other appropriate action. However, if Stonyrock does vote, Stonyrock will cast ballots in a manner it believes to be consistent with the interests of the Client and shall not subordinate the interests of the Client to its own.

Stonyrock will determine whether a proposal is in the best interests of the Client and may take into account the following factors, among others: (i) whether the proposal was recommended by management and Stonyrock's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance. .

#### **ITEM 18. FINANCIAL INFORMATION**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and we have not been the subject of a bankruptcy proceeding.

#### **ITEM 19. PRIVACY POLICY**

At Stonyrock Partners LP, we understand that our relationship with you is based on trust. This is reflected in everything we do; including the way we handle our clients' nonpublic personal information. The following disclosure explains what personal information we collect, what we do with that information and the steps we have put in place to protect the nonpublic personal information you have entrusted to us.



## **Information We Collect**

From time to time, we gain access to your personal information through:

- Our interaction with you on the telephone, in person or through e-mail
- Subscription documents or other forms you complete
- Transactions in your accounts or on your behalf
- Our website or the websites of our affiliated companies
- Trading tools or other information tools we may make available to you
- Third parties with whom we deal, such as consumer-reporting agencies, to verify information we receive from you and your credit worthiness

## **Information We Disclose**

Subject to legal, regulatory or other governmental requirements, it is our policy not to disclose any of your nonpublic personal information to third parties without your consent, unless those parties are providing services or support to us and have agreed to keep your nonpublic personal information confidential. Examples of these parties include, but are not limited to, the Client administrator, attorneys and accountants and affiliates thereof. Even if you cease to transact business with us, we will continue to apply the same protections to your nonpublic personal information as we did when you were an active client.

## **The Jefferies Family of Companies**

Stonyrock Partners LP is a joint venture. One of its principal owners is a member of a family of related companies whose ultimate parent company is Jefferies. These companies allow us to provide greater value to our customers, employees and shareholders. In the course of our business, employees or representatives of various subsidiaries of Jefferies will have access to your nonpublic personal information. They have agreed to hold your information confidential and to comply with the privacy policy established by Stonyrock Partners LP.

## **Protecting Your Information**

Stonyrock Partners LP protects your nonpublic information from access by third parties by maintaining physical, electronic and procedural safeguards. We limit access to your information to those employees who are trained in the proper handling of nonpublic client information and who need access to the information to perform their job functions.