

# FFL PARTNERS, LLC

Form ADV Part 2A: Firm Brochure (March 29, 2021)

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This brochure provides information about the qualifications and business practices of FFL Partners, LLC (“FFL”, the “Firm” or “Advisor”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at (415) 402-2100.

FFL is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

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

## Item 2: Material Changes

The Firm's business activities have not changed materially since the last annual update of this brochure. This brochure reflects the following changes since the last annual update on March 27, 2020: (i) in Item 4, update to the number of fund groups raised and managed, Firm ownership and the amount of client assets the Firm manages, (ii) update to disclosures in Item 5 regarding expenses borne by the Partnerships as well as update to disclosures in Items 10 and 14, (iii) additional risk disclosure in Item 8, and (iv) additional conflicts of interest disclosure in Item 11.

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## Item 4: Advisory Business

FFL is a San Francisco-based private equity firm primarily focused on investing in U.S. middle market companies. FFL was established in 1997 and since then has raised and managed five groups of private equity partnerships with aggregate capital commitments of \$5.0 billion<sup>1</sup>. FFL's primary business is to direct private equity investments in U.S., middle market companies through the financing of buyouts, growth initiatives, and recapitalizations. FFL is principally owned by its Senior Managing Members (Spencer Fleischer, Rajat Duggal, Chris Harris, Greg Long, Aaron Money, Cas Schneller), former Senior Managing Member Tully Friedman, and Chris Masto, its Senior Advisor.

FFL serves as an investment manager to related investment partnerships that make private equity investments in the securities of businesses (each partnership, a "Private Equity Partnership" or "Partnership"). FFL's strategy is to make control-oriented investments or influential, non-control investments in the companies in which it invests.

In providing services to each Partnership (collectively, "Partnerships"), FFL formulates the investment objectives, directs and manages the investment and reinvestment of each Partnership's assets, and provides periodic reports to each Partnership's investors. Investment management services are provided directly to the Partnerships and not individually to the limited partners of the Partnerships. FFL manages the assets of each Partnership in accordance with the terms of the Partnership's applicable governing documents.

As of December 31, 2020, FFL managed approximately \$3,574,700,000<sup>2</sup> in client assets on a discretionary basis and no assets on a non-discretionary basis.

## Item 5: Fees and Compensation

For each Partnership, with the exception of FFL's co-investment funds ("Co-investment Funds") and certain other Partnerships established and beneficially owned by industry executive investors, employees and other designees of the Firm ("Designee Funds"), FFL or an affiliated company generally receives carried interest and/or a priority allocation (together "performance-based fees") in the relevant Partnership along with a management fee for providing investment management services to its clients. Management fees are generally payable in quarterly installments in advance, and any payment for a period of less than three months is adjusted on a pro rata basis according to the actual number of days during the period. Where the governing documents calculate management fees based on the amount of commitments or the amount of contributions still invested, the amount of

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<sup>1</sup> Aggregate capital commitments include the General Partners' full participation which is both the cash and non-cash participation.

<sup>2</sup> The regulatory assets under management as disclosed is as of December 31, 2020 adjusted for the new capital commitments for FFL Fund V effective March 3, 2020.

management fees generally will not be reduced based on reduction in investment value, except where specified by the relevant governing documents. As a general matter, management fees will be payable during term extensions unless otherwise agreed with investors. The Partnerships are generally charged a management fee between 1.89% and 2.00% of committed capital up and until the earlier of (a) the date when FFL is entitled to receive management fees from a successor fund and (b) the end or early termination of the Partnership's investment period; and 1.5% of invested capital thereafter. For certain of the Partnerships, the management fee is reduced, but not below zero, by the amount of capital contributed by the limited partners to fund placement fees, excess organization expenses and incentive capital contributions. As discussed in Item 14, management fees are also reduced for certain of the Partnerships by fees and certain items of compensation received by FFL or its affiliates to the extent provided by relevant Partnership governing documents, but not including FFL employees who are from time to time employed or engaged by and assist one or more portfolio companies in an operations capacity. FFL employees' roles with portfolio companies are expected to involve interim management roles, projects relating to improvement initiatives, board service or other similar forms of operations support (such persons, who act in the capacity of portfolio company employees, consultants or advisors, "Operating Team Members"). Compensation received, directly or indirectly, by Operating Team Members from or in respect of portfolio companies will not, however, reduce the management fee otherwise payable by a Partnership and all or a portion of that compensation will be borne by a Partnership directly or indirectly via its ownership interest in such portfolio companies.

See Item 6 for a discussion of performance-based fees.

The carried interest and management fee could be deferred, waived or reduced at the discretion of FFL and its affiliates.

Certain Partnerships' governing documents require that a portion of the management fees be reduced by the amount of deemed capital contributions by such Partnership's general partner (each, a "General Partner"). Such deemed capital contributions reduce the amount of capital such General Partner would otherwise be required to contribute to such Partnership. The limited partners of a Partnership fund the deemed capital contributions through a pro rata contribution according to their respective commitments. Such capital contributions are commonly referred to as "incentive capital contributions". Incentive capital contributions may result in an acceleration of investor capital contributions. Reduced management fees are generally not subject to the management fee offsets described below in Item 14. Due to reduced management fees by FFL and/or timing of the receipt of compensation subject to offsets (as described below), it is possible that management fee offsets will be delayed in the relevant Partnership, resulting in a net additional benefit to FFL.

Pursuant to each partnership agreement, limited partners are not permitted to make voluntary withdrawals. In the event of a non-voluntary withdrawal, as in the case of

avoiding violations of ERISA, FFL is expected to refund all pre-paid fees that have not been earned.

In addition to management and performance-based fees, if any, limited partners in the Partnerships will bear all fees, costs, liabilities and obligations, and expenses that are incurred by or arise out of the Partnerships' operations and activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio investment). These expenses typically include:

(a) activities with respect to the origination, identification and sourcing of investment opportunities for the Partnerships, including attending and sponsoring industry conferences and events, meeting with consultants, finders, broker-dealers, investment banks and other sources of investments and developing and maintaining an investment pipeline; (b) activities with respect to the pursuing, structuring, organizing, negotiating, consummating, financing, refinancing, diligence (including any subscriptions to periodicals or databases and/or research services), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving or otherwise disposing of, as applicable, each Partnership's portfolio companies and its actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, expert networks, third-party diligence, software and service providers, consultants and similar professionals in connection therewith); (c) indebtedness of, or guarantees made by, each Partnership, FFL, the General Partners, any affiliated partners on behalf of the Partnerships (including any credit facility, letter of credit or similar credit support), including interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (d) financing, commitment, origination and similar activities; (e) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement, sales, investment banker, finder and similar services; (f) brokerage, sale, custodial, depository (including any depository appointed pursuant to the EU Alternative Investment Fund Managers Directive ("AIFM Directive")), local paying agent (including any Swiss representative and paying agent appointed pursuant to the Swiss Collective Investment Schemes Act (as amended) and the implementation thereof), trustee, record keeping, account, registered office and similar services; (g) reporting, filings and other ongoing compliance requirements contemplated by the AIFM Directive or any similar law, rule or regulation; (h) accounting, research, legal, audit, technology, administration (including costs associated with any third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, fairness opinions, appraisals or pricing services), consulting (including consulting and retainer fees, salary and other cash and non-cash compensation paid to, and benefits or personnel costs provided to or on behalf of, the Operating Team Members in connection with the performance of operating activities, consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies and other consultants), tax and other professional services

(including costs related to the establishment or maintenance of any such activities or services); (i) reverse breakup, termination and other similar arrangements and all other out of pocket expenses in connection with transactions not consummated (i.e., broken deal expenses); (j) insurance, including directors and officers liability, fidelity bond, cybersecurity, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance (including costs related to any retention or deductibles and broker costs and commissions) and any consultants or other advisors utilized in the procurement, review, maintenance and analysis of insurance; (k) filing, title, transfer, survey, registration and other similar activities; (l) printing, communications, mailing, courier, marketing and publicity; (m) the preparation, distribution or filing of financial statements or other reports, tax returns, tax estimates, Schedule K-1s or similar forms or other communications with partners, any other administrative, compliance or regulatory filings or reports (including Form PF and Bureau of Economic Analysis Reports), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (n) compliance with any tax or financial account reporting regime, including the Foreign Account Tax Compliance Act, the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard and any similar laws, rules and regulations, including any costs of any third-party service providers and professionals related to the foregoing; (o) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software (including accounting, investor reporting, ledger systems, financial management and cybersecurity) or other administrative or reporting tools (including subscription-based services); (p) any activities with respect to protecting the confidential or non-public nature of any information or data (including any costs incurred in connection with the EU Data Protection Law or disclosure requests, including in connection with state public records, similar freedom of information and other laws) or other similar law or regulation; (q) expenses relating to the activities or proceedings of each Partnership's Advisory Committee (including any reasonable out-of-pocket costs and expenses incurred by representatives of the General Partner, the Advisory Committee members, permitted observers and other persons in attendance or otherwise participating in meetings of the Advisory Committee); (r) indemnification (including legal and any other costs incurred in connection with indemnifying any partner or other person pursuant to each Partnership's governing documents or otherwise and advancing costs incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to each Partnership's governing documents); (s) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs of discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (t) any annual, periodic, or special meeting if any, of the Partnerships' limited partners, and any other conference, meeting or webcast or other video conference with any partner(s) (in each case, including any costs associated with venue, set-up, room and board, dining, entertainment, gifts and mementos, honorarium, events or speakers and other meeting or conference-related costs), in each case to the extent incurred by the Partnerships, the General Partner or any other affiliate of the General Partner; (u) the termination, liquidation, winding up or dissolution of the Partnerships and any persons

owned directly or indirectly by the Partnerships (including portfolio companies) and related entities; (v) defaults by partners; (w) amendments to, and waivers, consents or approvals pursuant to the constituent documents of the Partnerships, the General Partner, the general partner of the General Partner, any entities owned directly or indirectly by the Partnerships (including portfolio companies), including the preparation, distribution and implementation thereof; (x) compliance with any law, rule or regulation, policy, directive or special measure (including in relation to privacy, data protection, know-your-customer, anti-money laundering, sanctions or antiterrorism considerations), including any legal, administrator, consulting or other third-party service provider costs related thereto, any regulatory costs of the General Partner or any of its affiliates incurred in connection with the operation of the Partnerships and any costs related to compliance with any environmental, social or governance or other investment considerations and policies applicable to the Partnerships, the General Partner and/or any of their respective affiliates and/or the validation or other confirmation of any payments made to the Partnerships or the General Partner (including as a result of any anti-money laundering laws, rules or regulations) and/or any litigation or governmental inquiry, investigation or proceeding involving the Partnerships, except to the extent such costs have been determined to be excluded from the indemnification provided for in each Partnership's governing documents, but excluding any regulatory and compliance expenses not related to the Partnerships or their activities (e.g., excluding the expenses of preparing FFL's Form ADV under the Advisers Act); (y) any litigation or governmental inquiry, investigation or proceeding including any costs of discovery related thereto and the amount of any judgements, settlements or fines paid in connection therewith, except to the extent such costs or amounts have been determined to be excluded from the indemnification provided for in each Partnership's governing documents; (z) unreimbursed costs incurred in connection with any transfer or proposed transfer of an interest in the Partnership contemplated in each Partnership's governing documents or any limited partner's name change, internal restructuring or change in trust, registered agent or custodian; (aa) any taxes, fees or other governmental charges levied against the Partnership and all costs incurred in connection with any tax audit, inquiry investigation, settlement or review of the Partnership (except to the extent that the Partnership is reimbursed therefor by a partner or such tax, fee or other governmental charge is treated as having been distributed to the partners pursuant to each Partnership's governing documents) and any costs of or related to the partnership representative of the Partnerships; (bb) unreimbursed and unpaid costs of the Operating Team Members in connection with the performance of operating activities; (cc) compliance or regulatory matters; (dd) attendance of any member, manager, shareholder, partner, director, officer, employee or affiliate of the General Partner, FFL or any of their respective affiliates at any trade conference related to deal sourcing or related to an existing or potential portfolio company, including any applicable registration costs and exhibition, sponsorship or other presentation costs; (ee) any travel (including, where appropriate as reasonably determined by the General Partner, the cost of using private aircraft or other private air travel at a cost not to exceed the cost of first class commercial airfare, car or ride sharing services, other modes of transportation, meals, lodging and entertainment) and other meals and entertainment relating to any of the

foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (ff) costs associated with a Partnership's restructuring; (gg) any of the items listed in clauses (a) - (ff) above relating to any investment, restructuring, taking public or private, disposition, transaction, project or other opportunity not consummated or otherwise not successful and/or that may have been offered to co-investors (including co-investors' proportionate share of any expenses related to an investment or other opportunity not consummated); and (hh) any other costs approved by the Advisory Committees.

Certain costs and expenses are borne by all the Partnerships and will be allocated to each Partnership by FFL in its good faith discretion or in accordance with the governing documents of each applicable Partnership. Certain costs and expenses are expected to be incurred by FFL, or its affiliates, and to be reimbursed by the Partnerships. To the extent certain costs and out-of-pocket expenses are reimbursed or borne by a portfolio company (or intermediate entity), a portion of such amounts will be indirectly borne by a Partnership via its ownership interest in such portfolio company. Each Partnership also generally will bear the costs of implementing, monitoring and complying with investment guidelines and directives relating to the Partnership's strategy, including in side letters relating thereto, and (where applicable) environmental, social, governance and other standards to which the relevant General Partner has committed in making investments on behalf of the Partnership. Additionally, subject to the governing documents, a Partnership typically will be certain unreimbursed expenses of portfolio companies and intermediate holding vehicles through which the Partnership invests.

Generally included in the expenses permitted to be borne by the Partnerships are the fees, costs, expenses, liabilities and obligations of legal counsel, consultants and/or other service providers to procure, develop, establish, review, revise, customize, upgrade and/or negotiate relationships relating to the foregoing items, which generally are expected to be significant. In certain cases, these or similar expenses are expected to be charged to portfolio companies, capitalized into the cost basis of a transaction or, to the extent necessary or desirable for operational, administrative, tax or other reasons, charged at the level of an intermediate holding company between the relevant Partnership and the portfolio company.

From time to time, certain limited partners (who may also be Operating Team Members) may provide deal due diligence or serve as consultants, advisers or employees of portfolio companies. Any compensation (including without limitation, salaries, additional investment rights and similar cash and non-cash compensation and incentives) received, directly or indirectly, by such limited partners in respect of such portfolio companies will not reduce the management fee otherwise payable by a Partnership to FFL and will typically be borne by the portfolio companies. Therefore, all or a portion of such amounts will indirectly be borne by a Partnership and not by FFL via the Partnership's ownership interest in such portfolio company.

See Item 14 for a discussion of Fee Income.

Detailed information regarding the fees and expenses charged to the Partnerships is provided in each Partnership's governing documents.

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

Each Partnership's items of income, gain and loss are initially allocated among the partners of the Partnership in proportion to their ownership interest. To the extent that limited partners in a Partnership, with the exception of the Co-investment Funds and Designee Funds, have combined profits from the Partnership in excess of the priority allocation, if any, the Partnership is subject to carried interest of 20% of investment income and 20% of profits on distributions derived from the disposition of investments or securities, subject to an internal rate of return hurdle.

Detailed information regarding the carried interest arrangements borne by the Partnerships is provided in each Partnership's governing documents.

FFL is permitted to also offer co-investment opportunities, in its sole discretion, with or without fees or carried interest, as further described in Item 11.

Carried interest arrangements may create an incentive for the General Partner to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such carried interest was not allocated to the General Partner. FFL has in place policies and procedures to address these and other conflicts, including policies and procedures designed to ensure allocation of trades, securities and investment opportunities among Partnerships on a fair and equitable basis and in accordance with each Partnership's investment guidelines and governing documents. See Item 11 for a description of these policies and procedures.

### **Item 7: Types of Clients**

Currently, FFL provides investment management services to five primary Private Equity Partnerships, each a "Primary Fund" together with their related "side funds" or "parallel entities" and alternative investment funds, and two Co-investment Funds. Each "side fund" to the Primary Fund generally invests side-by-side, on a pro rata basis, with its Primary Fund. Each Co-investment Fund invests in a company that is also an investment of the Primary Fund and its side funds. Each Partnership operates as a pooled investment vehicle intended to provide management expertise and other advantages to its portfolio company investments. The minimum capital commitment for a limited partner of each Primary Fund and side fund is \$10,000,000; however, FFL maintains discretion to accept less than the minimum investment threshold. FFL maintains discretion over minimum capital commitments of the Co-investment Funds.

The Partnerships expect from time to time to enter into separate agreements, commonly referred to as “side letters”, with certain investors to grant certain rights or allow such investors to invest on different terms than those specifically described in the offering documents. Under certain circumstances, these agreements are expected to create preferences or priorities for such investors with respect to other limited partners.

Investors are required to make certain representations when investing in a Partnership, including but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment, and (iii) they have the ability to bear the economic risk of an investment in the Partnership. Each investor is furnished with a copy of the partnership agreement and other governing documents.

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

### Investment Strategy and Process

Each Partnership’s investment objective is to achieve long-term capital appreciation primarily through investments in U.S. middle market companies in which the Partnerships will generally have influence on the management, operations and strategic direction of the business. FFL will typically target investments ranging in size from \$50 million to \$300 million and typically expects to hold investments for four to six years.

FFL primarily focuses on financing buyouts, growth initiatives and recapitalizations of U.S. middle market companies.

FFL’s professionals have diverse, complementary backgrounds as investment professionals, investment bankers, strategic consultants, and operating executives. FFL believes that the combination of these backgrounds results in comprehensive insights into the attractive attributes, risks and value creation levers of portfolio companies. Furthermore, the Firm believes that the depth and breadth of the FFL team’s experience gives it a differentiated ability to make fine judgments in evaluating industries and management teams of prospective investments.

In addition to a middle market focus and a team-oriented approach, FFL’s investment strategy includes: (i) sector-based proactive deal sourcing; (ii) collaborative partnerships with excellent portfolio management teams; (iii) an emphasis on transactions with limited or no formal process where FFL’s reputation and relationships provide a competitive advantage; (iv) an intense due diligence process with a focus on the inherent attractiveness of a business; (v) creative and flexible transaction structuring; (vi) value creation through application of the Firm’s strategic, financial and operating expertise; and (vii) a disciplined re-underwriting process with careful consideration of exit timing.

## Associated Risks

**All investing involves a risk of loss and the investment strategy pursued by the Advisor could lose money over short or even long periods.** Key risk areas inherent to investing in portfolio companies include operational, investment and market risks. FFL seeks to mitigate these risks through a variety of mechanisms, including operational due diligence, risk modeling, and appropriate investment structuring.

The descriptions contained below are a brief overview of different associated risks related to the Advisor's investment strategy; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Partnerships. **The private placement memoranda of the Partnerships describe in greater detail the risks associated with an investment in the Partnerships.**

### *Lack of Diversification; Risk of Loss of Capital*

Since a Partnership may only make a limited number of investments, and since a Partnership's investments generally will involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to the investors. No guarantee or representation is made that a Partnership will achieve its investment objectives or that invested capital will be returned.

### *Non-U.S. Investments*

Although FFL is primarily focused on investing in U.S. companies, a portion of the Partnership's capital may be invested in businesses that are based outside of the United States and Canada. Such investments will involve risks not typically associated with investments in the securities of U.S. companies. For instance, investments in non-U.S. businesses (i) may require significant government approvals under corporate, securities, exchange control, non-U.S. investment and other similar laws and regulations; (ii) may require financing and structuring alternatives and exit strategies that differ substantially from those commonly used in the United States; and (iii) will expose the Partnership to potential losses arising from changes in foreign currency exchange rates. The foregoing factors may increase transaction costs and adversely impact the value of a Partnership's investments in non-U.S. portfolio companies.

### *Competitive Nature of the Partnership's Business*

The business of the Partnerships is highly competitive. FFL will be competing for investment against other groups, including direct investment firms, merchant banks and industrial groups, and FFL may be unable to identify a sufficient number of attractive investment opportunities for each Partnership to meet its investment objectives. Other investors may make competing offers for investment opportunities that are identified, and even after an agreement in principle has been reached with the board of directors or owners of an acquisition target, consummating the transaction is subject to a myriad of

uncertainties, only some of which are foreseeable or within the control of FFL. To the extent that the Partnerships encounter competition for investments, yields to investors may be reduced.

#### *No Right to Control the Partnership's Operations*

Investors holding limited partnership interests have no opportunity to control the day-to-day operations of the Partnerships, including investment and disposition decisions. In order to safeguard their limited liability for the liabilities and obligations of the Partnership, such investors must rely entirely on FFL to conduct and manage, respectively, the affairs of each Partnership.

#### *Risk Arising from Provision of Managerial Assistance*

The Partnerships will typically designate directors to serve on the boards of directors of portfolio companies. The designation of representatives and other measures contemplated could expose the assets of the Partnership to claims by a portfolio company, its security holders and its creditors, including claims that the Partnership is a controlling person and thus is liable for securities laws violations of a portfolio company. These measures also could (i) result in certain liabilities in the event of the bankruptcy or reorganization of a portfolio company; (ii) result in claims against the Partnership if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles; and (iii) expose the Partnership to claims that it has interfered in management to the detriment of a portfolio company. While FFL intends to manage each Partnership in a way that will minimize the exposure to these risks, the possibility of successful claims cannot be precluded.

#### *Risks Upon Disposition of Investments*

In connection with the disposition of an investment in a portfolio company, each Partnership may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business, or may be responsible for the contents of disclosure documents under applicable securities laws. The Partnership may also be required to indemnify the purchasers or underwriters in such transaction to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities that might ultimately have to be funded by the investors. Each partnership agreement contains provisions to the effect that if there is any such claim in respect of a portfolio company, it will be funded by the investors to the extent that they have received distributions from the Partnership, subject to certain limitations.

*Risk of Minority Positions; Lack of Unilateral Control*

If, as part of its overall investment strategy, the Partnership elects at any time to hold a minority position in a portfolio company, it may not be able to exercise control over such companies. Even if a Partnership 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 the Partnership invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, the relevant portfolio company 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 such Partnership or its limited partners. Such third parties may be in a position to take action contrary to the Partnership's business, tax or other interests, and the Partnership may not be in a position to limit such contrary actions or otherwise protect the value of its investment.

*Follow-On Investments*

The Partnership may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in such portfolio companies. There can be no assurance that each Partnership will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision by the Partnership not to make follow-on investments or its inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish the Partnership's ability to influence the portfolio company's future development.

*Borrowings and Credit Support*

The Partnerships are permitted, from time to time, to the extent permitted by their governing documents, to borrow money or otherwise utilize leverage to fund acquisitions, bridge financing, or distributions in anticipation of proceeds, to pay Partnership expenses, including management fees, and to reimburse FFL for expenses incurred on behalf of the Partnership. It is expected that any such borrowings will be secured primarily by the commitments of the Partnership's investors. The Partnerships bear costs relating to the establishment and/or maintenance of a subscription line of credit and there can be no assurance that the benefits to limited partners will be commensurate with such costs. Conflicts of interest have the potential to arise in that the use of Partnership-level borrowing typically delays the need for limited partners to make contributions, which in certain circumstances enhances the relevant Partnership'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 Partnerships), 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 Partnership nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

In addition, a Partnership's investments are expected to include portfolio investments the capital structure of which may have significant leverage. Although borrowings by a Partnership may enhance overall returns, they may further diminish returns (or increase losses) to the extent overall returns are less than a Partnership's cost of funds. The extent to which each Partnership uses leverage generally results in important consequences including, but not limited to: (i) use of cash flow for debt service and related costs and expenses rather than for additional investments, (ii) limitations on the flexibility of the Partnership to sell assets that are pledged to secure the indebtedness, (iii) fees, (iv) increased interest expense if interest rate levels were to increase and (v) limiting the Partnership's ability to use its interests as collateral for other indebtedness. Additionally, each Partnership may make contingent funding commitments and other credit support to its portfolio companies. There can be no assurance that the Partnership will have sufficient cash flow to meet its debt service obligations. As a result, the Partnership's exposure to losses may be increased due to the illiquidity of its investments generally.

#### *General Economic Conditions*

General economic conditions may affect each Partnership's activities. Interest rates, general levels of economic activity, the price of securities, the availability of financing and participation by other investors in the financial markets may affect the value and number of investments made by the Partnership or considered for prospective investment. Economic conditions can have significant impact on the performance of each Partnership's investments.

Economic and market instability can negatively affect a wide range of financial institutions and markets, asset classes and sectors. The ability to successfully make and realize investments depends not only on the portfolio companies and their historical results and prospects, but also on political, market and economic conditions. The trading market for the securities of any portfolio company may not be sufficiently liquid to enable a Partnership to sell these securities when the General Partner believes it is most advantageous to do so, or without adversely affecting the prevailing price where a trading market has developed for the interest. Volatility in market or economic conditions, as well as local, regional or global events such as an outbreak or escalation of major hostilities, declarations of war, acts of terrorism, the spread of infectious illness or other public health issue, or other substantial national or international calamities or emergencies could have a material adverse effect upon a Partnership and the portfolio companies. In addition, tight credit markets may hinder the ability of portfolio companies to refinance debt securities or sell new securities in the public and private debt markets or otherwise. Prospective investors should consider the long-term nature of an investment in a Partnership and the potential exposure to such market risks over the term of the Partnership before investing in the Partnership.

### *Certain Regulatory Considerations*

The Partnerships expect to make investments in a number of different industries, some of which are or may become subject to regulation by one or more U.S. federal agencies and by various agencies of the states, localities, and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of portfolio companies that operate in these industries. FFL cannot predict whether new legislation or regulation governing those industries will be enacted by legislative bodies or governmental agencies, nor can it predict what effect such legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on each Partnership's investment performance.

### *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 FFL or the Partnerships from entering into transactions with certain individuals or jurisdictions. The U.S. 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 remedies relating to one Partnership's acquisition of a portfolio company may require one or more other Partnerships to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Partnership may be adversely affected because of FFL'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 Partnership 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 FFL or 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 Partnership will be able to participate in all potential investment opportunities that fall within its investment objectives.

### *Bankruptcy of Portfolio Companies*

The Partnerships may make investments in portfolio companies that experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state laws in connection with such bankruptcy proceedings could operate to the detriment of the Partnerships. There is also a risk that a court may subordinate each Partnership's investment to various creditors or require the Partnerships to return amounts previously paid by a portfolio company that becomes insolvent or files for bankruptcy, a risk that could increase if the Partnerships have management rights in such portfolio company.

### *Communications and Media Regulatory Considerations*

Certain communications and media companies are subject to extensive U.S. federal, state and local regulatory requirements. Certain regulations that are intended to limit the concentration of ownership and control of communications and media companies may prevent the Partnerships from making certain investments that they would otherwise make. Other regulations may cause the Partnerships to incur substantial additional costs or lengthy delays in connection with the completion or disposition of such investments. In general, investors will be subject to special "insulating" provisions with respect to such investments.

### *Unspecified Use of Proceeds*

Purchasers of limited partnership interests will not have an opportunity to evaluate for themselves the relevant economic, financial, and other information regarding the investments to be made by the Partnership and, accordingly, will be dependent upon the judgment and ability of FFL in investing and managing the capital of the Partnership. No assurance can be given that the Partnership will be successful in obtaining suitable investments, or that if such investments are made, the objectives of each Partnership will be achieved.

### *Reliance on Management of Portfolio Companies*

While it is generally the intent of FFL to invest in companies with proven operating management in place, there can be no assurance that such management will be in place at the time of investment or that such management will continue to operate successfully. Although FFL will monitor the performance of each investment, the Partnerships will rely upon management to operate the portfolio companies on a day-to-day basis.

### *Risks in Effecting Operating Improvements*

In some cases, the success of each Partnership's investment strategy will depend, in part, on the ability of the Partnership to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty.

There can be no assurance that the Partnerships will be able to identify or implement such restructuring programs and improvements successfully.

### *Investments in Less Established Companies*

The Partnerships may invest a portion of its assets in the securities of less established companies. Investments in such growth companies may involve greater risks than are generally associated with investments in more established companies. To the extent there is any public market for the securities held by the Partnership, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and are, therefore, often more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. There can be no assurance that any such losses will be offset by gains (if any) realized on each Partnership's other investments. In addition, less mature companies could be deemed to be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which each Partnership invests, the Partnership may suffer a partial or total loss of capital invested in that company.

The Partnerships may invest in portfolio companies that: (a) have little or no operating history; (b) offer services or products that are not yet ready to be marketed; (c) are operating at a loss or have significant fluctuations in operating results; (d) are engaged in a rapidly changing business; or (e) need substantial additional capital to set up internal infrastructure, hire management and personnel, support expansion or achieve or maintain a competitive position. Such portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive capabilities and a larger number of qualified managerial and technical personnel.

### *Environmental Matters*

The Partnerships may invest in portfolio companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements, and there can be no guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or potential investments. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not be required to incur additional unforeseen environmental expenditures. Moreover, failure to comply with any such requirements could have a material adverse effect on portfolio companies, and there can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and

permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims.

### *Regulatory Approvals*

Each Partnership intends to invest in portfolio companies such Partnership believes have obtained all necessary regulatory approvals to conduct their respective businesses. In addition, the Partnerships may require the consent or approval of applicable regulatory authorities in order to acquire or hold particular portfolio companies. A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such portfolio companies. Governments have considerable discretion in implementing regulations that could impact a portfolio company's business, and because the portfolio company may provide basic, everyday services, and face limited competition, governments may be influenced by political considerations and may make decisions that adversely affect a portfolio company's business. Moreover, additional regulatory approvals, including, without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in a portfolio company's customer(s) or for other reasons. There can be no assurance that a portfolio company will be able (a) to obtain all required regulatory approvals that it does not yet have or that it may require in the future, (b) to obtain any necessary modifications to existing regulatory approvals or (c) to maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay in satisfying or failure to satisfy any regulatory conditions or other applicable requirements could prevent operation of a facility or sales to third parties or could result in additional costs to a portfolio company.

Where a portfolio company is the sole or predominant service provider in its service area and provides services that are essential to the community, it may be subject to rate regulation that will determine the prices it may charge. It may be subject to unfavorable price determinations that may be final with no right of appeal or that, despite a right of appeal, could result in its profits being negatively affected.

### *Defined Benefit Pension Liabilities*

A recent court decision found that, in certain circumstances, an investment fund could be treated as a "trade or business" for purposes of determining pension liability under ERISA. Therefore, where an investment fund owns 80% or more (or possibly, under certain circumstances, less than 80%) of a portfolio company, such investment fund (and any other 80%-owned portfolio companies of such investment 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. The Partnership may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where the Partnership may own an 80% or greater interest in such a portfolio

company. If the Partnership (or other 80%-owned portfolio companies of the Partnership) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Partnership and the companies in which the Partnership invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under ERISA, as in effect as of the date of this submission, which may change in the future as the case law and guidance develops.

#### *Investments with Third Parties in Partnerships and Other Entities*

The Partnerships may co-invest with third parties through consortiums of private equity investors, partnerships, joint ventures or other similar arrangements. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial, legal or regulatory difficulties, resulting in a negative impact on such investment; may have economic or business interests or goals that are inconsistent with those of the Partnerships; or may be in a position to take (or block) action in a manner contrary to each Partnership's investment objectives. In addition, the Partnerships may in certain circumstances be liable for the actions of its third-party co-investors.

#### *Uncertainty of Financial Projections*

FFL generally will agree to the pricing of transactions and establish the capital structure of portfolio companies on the basis of financial projections for such portfolio companies. Projected operating results normally will be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

#### *Investments Longer than Term*

The Partnerships may make investments that may not be advantageously disposed of prior to the date each Partnership will be dissolved, either by expiration of the Partnership's term or otherwise. Although FFL expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the Firm has a limited ability to extend the term of each Partnership, the Partnership may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, there can be no assurances with respect to the time frame in which the winding-up and the final distribution of proceeds to the investors will occur.

#### *Leverage*

Certain of the Partnerships' investments may be in businesses with high levels of debt or may be investments in leveraged buyouts; leveraged buyouts by their nature require

companies to undertake a high ratio of fixed charges to available income. Leveraged investments are inherently more sensitive to declines in revenues and to increases in expenses.

#### *Material Non-Public Information*

From time to time, FFL, their affiliates, and/or their directors, officers and employees may come into possession of material non-public information concerning specific companies. Under applicable securities laws, this may limit FFL's flexibility to buy or sell portfolio securities issued by such companies. A Partnership's investment flexibility may be constrained as a consequence of FFL's inability to use such information for investment purposes. Alternatively, FFL and their affiliates may decline to receive material non-public information that it is entitled to receive on behalf of a Partnership, in order to avoid investment restrictions on the Partnership, even though access to such information might have been advantageous to the Partnership and other market participants are in possession of such information.

#### *Limited Access to Information*

Limited partners' rights to information regarding the Partnerships, the relevant General Partner or FFL generally will be specified, and in many cases strictly limited, by their governing documents. In particular, it is anticipated that each General Partner and its affiliates will obtain certain types of material information from or relating to a Partnership'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 FFL's control. Decisions by FFL 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 Partnership 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 FFL and its performance. Additionally, it is anticipated that limited partners that designate representatives to participate on a Partnership's Advisory Committee generally may, by virtue of such participation, have more or earlier information about a Partnership 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 Partnership succeeds in asserting confidentiality for requested documents and other materials, and FFL reserves the right to withhold certain information from investors subject to such laws for reasons relating to FFL's public reputation, business strategy or other reasons.

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

FFL's, the Partnerships' and its portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures,

computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although FFL has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, FFL, the Partnerships and/or a portfolio company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in FFL's, the Partnerships' and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm FFL's, the Partnerships' and/or a portfolio company's reputation, subject any such entity and its respective affiliates to legal claims or otherwise affect their business and financial performance.

#### *Dilution from Subsequent Closings*

Limited partners subscribing for Partnership interests at closings subsequent to the Partnership's initial closing will generally participate in existing investments, diluting the interest of existing limited partners therein. Although such limited partners will contribute their pro rata share of previously made drawdowns (plus additional amounts thereon), there can be no assurance that such contribution will reflect the fair value of existing investments at the time such limited partners subscribe for partnership interests.

#### *Public Health Emergencies; COVID-19*

Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, ebola and the current outbreak of 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 in ways that are impossible to predict, all of which may result in significant losses to the Partnership.

The ongoing COVID-19 crisis and any other public health emergency could have a significant adverse impact and result in significant losses to the Partnership. The extent of the impact on the Partnership's and its portfolio companies' operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of the Partnership to source, diligence and execute new investments and to manage, finance and exit investments in the future, and governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Partnership intends to pursue, all of which could adversely affect the Partnership's ability

to fulfil its investment objectives. They may also impair the ability of portfolio companies 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 Partnership, its portfolio companies, the General Partner and FFL 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 factors related to a public health emergency, 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.

## Item 9: Disciplinary Information

On January 17, 2017, FFL consented to the entry of an administrative order by the SEC finding that FFL violated Section 206(4) of the Advisers Act and Rule 206(4)-5 thereunder, also known as the SEC's "pay-to-play" rule (the "Rule"). In the consent order, FFL was not required to and did not admit or deny any findings by the SEC, but agreed to pay a \$75,000 fine and to cease and desist any violations or future violations of the Rule. FFL paid the fine and no amount was borne by the Partnerships.

The Rule prohibits an investment adviser from providing investment advisory services for compensation to a government entity client or investor for two years after the adviser or certain of its executives or employees makes a campaign contribution to an elected official or candidate who can influence the selection of the investment adviser. The SEC found that, in 2012, an FFL employee covered by the Rule made a personal contribution to the gubernatorial campaign of a state government official. At that time, the state's pension plan was a limited partner in a Partnership. The pension plan made the decision to commit to the Partnership in 2008, approximately four years prior to the contribution, and made no commitments after the contribution. The Rule does not require a showing of intent to influence an elected official or candidate, and the SEC did not find any intent to influence an elected official or candidate in connection with this matter.

## Item 10: Other Financial Industry Activities and Affiliations

FFL organizes and sponsors the Partnerships, which are pooled investment vehicles. FFL is under common control with each Partnership's General Partner. FFL provides certain management services to the Partnerships but the activities of the Partnerships remain the ultimate responsibility of each Partnership's General Partner and all decisions relating to the selection and disposition of the Partnership's investments are made exclusively by each Partnership's General Partner.

As with other private equity fund sponsors, the Firm and its employees have developed many relationships with third parties that have the potential to raise conflicts of interest. Such third parties include, but are not limited to, investment bankers, brokers, finders (including executive finders and portfolio company finders), executives, consultants, professional advisors (such as attorneys and accountants), private equity investors, lenders, former employees and current and former directors, officers and employees of portfolio companies, as well as certain family members or close contacts of these persons. In other circumstances, these third parties are expected to provide personal banking, private wealth management or lending arrangements (including lending arrangements with respect to personal investments in or through FFL entities) and professional advice to FFL personnel and their estate planning vehicles. Certain third parties are expected to introduce investment opportunities, arrange for, or facilitate the financing, the purchase or recapitalization of potential portfolio companies, introduce portfolio companies to potential acquisition or merger candidates, provide investment banking, consulting or advisory services to the Firm, the Partnerships or portfolio companies, invest in the Partnerships or provide other significant business or investment services to the Firm, the Partnerships or portfolio companies. Such third parties are expected to receive compensation from the Firm, the Partnerships or portfolio companies for providing these services, which compensation and services are intended to be on an arm's length basis.

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

Pursuant to Rule 204A-1 of the Advisers Act, FFL has adopted a written Code of Ethics (the "Code"). The Code requires FFL and its affiliates and any partner or employee of FFL and its affiliates, or another designated individual ("Covered Persons") to act in the Partnerships' best interests, abide by all applicable regulations, and avoid any action that is, or could even appear to be, legally or ethically improper.

FFL forbids the illegal use of material non-public information in trading securities, regardless of whether the trades are executed for client accounts or for a personal securities account. FFL places strict limitations on the purchase or sale of securities that are held by the Partnerships; requires pre-clearance before a Covered Person purchases an IPO or limited offering (i.e., private placement); requires periodic reporting of Covered Persons' personal securities transactions and all holdings; and requires prompt internal reporting of Code violations. FFL endeavors to maintain current and accurate records of all personal securities accounts of its Covered Persons in an effort to monitor all such activity. A copy of FFL's Code is available upon request.

### Other Conflicts of Interest

Certain conflicts of interest are inherent in investing in portfolio companies and managing the Partnerships. The descriptions contained below are a brief overview of different conflicts of interest related to the Advisor's operations; however, it is not intended to serve

as an exhaustive list or a comprehensive description of all conflicts that may arise in connection with the management and operations of the Partnerships.

#### *Risk of New Fund*

FFL could organize or invest from a new fund substantially similar to the existing Partnerships once a specified percentage of the capital commitments have been invested or committed to be invested (including amounts reserved to make follow-on investments in existing portfolio companies or to provide for Partnership expenses), or at the end of each Partnership's investment period.

#### *Management of the Partnership*

FFL professionals expect to spend a significant portion of their business time on matters unrelated to the Partnerships, including forming and managing new funds with different investment objectives, participating on the boards of public companies and not-for-profit institutions and certain other business activities. As a result, conflicts of interest will arise, including with respect to allocating management time, services and functions between affiliates; and the acquisition from time to time by the FFL professionals and their affiliates of confidential information that they will not be able to use for the benefit of each Partnership.

FFL professionals expect from time to time to serve as board members of public companies or not-for-profit institutions and will be called upon to make recommendations as to the deployment of investable assets on behalf of the company or institution and as a result, conflicts of interest are expected to arise. FFL professionals will seek to avoid such conflicts by taking actions necessary to eliminate the conflicts; such actions could include but are not limited to, the professional recusing him/herself from participating in the decision to make such recommendations.

#### *Portfolio Company Representation*

Employees of the Advisor expect from time to time to serve as directors and officers of certain portfolio companies and, in that capacity, will be required to make decisions that consider the best interests of such portfolio companies and their respective shareholders. In certain circumstances, for example in situations involving bankruptcy or near-insolvency of a portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the Partnership, and vice versa. Accordingly, in these situations, there will be conflicts of interest between such individual's duties as an employee of the Advisor and such individual's duties as a director or officer of such portfolio company.

The Partnerships could invest in portfolio companies engaged in the investment management business. In certain circumstances, employees of the Advisor that serve as directors and officers of certain portfolio companies expect, in that capacity, to be required to make recommendations and/or make decisions as to the selection of investment advisors

and/or investment fund managers and as a result, conflicts of interest are expected to arise. FFL professionals will seek to avoid such conflicts by taking actions necessary to eliminate the conflict.

See Item 14 for a discussion of fees and other compensation paid by portfolio companies.

#### *Relationship with Affiliated Funds*

FFL manages multiple Partnerships which invest primarily in private securities. Each Partnership expects to invest in portfolio companies in which one or more other Partnerships have also invested, either concurrently with such Partnerships or subsequent or prior to the investment by such Partnerships. Allocation of available investment opportunities between the Partnerships are subject to certain limitations as set forth in the governing documents and will be made by FFL in its good faith discretion in accordance with its allocation policy in effect at such time and, in certain circumstances, in consultation with the Advisory Committee for each Partnership. Factors relevant to such allocations may include, but are not limited to, investment restrictions and objectives (including those set forth in each relevant Partnership's governing documents, where applicable), strategy, risk profile, time horizon, asset composition, diversification limits, cash level (if any), applicable tax and regulatory considerations, life cycle and structure.

The appropriate allocation among the Partnerships of expenses and fees generated in the course of evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by FFL in its good faith discretion and in accordance with the governing documents of each of the Partnerships.

#### *Co-Investments*

FFL expects to offer co-investment opportunities in its sole discretion, is not expected to offer co-investments with respect to all Partnership investments, and may allocate any such opportunities in its sole discretion after FFL has determined, in good faith, that an appropriate portion of the investment opportunity has been taken by the Partnership(s) in accordance with the governing documents of such Partnership(s). FFL may offer a co-investment opportunity based on a variety of factors, including, for example, on the basis of the size of investor commitments to one or more of the Partnerships, investor decision-making process and timing, investor preferred investment size, or the nature and extent to which the investor provides services to FFL. Although a prospective co-investor's willingness to invest in future Partnerships are expected to be considered by FFL, it will not be the sole determining factor considered by FFL in identifying co-investors. In addition, FFL is not required to allocate co-investments to any limited partner in priority to strategic partners, investors, consultants, advisors, Operating Team Members or other third parties or at all. FFL may also allocate co-investment opportunities to one or more limited partners to the exclusion of other limited partners, and the consideration of factors such as those

set forth above may result in certain limited partners receiving multiple opportunities to co-invest, while other limited partners who are interested in co-investments receive none. A Partnership may provide interim financing for the purpose of bridging a potential co-investment (but only to the extent that the Partnership would have been permitted to make such investment). In such instances, FFL is authorized, where appropriate and in FFL's sole discretion, to charge interest on the purchase to the co-investor or co-investment vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Partnership for related costs. Limited partners are not required to participate in co-investments offered by FFL, if any. There can be no assurances that any amount of any co-investment opportunity will be made available in connection with a Partnership. The performance of co-investments is not aggregated with that of a Partnership, including for purposes of determining FFL's carried interest or management fees. FFL may or may not seek expense reimbursement or charge management fees, one-time funding or administrative fees, and/or carried interest in respect of co-investments, (as well as other fees relating to the structuring and administration of co-investment arrangements), and fee income attributable to co-investments may or may not be shared by FFL with co-investors, in each case as FFL determines in its sole discretion. FFL's allocation of any co-investment opportunities may benefit FFL as a result of, among other things, the receipt of any such fees or carried interest or commitments by a co-investor to any other Partnership. FFL may in its sole discretion structure any co-investment opportunity such that the proposed participants in such co-investment opportunity do not bear any broken deal expenses, with the result that a Partnership will bear all such broken deal expenses; provided, if so structured, that such participants will not be entitled to receive any break-up or similar fee income, if any, that may be earned with respect to such transaction. As a general matter, broken deal expenses are allocated among Partnership investors regardless of whether any individual investor negotiated for an elective or automatic contractual right that would have excused them from participating in the investment. In most cases FFL does not expect that proposed participants in co-investments will bear broken deal expenses. Similarly, in the event that an investment opportunity for which a co-investment vehicle was not formed and/or for which prospective co-investment participants were not formally selected, but for which, in the judgment of FFL, a co-investment was believed necessary or would otherwise have been beneficial and ultimately not consummated, all broken deal expenses relating to such investment opportunity will be borne by the relevant Partnership(s), and not by any potential co-investors, that were to have participated in such investment opportunity. Consequently, a Partnership generally will bear all such broken deal expenses (and in such case will be entitled to any such break-up or similar fee income, although in certain instances a Partnership will bear all broken deal expenses without the benefit of any break-up or similar fees). To the extent the Partnership makes use of a credit facility to invest in a portfolio company or pay related expenses, it generally will not be reimbursed separately by co-investors for use of the facility.

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### *Conflicts among or with Certain Limited Partners*

Investors are expected to include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors could have conflicting investment, tax and other interests with respect to their investments in the Partnership. As a consequence, conflicts of interest are expected to arise in connection with decisions made by FFL, including but not limited to the nature or structuring of investments, which may be more beneficial for one investor than for another investor. In selecting and structuring investments appropriate for the Partnership, FFL will consider the investment and tax objectives of the Partnership and the investors as a whole, rather than the investment, tax or other objectives of any investor individually.

From time to time, certain limited partners or potential limited partners could provide loans or other financing in connection with an investment transaction. As a consequence, conflicts of interest are expected to arise in connection with decisions made by FFL with respect to determining the terms of the loan or other financing and engaging such limited partner to perform any other services that may be offered by such limited partner to the Partnerships or portfolio companies. While these relationships could have a bearing on FFL's decisions regarding engaging such limited partners, in all cases FFL will act in what it believes in good faith to be not contrary to the interests of the Partnerships.

### *Investment Management Sector Focus*

Certain Partnerships could invest in portfolio companies that are engaged in the investment management business. In seeking investment opportunities in the investment management sector, the Advisor is expected to be faced with a variety of potential conflicts of interest (including but not limited to conflicts with a portfolio company of certain Partnerships). Any such conflict will be resolved as required by the Partnerships' governing documents or otherwise in a fair and equitable manner as determined by FFL.

### *Portfolio Company Relationships*

A Partnership's portfolio companies are or will be counterparties to or participants in agreements, transactions or other arrangements with portfolio companies of other Partnerships, that, although FFL determines to be consistent with the requirements of such Partnerships' governing documents, would not have otherwise been entered into but for the affiliation with FFL. In certain circumstances, FFL expects to recommend products or services of one portfolio company to another. Potential conflicts of interest arise in making such recommendations, as FFL has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. In most cases, the relevant Partnership will not consent, participate in the negotiations or be directly involved in such arrangements. FFL may be a party to and benefit from discounted pricing under such agreements, transactions or arrangements, which are discounted due to scale. For example, under third party vendor agreements regarding a group purchasing program

between certain of its portfolio companies, FFL receives substantially the same, but no better, pricing than its portfolio companies that participate in the program. Any such discounts received by FFL in connection with such agreements, transactions or arrangements will not reduce the management fees described herein. Discounted prices or better terms offered to FFL, any other portfolio company or third parties may affect the returns of a portfolio company.

#### *Recommendations of and Relationships with Service Providers*

A portfolio company typically will reimburse FFL or service providers retained at FFL's discretion for expenses (including without limitation travel, accommodations, compensation and expenses) incurred by FFL or such service providers in connection with the performance of services for such portfolio company. This subjects FFL and its affiliates to conflicts of interest because the Partnerships generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time may be substantial. FFL determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Partnership, any fee paid or expense reimbursed to FFL or such service providers generally is subject to: agreements with or review by sellers, buyers and management teams; the review and supervision of the boards of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

In connection with its services to the Partnerships and their investments, FFL, its affiliates and personnel expect to receive the benefit of certain tangible and intangible benefits. For example, in the course of FFL's operations, including research, due diligence, investment monitoring, operational improvements and investment activities, FFL and its personnel expect to receive and benefit from information, "know-how," experience, analysis and data relating to Partnership or portfolio company (as applicable) operations, terms, trends, market demands, customers, vendors and other metrics (collectively, "FFL Information"). In many cases, FFL Information will include tools, procedures and resources developed by FFL to organize or systematize FFL Information for ongoing or future use. Although FFL expects its Partnerships and their portfolio companies generally to benefit from FFL's possession of FFL Information, it is possible that any benefits will be experienced solely by other or future Partnerships or portfolio companies and not by the Partnership or portfolio company from which FFL Information was originally received. FFL Information will be the sole intellectual property of FFL and solely for the use of FFL. FFL reserves the right to use, share, license, sell or monetize FFL Information, without offset to management fees, and the relevant Partnership or portfolio company will not receive any financial or other benefit of such use, sharing, licensure, sale or monetization. Additionally, expenses relating to the Partnerships 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 Partnerships or their respective investors; no such rewards will offset management fees.

FFL generally exercises its discretion to recommend to a Partnership or to a portfolio company thereof that it contracts for services with (i) a related person of FFL (which may include a portfolio company of such Partnership), (ii) an entity with which FFL or its affiliates or current or former members of their personnel has a relationship or from which FFL or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. This discretion subjects FFL to conflicts of interest, because although FFL selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Partnership, FFL may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that FFL, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Partnerships or FFL), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not FFL has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

#### *Transactions Between Partnerships*

On occasion, the Firm may determine that it is in the best interests of a particular Partnership and another Partnership that the particular Partnership should invest in an existing portfolio company of another Partnership, such as when an opportunity exists for a follow-on investment in an existing portfolio company at a time when the Firm determines that the Partnership currently invested in such portfolio company does not have sufficient capital to participate in the follow-on investment or that it would not be in the best interests of such Partnership to make the follow-on investment. In addition, the Firm may determine that it is in the best interests of a particular Partnership and another Partnership to cause a particular Partnership to acquire an interest in a portfolio company from such other Partnership, such as when one Partnership provides bridge capital for another Partnership in connection with a co-investment between the Partnerships in a portfolio company. Such transactions raise potential conflicts of interest, including where the investment of one Partnership supports the value of portfolio companies owned by another Partnership. 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 a transaction is entered into represents what ultimately would be the underlying investment's fair value. FFL may seek to mitigate such conflicts by seeking a valuation or the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price). In certain

circumstances, FFL may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Partnership under then-current market conditions. Such transactions are also subject to certain limitations as set forth in the governing documents of each Partnership, including, in certain circumstances, a requirement that the Firm consult with or receive the approval of the Advisory Committee for each Partnership. FFL intends that any such transactions will be conducted in a manner that it believes in good faith to be fair and equitable to each Partnership under the circumstances, including a consideration of the potential present and future benefits with respect to each Partnership.

#### *Cross-Guarantees Among Partnerships*

In certain circumstances lenders and other market parties negotiate for the right to face only select entities which may result in a single Partnership being solely liable for other Partnerships' share of the relevant obligation and/or joint and several liability among Partnerships. In each such case, FFL intends to cause the relevant other Partnerships to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Partnership undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

#### *Transfers of Fund Interests*

In certain cases, FFL will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Partnership's governing documents, no obligation) to identify one or more secondary transferees of interests in a Partnership. In such cases, FFL will not receive compensation for identifying such transferees, and 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 Partnership interests should be offered to one or more existing limited partners.

#### *Multiple Partnerships Investing in a Single Portfolio Company*

From time to time, a Partnership is expected to acquire securities or other instruments of a portfolio company that are senior, junior or identical to securities or financial instruments of the same issuer held by another Partnership. The interests of the Partnerships may not always be aligned, and actions taken for one Partnership may be adverse to another Partnership. Investments by multiple Partnerships in securities or other instruments of the same portfolio company are subject to certain limitations as set forth in the governing documents of each Partnership, including, in certain circumstances, a requirement that the Firm consult with or receive the approval of the Advisory Committee for each Partnership.

Where multiple Partnerships invest in the same portfolio company, whether at the same, different or overlapping levels of such portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment.

Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions, including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring, may raise conflicts of interest, particularly with respect to Partnerships that have invested in different securities or financial instruments within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Partnerships may or may not provide such additional capital, and if provided, each Partnership generally will supply such additional capital in such amounts, if any, as determined by its General Partner in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, FFL may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one Partnership versus another Partnership (e.g., the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). If a Partnership enters into any indebtedness with another Partnership on a joint and several basis, each such Partnership's General Partner is expected to enter into one or more agreements that provide such Partnership with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, FFL may be subject to conflicts of interest, for example between a Partnership with a reimbursement obligation and a Partnership seeking reimbursement. In certain circumstances, Partnerships could be prohibited from exercising (or FFL may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investment(s) of one Partnership or the other may be subject to creditor claims regarding subordination of interests. FFL intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each Partnership to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

Conflicts are expected to arise when a Partnership makes investments in conjunction with an investment being made by another Partnership, or if it were to invest in the securities of a company in which another Partnership has already made an investment. A Partnership 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 Partnerships. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Partnership and the other Partnership(s) with which it co-invests will exit such investment at the same time or on the same terms. FFL and its affiliates reserve the right to express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Partnership's investment will be the same as the returns obtained by other Partnerships participating in a given transaction. Given the nature of these conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to each relevant Partnership.

### *Fund Restructurings*

In certain cases, FFL may determine that it would be in the best interest of a Partnership to provide an opportunity for investors to obtain liquidity for all or a portion of their interests prior to the end of the Partnership's life. In such situations, FFL may seek to raise capital from third parties who wish to directly or indirectly acquire interests in one or more portfolio companies from the Partnership, including through the creation of a new fund or similar continuation vehicle. In such cases, FFL may seek to require the purchasers to make commitments to a successor fund and/or its parallel funds advised by FFL. Because FFL and/or its affiliates will have the opportunity to earn additional management fees and/or receive additional carried interest and other economic benefits in respect of such transactions, and because each purchaser's commitment to acquire interests in a successor fund and/or its parallel funds could be conditioned upon completion of the transaction, FFL will have a potential conflict of interest in determining transaction terms and participants.

### *Conflicts Related to Operating Team Members*

Operating Team Members who are employees of FFL typically maintain certain benefits, support services and/or indicia of employment at FFL but receive all or a portion of their compensation from or in respect of the relevant portfolio company. These arrangements have the potential to create conflicts of interest, in that the amounts paid to such Operating Team Members by or in respect of portfolio companies do not result in additional offsets to the management fee of the relevant Partnership. Relationships between portfolio companies and Operating Team Members are often initiated to meet a temporary portfolio company need, and the arrangements between such Operating Team Members and the related portfolio companies are expected to change over time, and in many cases will be terminated when the portfolio company is sold. Operating Team Members who are employees of FFL may or may not return to FFL at the end of such an interim arrangement. See Item 14 for additional discussion of Operating Team Members.

### *Side Letters*

FFL and/or its affiliates reserve the right to enter into side letters with certain investors in a Partnership 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 commitments to multiple Partnerships. Except where required by the relevant Partnership's 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 each Partnership, 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.

### *Resolution of Conflicts*

Each Partnership will establish an advisory committee consisting of representatives of investors not affiliated with FFL (the “Advisory Committee”). The Advisory Committee will meet as required to consult with FFL as to, among other things, potential conflicts of interest. On any issue involving actual conflicts of interest, FFL will be guided by its good faith discretion. In the event that any matter arises that FFL determines constitutes an actual conflict of interest between the Partnership, on the one hand, and FFL or its affiliates, on the other hand, FFL is permitted take such actions as it deems necessary or appropriate in good faith to mitigate the conflict (and, upon taking any actions approved by the Advisory Committee, FFL will be relieved of any potential liability resulting from the conflict of interest).

## **Item 12: Brokerage Practices**

FFL primarily focuses on making investments in private securities, thus it does not ordinarily deal with any financial intermediary such as a broker-dealer acting on its behalf in making purchases, and commissions are not ordinarily payable in connection with such investments. To the extent FFL might transact in public securities for the Partnerships, it will select brokers based upon the broker’s ability to provide best execution for the Partnerships. FFL is generally authorized to make the following determinations, subject to each Partnership’s investment objectives and restrictions, without obtaining prior consent from the relevant Partnerships or any of their investors: (1) which securities or other instruments to buy or sell; (2) the total amount of securities or other instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

In making its decisions regarding the allocation of brokerage transactions for the Partnerships, FFL will consider a variety of factors including but not limited to: (i) the ability to effect prompt and reliable executions at favorable prices; (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer or counter party; and (iv) the competitiveness of commission rates in comparison with other broker-dealers. Although FFL generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

FFL has no formal arrangements with broker-dealers to receive research or other products or services other than execution, and FFL does not have any soft dollar or commission sharing agreements in place that would require FFL to provide any specified amount of brokerage to a broker-dealer. FFL, however, receives research reports free of charge from broker-dealers that may provide or seek to provide services to FFL, the Partnerships or its portfolio companies. Any information received from a broker-dealer is consistent with the safe harbor for brokerage and research services under Section 28(e) of the Securities Exchange Act of 1934. When FFL receives research or other information or opportunities from a broker-dealer free of charge, it could be viewed as receiving a benefit it does not have to pay for, and FFL could be viewed as having an incentive to select or recommend a broker-dealer for a transaction on behalf of a Partnership or portfolio company based on its interest in receiving such benefits rather than on receiving most favorable execution.

### Item 13: Review of Accounts

FFL focuses on investments almost exclusively in private equity. All investment decisions are made by FFL's Senior Managing Members. FFL regularly reviews and monitors its portfolio companies. On a quarterly basis, FFL reviews the valuation of its portfolio companies. On an annual basis, FFL subjects each investment to a re-underwriting. FFL also reviews each investment whenever there is a major company event or market shift affecting the company or its exit options. In these reviews and re-underwritings, FFL typically reexamines its investment hypothesis, updates forecasts of company performance, assesses the likely current exit opportunities and value, and projects the forward return opportunity available from continuing to hold the investment, taking into account possible future increases or decreases in multiples.

FFL provides quarterly and annual reports to each limited partner. The quarterly package includes a detailed account of the major events that occurred during the quarter impacting FFL and the Partnerships' portfolio companies. FFL also provides audited financial statements annually and holds an annual investor meeting.

### Item 14: Client Referrals and Other Compensation

During a fundraising cycle for a Partnership, FFL is expected to compensate placement agents who facilitate capital commitments from limited partners. The fees associated with placement agent compensation will be paid by the Partnership but borne by FFL through a 100% offset against the management fee. The use of a placement agent will be fully disclosed to the investors referred by such placement agent.

FFL or its affiliates from time to time charge portfolio companies origination fees, breakup fees, consulting fees, monitoring fees and other similar fees (together, "Fee Income"), and generally have discretion to set the amount of such Fee Income. In most circumstances, such Fee Income is not reviewed or approved by an independent third party.

Additionally, FFL, its personnel, affiliates or others designated by FFL expect from time to time to receive compensation in the form of portfolio company securities, and such compensation generally will be treated as Fee Income (except in the case of Operating Team Members as described below). After the relevant offset provisions described below are applied, FFL and/or such other recipients will be permitted to retain such securities as Fee Income, and in doing so will be subject to potential conflicts of interest in determining whether to sell such securities (subject to restrictions imposed by the portfolio company and/or FFL) or retain such securities for a period consistent with the recipient's own financial and investment objectives, which may differ from those of the relevant Partnership.

FFL professionals who serve on the board of directors of portfolio companies could also receive cash compensation, stock options and/or restricted stock in their capacity as directors ("Director's Fees"). Subject to the discussion below regarding Operating Team Members, a percentage (generally based on the Partnership's percentage ownership of the portfolio company) of certain components of such Fee Income and Director's Fees (in each case, net of unreimbursed expenses related thereto) that are received by FFL or any of its affiliates will be applied to reduce the management fee otherwise payable to FFL by a Partnership as follows:

Director's Fees received by an FFL professional with respect to all Partnerships -- 100% offset;

Fee Income received by FFL or its affiliates with respect to Friedman Fleischer & Lowe Capital Partners, L.P. -- 50% offset;

Fee Income received by FFL or its affiliates with respect to Friedman Fleischer & Lowe Capital Partners II, L.P. and parallel entities -- 50% offset for Fee Income totaling up to \$2.0 million in any calendar year, then 80% of all such fees in excess of \$2.0 million in any calendar year (provided, that if the aggregate amount of Fee Income subject to the 50% allocation exceeds \$9.0 million, then 80% of the amount of all such fees in excess of \$9.0 million, without regard to the amount of Fee Income in any given calendar year);

Fee Income received by FFL or its affiliates with respect to Friedman Fleischer & Lowe Capital Partners III, L.P. and parallel entities -- 65% offset for Fee Income totaling up to \$5.0 million in any calendar year, then 80% of all such fees in excess of \$5.0 million in any calendar year (provided, that if the aggregate amount of Fee Income subject to the 65% allocation exceeds \$20.0 million, then 80% of the amount of all such fees in excess of \$20.0 million, without regard to the amount of Fee Income in any given calendar year); and

Fee Income received by FFL or its affiliates with respect to FFL Capital Partners IV, L.P. and parallel entities and FFL Capital Partners V, L.P. and parallel entities-- 100% offset.

Fee Income excludes the receipt of expense reimbursements from portfolio companies noted in Item 5. Fee income attributable to co-investors generally will not be shared with the Partnerships and typically will be retained by FFL. As a result, a Partnership will, in most cases, only benefit with respect to its allocable portion of any such fee income and not the portion of any fee income that relates to such co-investors.

Operating Team Members could assist FFL in identifying and evaluating potential investments for which the Operating Team Member intends to perform in an operations capacity. Operating Team Members, in many instances, receive cash compensation, stock options and/or restricted stock as well as other compensation for such assistance as well as in their capacity as directors or employees of a portfolio company, including a platform or other holding company, or in connection with other operations capacities. Any such amounts (including without limitation, salaries, additional investment rights, discretionary bonuses (whether or not based on pre-determined milestones), and similar cash and non-cash compensation and incentives, and reimbursement for reasonable expenses incurred while providing such services) received, directly or indirectly, by such Operating Team Members in respect of such portfolio companies will not reduce the management fee otherwise payable by a Partnership to FFL and will be borne by a Partnership or such portfolio companies. Compensation in the form of profits or equity interests in a portfolio company or intermediate holding company generally has a dilutive impact on the Partnership's investment, and the relevant Partnership typically will bear the costs of all Operating Team Members' compensation as well as fees, costs and expenses of structuring Operating Team Member arrangements. Therefore, all or a portion of such amounts will indirectly be borne by a Partnership and not by FFL via the Partnership's ownership interest in such portfolio companies.

Operating Team Members could also independently engage in activities or assignments unrelated to FFL or the portfolio companies. Any amounts received, directly or indirectly, by such Operating Team Members in respect of such unrelated assignments will not reduce the management fee otherwise payable by a Partnership to FFL.

## Item 15: Custody

FFL is deemed to have custody of Partnership assets because FFL is under common control with each Partnership's General Partner. Investors will not receive statements from the custodian. Instead, the Partnerships are subject to an annual audit by an independent public accountant and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of each Partnership's fiscal year end.

Each Partnership's assets are held in custody by unaffiliated broker/dealers or banks that are qualified custodians to the extent required under the Advisers Act.

## Item 16: Investment Discretion

FFL generally has discretionary authority to determine, without obtaining specific consent from the Partnership or its investors, the securities and amount of securities to be bought or sold. Any limitations on authority are included in each partnership agreement and other governing documents.

## Item 17: Voting Client Securities

Most of the portfolio companies held by the Partnerships are private companies that typically do not issue proxies. However, in the event proxies have to be voted, FFL has adopted proxy voting policies and procedures, and shall be responsible for voting proxies on behalf of the Partnerships. FFL shall vote client proxies in a way that it believes will maximize shareholder value taking into account all relevant considerations. In exercising its voting discretion, FFL and its employees will seek to avoid material conflicts of interest raised by such voting decision. FFL will seek to provide adequate disclosure to the Partnerships' Advisory Committees if any substantive aspect or foreseeable result of the subject matter to be voted upon raises material conflicts of interest to FFL or any of its affiliates.

FFL's investment professionals or affiliates may serve as board members for the Partnerships' portfolio companies. In situations where FFL votes the proxy for a company in which a member of FFL serves on the board of directors, FFL has determined that it does not inherently present a conflict of interest as the purpose for serving on the board is to maximize the return on the Partnership's investment and to ensure that the Partnership's interests are protected.

A copy of FFL's proxy voting policy and a record of all proxy votes cast on behalf of the Partnerships will be maintained and is available upon request.

## Item 18: Financial Information

FFL (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients, and (iii) has not been subject to any bankruptcy proceeding during the past 10 years.