

**Part 2A of Form ADV: *Firm Brochure***

**Fidus Investment Advisors, LLC**

1603 Orrington Avenue, Suite 1005  
Evanston, Illinois 60201  
Telephone: 847.859.3940  
Facsimile: 847.859.3953

March 31, 2021

**This brochure provides information about the qualifications and business practices of Fidus Investment Advisors, LLC (hereinafter “FIA” or the “firm”). If you have any questions about the contents of this brochure, please contact Diane P. Lind, Chief Compliance Officer at 847.859.3940. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about FIA also is available on the website of the United States Securities and Exchange Commission (“SEC”) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). FIA may refer to itself as “registered” or as a “registered investment advisor.” Note that such designation does not imply any particular level of skill or training.**

**Item 2. Summary of Material Changes**

This brochure is the initial Form ADV Part 2A submitted by the firm. Therefore, the firm has no material changes to report.

### Item 3. Table of Contents

Item	Section	Page Number
1.	Cover Page	1
2.	Material Changes	2
3.	Table of Contents	3
4.	Advisory Business	4
5.	Fees and Compensation	5
6.	Performance-Based Fees and Side-by-Side Management	8
7.	Types of Clients	8
8.	Methods of Analysis, Investment Strategies and Risk of Loss	9
9.	Disciplinary Information	16
10.	Other Financial Industry Activities and Affiliations	16
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	17
12.	Brokerage Practices	18
13.	Review of Accounts	18
14.	Client Referrals and Other Compensation	18
15.	Custody	19
16.	Investment Discretion	19
17.	Voting Client Securities	19
18.	Financial Information	19

#### **Item 4. Advisory Business**

FIA is an independently-owned investment adviser with a principal place of business in Evanston, Illinois, and other offices in New York and North Carolina. FIA was founded in 2011 with Edward H. Ross as CEO and Managing Director. Currently, no person owns 25% or more of FIA. The firm is structured to provide high quality, professional investment advice and excellent service to each client with special focus upon servicing the needs of business development companies, as regulated by the Investment Company Act of 1940, as amended (the “Investment Company Act”).

FIA provides investment management and advisory services to Fidus Investment Corporation (“FIC”), a closed-end, non-diversified management investment company electing to be treated as a business development company under the Investment Company Act, and Fidus Equity Opportunities Fund, L.P., a Delaware limited partnership (“FEOF”). FIA may provide services to additional clients in the future (such future clients, with FIC and FEOF, “Clients”).

FIA’s services primarily include, but are not limited to, determining the composition of the portfolio of its Clients, including the nature and timing of changes to the portfolio and the manner of implementing such changes; assisting clients with determining the securities that Clients will purchase, retain, or sell; identifying, evaluating and negotiating the structure of the investments made by a Client (including performing due diligence on such Client’s prospective portfolio companies); executing, closing, and monitoring the clients investments; and providing the Client with such other investment advisory, management, research and related services as the Client, from time to time, may reasonably need for investment of its assets.

FIA’s investment professionals have an average of over 20 years of experience investing in, lending to and advising companies across changing market cycles. These professionals have diverse backgrounds, with prior experience in senior management positions at investment banks, specialty finance companies, commercial banks and privately and publicly held companies, and have extensive experience investing across all levels of the capital structure of middle-market companies. Members of FIA have invested more than \$900 million in mezzanine debt, senior secured debt (including unitranche debt) and equity securities of lower middle-market companies.

FIA follows a partnership-oriented approach in identifying its client’s investments and focuses on opportunities where it believes a Client can add value to a portfolio company. FIA primarily concentrates on industries or market niches in which its investment professionals have prior experience. FIA seeks to assist its Clients in investing in mezzanine debt securities, typically coupled with an equity interest; however, on a selective basis it may assist with other types of investments, including senior secured or unitranche loans.

Generally, FIA neither tailors its advisory services to the individual needs of investors in the Clients nor accepts investor-imposed investment restrictions. FIA does not participate in wrap fee programs.

As of 12/31/2021, FIA managed a total of approximately \$768,321,435 of Client assets on a discretionary basis.

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

### **FIC**

For its engagement with FIC, FIA's compensation is set forth in an investment advisory agreement between FIC and the firm, and subject to the overall supervision of Client's board of directors. That compensation is divided into two components — a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.75% based on the average value of the client's total assets (other than cash or cash equivalents but including assets purchased with borrowed amounts) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears.

The incentive fee has two parts. One part, referred to as the "income incentive fee," is calculated and payable quarterly in arrears based on the client's pre-incentive fee net investment income for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that the client receives from portfolio companies, but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee and any expenses of FIA reimbursable by the client, but excluding the incentive fee). Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed "hurdle rate" of 2.0% per quarter.

FIA receives an income incentive fee with respect to pre-incentive fee net investment income in each calendar quarter as follows:

- no income incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle rate of 2.0%;
- 100.0% of pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5% in any calendar quarter. This portion of pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.5%) is the "catch-up" provision and is meant to provide FIA with 20.0% of the pre-incentive fee net investment income as if a hurdle rate did not apply if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter.

The 2.0% hurdle is not cumulative; rather, this part of the incentive fee is calculated independently each calendar quarter.

The second part of the incentive fee, referred to as the “capital gain incentive fee” and payable annually in arrears, equals 20.0% of realized capital gains and unrealized capital appreciation, if any, on a cumulative basis from inception through the end of the fiscal year, if any (or upon the termination of the agreement with the client, as of the termination date), computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

FIA is responsible for compensation and routine overhead expenses for all investment professionals, when and to the extent engaged in providing investment advisory services to the client. However, the Client bears all other out-of-pocket costs and expenses of FIA’s operations and transactions, including, without limitation, those relating to:

- calculating the client’s net asset value (including the cost and expenses of any independent valuation firm);
- fees and expenses incurred by FIA to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the client and in monitoring the Client’s portfolio;
- transaction expenses (please see Item 12 below for additional information on brokerage practices);
- investments and performing due diligence on the Client’s prospective portfolio companies or otherwise relating to, or associated with, evaluating and making investments;
- investment advisory fees;
- administration fees and expenses, if any, payable under any other agreement with the client, such as an administration agreement, which may include payments based upon the client’s allocable portion of FIA’s overhead in performing administrative services as agreed upon in an administration agreement, including rent and the allocable portion of the cost of the firm’s officers, including a chief compliance officer, chief financial officer, if any, and their respective staffs;
- custodial fees and expenses;
- costs of preparing and filing reports or other documents required by the SEC or other regulators;
- direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs;
- proxy voting expenses; and
- all other expenses reasonably incurred by the client or FIA in connection with administering the client’s business.

No supervised person in the firm receives compensation for selling securities or other investment products.

Under the Investment Advisory Agreement between FIC and FIA, the firm may resign at any time upon not less than 60 days' written notice, whether the client has found a replacement or not.

### **Fidus Equity Opportunities Fund, L.P.**

FIA serves as the manager of FEOF pursuant to FEOF's limited partnership agreement (as amended, the "FEOF Partnership Agreement") and the Management Services Agreement by and between FEOF, Fidus Equity Opportunities GP, LLC, the general partner of FEOF, and FIA (as amended, the "FEOF Management Agreement"). In consideration for the management services provided by FIA to FEOF under the FEOF Management Agreement, FIA is paid by FEOF the commitment fees and management fees owed under the FEOF Partnership Agreement.

The commitment fee is an initial one-time fee payable by the limited partners of FEOF in an amount equal to 1.00% (or such lesser percentage agreed to by the general partner of FEOF) of such limited partner's commitment. The commitment fee for each limited partner will be paid at the initial capital call of FEOF or, if later, at the closing at which such limited partner is first admitted or increases its commitment.

The management fees payable to FIA with respect to each limited partner are paid quarterly in advance in an amount equal to 0.5% (2.0% per annum), or such lesser percentage as may be agreed to by the general partner of FEOF, of such limited partner's pro rata share of FEOF's invested capital (based on the cost of investments and reduced for written-off investments). The management fees are further subject to reduction for amounts equal to 50% of fees received by FIA or the general partner in connection with certain origination, closing and monitoring of FEOF's investments (but not fees paid to Fidus Partners, LLC in connection with providing investment banking services, other consulting services, credit facilities or other banking services or produces) and for amounts by which organizational expenses of FEOF and its general partner exceed \$250,000.

FEOF is responsible for the payment of organization fees and expenses of FEOF and its general partner up to \$250,000. After the organization of FEOF and its general partner, the general partner and FIA will pay their own administrative costs and expenses, including, salaries, benefits and other compensation and their own general overhead expenses. FEOF is responsible for paying all other expenses relating to FEOF's operations, including FEOF's management fees, out-of-pocket expenses related to meetings of its investors, out-of-pocket expenses incurred in connection with actual and prospective investments of FEOF (including travel expenses related to such actual and prospective investments and dead deal costs), and third-party expenses relating to the operations of FEOF. Such third-party expenses include, without limitation, transaction expenses such as legal, accounting and consulting fees incurred in connection with actual and prospective investments, audit and tax preparation and other professional fees for services rendered to FEOF, brokers' commissions relating to FEOF's investment activities, interest and other charges on any indebtedness incurred by FEOF, litigation expenses relating to FEOF's operations and any taxes, fees or other governmental charges assessed against FEOF.

Additionally, FEOF pays its general partner, an affiliate of FIA, a performance based fee in the form of carried interest under the FEOF Partnership Agreement pursuant to which the general partner receives 20% of distributions after investors receive their capital contributions back plus a preferred return.

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

Currently, the firm has two Clients, FIC and FEOF, from which it or its affiliates will be receiving a performance-based (incentive/carried interest) fees as described in Item 5 above. Currently, the firm does not manage accounts that are charged a performance fee alongside other accounts that are not. However, the firm does manage accounts that may invest in the same types of securities, and these accounts may bear carried interest and performance fees at different rates or make payments to FIA or its affiliates at different times. This could result in potential conflicts of interest in the allocation of investment opportunities. FIA seeks to mitigate these potential conflicts by allocating investment opportunities among Client accounts in a fair and equitable manner, subject to any restrictions imposed on FIC under the Investment Company Act. Furthermore, the existence of performance based fees may create an incentive for FIA to invest in riskier investments that may generate higher returns or to hold investments for periods of time than otherwise may be appropriate in order to increase the performance fees earned by FIA or an affiliate.

FIA may also form or manage additional investment vehicles with similar or overlapping investment strategies in the future (“Other Funds”). Subject to regulatory and other requirements that may be required, FIA will allocate investment opportunities among FIC, FEOF, and each Other Fund as follows: (a) FIA and any affiliated investment advisor/manager of any Other Fund will determine if the investment opportunity is suitable for the respective funds and investment vehicles they advise/manage; (b) if deemed suitable, each of FIA and any other advisor/manager shall submit a requested investment amount in the investment opportunity for each participating fund or investment vehicle that they advise/manage (the “Requested Investment Amount”); and (c) if the aggregate Requested Investment Amount of the participating funds and investment vehicles is greater than the aggregate amount of the investment opportunity, then the investment opportunity will be allocated among the participating funds and investment vehicles pro rata based upon the Requested Investment Amount of each participating fund and investment vehicle. FIA shall be permitted to determine the suitability of an investment opportunity and the Requested Investment Amount separately and independently for FEOF, FIC and any Other Fund that it advises or manages, taking into account such facts and circumstances as FIA determines relevant.

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

As described above, FIA provides investment advisory services to FIC and FEOF. The minimum investment amount by an investor in FEOF is \$500,000, which is subject to reduction or waiver in the discretion of FEOF’s general partner. Investors in FEOF must be “accredited investors,” as defined in Regulation D of the Securities Act, unless agreed otherwise by FEOF’s general partner.



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

### Investments

FIA seeks to create for its clients a diversified investment portfolio that will primarily include mezzanine loans and equity securities. The firm seeks to identify investments from \$2 million to \$20 million per transaction in the securities of lower middle-market companies, although this investment size may vary proportionately with the size of the client's capital base. The strategy is to provide attractive risk-adjusted returns by generating both current income from mezzanine debt investments and capital appreciation from equity-related investments. FIA also seeks opportunities in the equity securities of portfolio companies, such as preferred stock, common stock, warrants and other equity interests, either directly or in conjunction with our mezzanine debt investments.

While FIA seeks to create a diversified investment portfolio for each Client, FIA expects all of any given Client's investments to be of a similar type and in similar types or sizes of portfolio companies, as described herein and ultimately in accordance with the client's investment mandate. FIA does not seek or purport to create investment portfolios that are diversified across asset classes (e.g., real estate, public investments, bonds, etc.) or that would constitute a complete investment program for the typical institutional or other investor.

*Mezzanine Debt Investments.* Mezzanine debt includes senior subordinated notes and junior secured loans. These loans typically have relatively high, fixed interest rates (often representing a combination of cash pay and payment-in-kind interest), prepayment penalties and amortization of principal deferred to maturity. In certain situations where FIA is able to structure an investment as a junior, secured loan, it will obtain a junior security interest in the assets of these portfolio companies that will serve as collateral in support of the repayment of such loan. This collateral may take the form of second-priority liens on the assets of a portfolio company.

*Senior Secured Loans.* FIA may also opportunistically include senior secured or unitranche loans in its client's portfolio. Senior secured loans will typically provide for a fixed interest rate and may contain some minimum principal amortization, excess cash flow sweep features and prepayment penalties. Senior secured loans are secured by a first or second priority lien in all existing and future assets of the borrower and may take the form of term loans or revolving lines of credit. Unitranche debt financing involves issuing one debt security that blends the risk and return profiles of both secured and subordinated debt. Unitranche debt can be attractive for many lower middle-market companies given their size in order to reduce structural complexity and potential conflicts among creditors.

*Equity Securities.* Equity securities typically consist of either a direct minority equity investment in common or preferred stock of a portfolio company, or the client may receive warrants to buy a minority equity interest in a portfolio company in connection with a debt investment. Warrants received with debt investments typically require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, a Client may achieve additional investment return from this equity interest. Equity investments are typically not control-oriented investments, and in many cases, the Client may acquire equity securities as part of a group of private equity investors

in which it is not the lead investor. Such equity investments may be structured to include provisions protecting the clients' rights as a minority-interest holder, as well as a "put," or right to sell such securities back to the issuer, upon the occurrence of specified events. In many cases, a client may also seek to obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights. Equity investments typically are made in connection with debt investments to the same portfolio companies.

FIA generally seeks to identify investment opportunities in companies from the broad range of industries in which its professionals have direct experience. The following is a representative list of such industries:

- business services;
- industrial products and services;
- value-added distribution;
- healthcare products and services;
- consumer products and services (including retail, food and beverage);
- defense and aerospace;
- transportation and logistics;
- government information technology services; and
- niche manufacturing.

FIA uses the following criteria and guidelines in evaluating investment opportunities and constructing a client's portfolio. However, not all of these criteria and guidelines have been, or will be, met in connection with every investment.

*Value Orientation / Positive Cash Flow.* The firm places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. It focuses on companies in which the client can invest at relatively low multiples of operating cash flow with proven business models. It also seeks opportunities in companies with a history of profitability and minimum trailing twelve month EBITDA of \$3.0 million. FIA generally does not pursue investment in start-up companies, "turn-around" situations or companies that it believes have unproven business plans.

*Experienced Management Teams with Meaningful Equity Ownership.* FIA targets portfolio companies that have management teams with significant experience and/or relevant industry experience coupled with meaningful equity ownership. The firm believes management teams with these attributes are more likely to manage the companies in a manner that protects the client's debt investment and enhances the value of the client's equity investment.

*Niche Market Leaders with Defensible Market Positions.* FIA seeks companies that have developed defensible and/or leading positions within their respective markets or market niches and are well positioned to capitalize on growth opportunities. The firm favors companies that demonstrate significant competitive advantages, which it believe helps to protect their market position and profitability.

*Diversified Customer and Supplier Base.* FIA seeks investments in companies that have a diversified customer and supplier base. Companies with a diversified customer and supplier base are generally better able to endure economic downturns, industry consolidation and shifting customer preferences.

*Significant Invested Capital.* The firm believes the existence of significant underlying equity value provides important support to its client's debt investments. With respect to debt investments, FIA looks for portfolio companies where it believes aggregate enterprise value significantly exceeds aggregate indebtedness, after consideration of the client's investment.

*Viable Exit Strategy.* FIA seeks investments in companies that it believes will provide a steady stream of cash flow to repay loans and reinvest in their respective businesses. FIA expects a Client will exit investments typically through one of three scenarios: (a) the sale of the portfolio company resulting in repayment of all outstanding debt; (b) the recapitalization of the portfolio company through which the Client's debt investment is replaced with debt or equity from a third party or parties; or (c) the repayment of the initial or remaining principal amount of the Client's debt investment from cash flow generated by the company. In some investments, there may be scheduled amortization of some portion of the debt investment which would result in a partial exit of the Client's investment prior to the maturity of the debt investment.

### Investment Process Overview

FIA has developed the following investment process based on the experience of its investment professionals to identify investment opportunities and to structure investments quickly and effectively. Furthermore, the firm seeks to identify those companies exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on the relative value of the security in the portfolio company's capital structure. The investment process consists of five distinct phases:

- Investment Generation/Origination;
- Initial Evaluation;
- Due Diligence and Underwriting;
- Documentation and Closing; and
- Active Portfolio Management.

Each of the phases is described in more detail below.

*Investment Generation/Origination.* Investment originating efforts are focused on leveraging the firm's extensive network of long-standing relationships with private equity firms, middle-market senior lenders, junior capital partners, financial intermediaries and management teams of privately owned businesses. The firm's focus and reputation as a valued-added partner generates a balanced mix of proprietary deal flow and a steady stream of new deal opportunities.

*Initial Evaluation.* After receiving word of a potential transaction of interest to FIA for a Client, at least one of the firm's investment professionals will conduct an initial review of the available materials about the transaction to determine whether it meets a Client's investment criteria and

complies with regulatory compliance requirements. If the potential transaction initially meets a Client's investment criteria, at least two members of the Client's investment committee, referred to as the deal team, will conduct a preliminary due diligence review, taking into consideration some or all of the following factors:

- A comprehensive financial model based on quantitative analysis of historical financial performance, projections and pro forma adjustments to determine a range of estimated internal rates of return.
- An initial call or meeting with the management team, owner, private equity sponsor or other deal partner.
- A brief industry and market analysis, leveraging direct industry expertise from other investment professionals of the firm.
- Preliminary qualitative analysis of the management team's competencies and backgrounds.
- Potential investment structures and pricing terms.

If a potential transaction survives this screening process, the deal team will prepare a screening memorandum and make a recommendation to the investment committee. If the investment committee supports the deal team's recommendation, the deal team will issue a non-binding term sheet to the company. Such a term sheet will typically include the key economic terms based on the firm's analysis conducted during the screening process as well as a proposed timeline. Upon agreement on a term sheet with the company, the firm will begin a formal diligence and underwriting process.

*Due Diligence and Underwriting.* FIA has developed a rigorous and disciplined due diligence process which includes a comprehensive understanding of a potential portfolio company's industry, market, operational, financial, organizational and legal positions and prospects. The professionals affiliated with FIA have previously implemented this same approach with another investment adviser. The due diligence review will take into account information that the deal team deems necessary to make an informed decision about the creditworthiness of the borrower and the risks of the investment, and will include some or all of the following:

- Initial or additional site visits and facility tours with management and key personnel.
- Review of the business history, operations and strategy.
- In depth review of industry and competition.
- Analysis of key customers and suppliers, including review of any concentrations and key contracts.
- Detailed review of historical and projected financial statements, including a review of at least three years of performance (annual and monthly), key financial ratios, revenue, expense and profitability drivers and sensitivities to management's financial projections.
- Detailed evaluation of company management, including background checks.
- Third party reviews of accounting, environmental, legal, insurance, interviews with customers and suppliers, material contracts, competition, industry and market studies (each as appropriate).

- Financial sponsor diligence, if applicable, including portfolio company and other reference checks.

During the due diligence process, significant attention is given to sensitivity analyses and how the company might be expected to perform given various scenarios, including downside, “base case” and upside. Upon satisfactory completion of the due diligence review process, the deal team will present their findings and a recommendation to the investment committee. If the investment committee supports the deal team’s recommendation, the deal team will proceed with negotiating and documenting the investment.

*Documentation and Closing.* FIA works with the management of the company and its other capital providers, including as applicable, senior, junior and equity capital providers to structure an investment. The firm structures each investment with an acute focus on capital preservation and will tailor the terms of each investment to the facts and circumstances of the transaction and the prospective portfolio company. FIA seeks to limit the downside potential of investments by:

- Targeting an optimal total return on the client’s investments (including a combination of current and deferred interest, prepayment penalties and equity participation) that compensates the client for credit risk.
- Negotiating covenants in connection with investments that afford portfolio companies as much flexibility in managing their businesses as possible, yet are consistent with preservation of our client’s capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either board observation or rights to a seat on the board under some circumstances.
- Structuring financial covenants and terms in debt investments that require the portfolio company to reduce leverage over time, thereby enhancing the investment’s credit quality. These methods may include, among others: maintenance leverage covenants requiring a decreasing ratio of debt to cash flow; maintenance cash flow covenants requiring an increasing ratio of cash flow to interest expense and possibly other cash expenses such as capital expenditures, cash taxes and mandatory principal payments; and debt incurrence prohibitions, limiting a company’s ability to relevel its balance sheet. In addition, limitations on asset sales and capital expenditures prevent a company from changing the nature of its business or capitalization without our consent.

*Portfolio Management.* FIA views active portfolio monitoring as a vital part of the investment process and continuously monitors the status and progress of the portfolio companies. The same deal team that was involved in the investment process will typically continue its involvement in the portfolio company post-investment. As part of the monitoring process, the deal team and the firm will conduct a comprehensive review of the financial and operating results of each portfolio company that includes a review of the monthly/quarterly financials relative to prior year and budget, review financial projections including cash flow and liquidity needs, meet with management, attend board meetings and review compliance certificates and covenants. FIA’s portfolio management will also include quarterly portfolio reviews with all investment professionals and investment committee members.

FIA seeks investments for Clients to hold to maturity or repayment, but some may be sold earlier if a liquidity event occurs, such as a sale, recapitalization or worsening of the credit quality of the portfolio company.

*Maintaining Portfolio Diversification.* The firm seeks to maintain for each Client a portfolio of investments that is diversified among companies, industries and geographic regions. We believe that maintaining a diversified portfolio helps mitigate the potential effects of negative economic events for particular companies, regions and industries. FIA does not seek or purport to create investment portfolios that are diversified across asset classes (e.g., real estate, public investments, bonds, etc.) or that would constitute a complete investment program for the typical institutional or other investor.

### Potential Risks

There are risks associated with investing, including particular ones arising in connection with the approach FIA employs. The following provides a brief summary of some of those particular risks.

FIA depends on the investment expertise, skill and network of business contacts of its professionals. The departure of any of these individuals could have a material adverse effect on the firm's ability to achieve its client's investment objectives.

Investing in lower middle-market companies involves a number of significant risks, and could result in loss of all or part of the client's investment. Among other things, these companies:

- may have limited financial resources and may be unable to raise additional capital to support their operations, finance expansion or meet their obligations under their debt instruments;
- may have shorter operating histories, narrower product lines and smaller market shares, which tend make them more vulnerable to competitors' actions and market conditions, as well as general economic downturns, than larger businesses;
- are more likely to depend on the management talents and efforts of a small group of persons and the loss of one or more of these persons could have a material adverse impact on a portfolio company and, in turn, on the client's investment; and
- generally have less publicly available information about their businesses, operations and financial condition, and to the extent the firm is unable to uncover all material information about these companies, FIA may not make a fully informed investment decision, and the client may lose all or part of its investment.

All of a Client's assets may be invested in illiquid securities and may be subject to legal and other restrictions on resale. The illiquidity of these investments may make it difficult for a Client to sell such investments when desired. In addition, if required to liquidate all or a portion of a portfolio quickly, the client may realize significantly less than the value previously recorded for these investments.

FIA's investment strategy is primarily focused on subordinated debt, which is generally more volatile than senior secured debt and may involve greater risk of loss of principal. Our Clients' investments may rank equally with or junior to other senior debt. By its terms, such senior debt may be entitled to receive payment of interest or principal before a Client is entitled to receive payments with respect to its subordinated debt. Also, in the event of bankruptcy of a portfolio company, holders of debt instruments ranking senior to a Client's investment in that portfolio company would typically be entitled to receive payment in full before the client receives any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to the client.

FIA may structure a Client's investment in a portfolio company to include second priority liens on collateral, which may also be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and the client. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before the client. There is a risk that the proceeds, if any, from the sale of the collateral would not be sufficient to satisfy the loans secured by the second priority liens after payment in full of all loans secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then the client, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

There may be circumstances where a Client's debt investments could be subordinated to claims of other creditors or could be subject to lender liability claims. Even though the firm may have structured certain of a Client's investments as senior loans, if one of the portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which the Client actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize the Client's debt investment and subordinate all or a portion of its claim to that of other creditors. A Client may also be subject to lender liability claims for actions taken with respect to a borrower's business or instances where the Client exercised control over the borrower.

A Client may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings. The bankruptcy process has a number of significant inherent risks, which generally increases the risk of loss on principal. These risks include (i) in the event of a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the client's investment; (ii) subordination of a Client's investment to certain claims that have priority by law which may be substantial (i.e. claims for taxes); (iii) administrative costs are frequently high and are paid from the company's assets prior to any return to creditors.

FIA does not expect that its client will control many of its portfolio companies, even though it may have board representation or board observation rights, and the debt agreements may contain certain restrictive covenants. As a result, a Client is subject to the risk that a portfolio company in which it invests may make business decisions with which it disagrees, and the management of such company, as representatives of the holders of the company's common equity, may take risks or

otherwise act in ways that do not serve the Client's interests as debt investors. Because of the lack of liquidity for the client's investments in private companies in the lower middle-market, the client may not be able to dispose of its interests in its portfolio companies as readily as it would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of the client's portfolio holdings.

When a Client's investment matures and is repaid (or is repaid prior to maturity), the proceeds will generally be reinvested in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the investment being repaid, and the client could experience significant delays in reinvesting these amounts. In addition, any future investment of such amounts in a new portfolio company may also be at lower yields than the investment that was repaid, resulting in a lower return to the client.

There is a risk that a Client may not realize gains from equity investments. Certain investments may include warrants or other equity or equity-related securities. FIA's goal is to realize gains for a Client upon disposition of such equity interests. However, the equity interests received may not appreciate in value and, in fact, may decline in value. It may also not be possible to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow a Client to sell the underlying equity interests. Accordingly, the client may not be able to realize gains from its equity interests, and any gains realized on the disposition of any equity interests may not be sufficient to offset any other losses experienced.

The disposition of a Client's investments may result in contingent liabilities. In connection with the disposition of an investment in private securities, a Client 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. A Client may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that the client must satisfy.

Finally, in addition to all of the other matters discussed above, securities investments are not guaranteed, and an investor may lose money on its investments. We ask that each Client work with FIA to help us understand the client's tolerance for risk.

## **Item 9. Disciplinary Information**

Registered investments advisors are required to disclose all material facts regarding any legal or disciplinary events that must be disclosed to the SEC. Neither FIA nor any of its employees has any reportable events to disclose.

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

Registered investment advisers are also required to disclose the existence of certain financial industry activities and affiliations. Except as noted below with regard to John Ross and John Grigg:



- Except as set forth below, neither FIA nor any of its “management persons” (as defined by the SEC for purposes of this brochure) are registered, or have an application pending to register, as a broker-dealer or registered representative of a broker-dealer.
- Neither FIA nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator or commodity trading advisor.
- There is no relationship or arrangement that is material to FIA’s advisory business or to FIA’s clients between FIA or any of its management persons and any “related party” (as defined by the SEC for purposes of this brochure) of FIA that is a broker-dealer, municipal securities dealer, government securities dealer or broker, investment company or other pooled investment vehicle, other investment adviser or financial planner, futures commission merchant, commodity pool operator, commodity trading advisor, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, or sponsor or syndicator of limited partnerships.
- FIA receives compensation only directly from Clients and therefore does not have conflicts of interest with outside parties arising from sources of compensation.

John Ross and John Grigg are both members of FIA’s investment committee. In addition, they are both investment banking registered representatives and indirect owners of Fidus Securities, LLC, a broker dealer that provides financial advice on mergers, acquisitions, financial restructurings and similar corporate finance matters. It is possible that Fidus Securities LLC may provide services to a Client of FIA in connection with the sale of a portfolio company of a client and may otherwise offer advisory services to such a portfolio company. To help avoid a potential conflict of interest, if one of FIA’s Client’s considers retaining Fidus Securities LLC to assist it or one of its portfolio companies, neither John Ross nor John Grigg will participate in advising that FIA Client with regard to such a decision. Furthermore, if a portfolio company of one of FIA’s Client’s retains Fidus Securities, LLC, neither John Ross nor John Grigg will participate in advising that FIA client on matters relating to that portfolio company as long as the portfolio company continues to retain Fidus Securities, LLC. Finally, if a company retains Fidus Securities, LLC, and later becomes a portfolio company of a Client, neither John Ross nor John Grigg will participate in advising that FIA client on matters relating to that portfolio company as long as the portfolio company continues to retain Fidus Securities, LLC.

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

FIA has adopted a code of ethics pursuant to 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by a Client, so long as such investments are made in accordance with the code’s requirements.

The code of ethics also includes:

- standards of business conduct for FIA's supervised persons regarding compliance with FIA's fiduciary obligations;
- provisions requiring FIA's supervised persons to comply with applicable federal securities laws;
- provisions requiring FIA's supervised persons to report violations of the code of ethics to the chief compliance officer or other designated persons; and
- provisions requiring that each of FIA's supervised persons be provided with the code of ethics and acknowledge receipt of it in writing.

Clients and prospective clients may obtain a copy of the code of ethics by contacting Diane P. Lind, Chief Compliance Officer.

#### **Item 12. Brokerage Practices**

FIA will acquire and dispose of most of a Client's investments in privately negotiated transactions. Accordingly, Clients' transactions generally will not require the use of brokers or the payment of brokerage commissions. However, as applicable, FIA will select brokers and dealers to execute transactions with respect to the publicly-traded securities portion of Clients' portfolio transactions. FIA does not expect to execute transactions through any particular broker or dealer but, in connection with its obligation to seek best execution, will seek to obtain the best net results for its Clients under the circumstances, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. The firm generally will seek reasonably competitive trade execution costs but will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements and consistent with Section 28(e) of the Securities Exchange Act of 1934, as amended, the firm may select a broker based upon brokerage or research services provided to the firm and its clients. In return for such services, a Client may pay a higher commission than other brokers would charge if the firm determines in good faith that such commission is reasonable in relation to the services provided.

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

FIA continually monitors its Clients' accounts and ensures that all holdings are reviewed at a minimum at least monthly. Accounts are reviewed in the context of each Client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment. In addition to monthly statements and confirmations of transactions that clients receive from their broker-dealer and/or custodian, the firm provides quarterly reports summarizing account performance, balances and holdings.

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

FIA does not pay referral fees to independent persons or firms for introducing Clients.

## **Item 15. Custody**

As a registered investment adviser, FIA is subject to Rule 206(4)-2 (the “Custody Rule”) of the Advisers Act, which governs the custody of client securities. Pursuant to the Custody Rule, FIA is deemed to have custody with respect to the assets of FEOF. Accordingly, FEOF’s assets are held by one or more qualified custodians. Investors of FEOF receive on an annual basis audited financial statements prepared by an independent public accountant that is registered with the Public Company Accounting Oversight Board. Additionally, investors in FEOF may receive account statements from their custodians at least quarterly. FIA also sends reports to investors in FEOF periodically. These statements should be reviewed carefully. FIA urges investors to compare the statements received from custodians with reports sent from FIA.

## **Item 16. Investment Discretion**

The Clients have retained FIA to provide discretionary asset management services. FIA’s discretionary authority is set forth by written agreement between a Client and the firm.

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

A Client may provide FIA with discretion to vote proxies. If provided with that authority, the firm will vote those proxies in the best interests of the Client and in accordance with our established policies and procedures. FIA will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the firm voted proxies.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Diane P. Lind, Chief Compliance Officer, directly. Clients may request, in writing, information on how proxies for their shares were voted. If any Client requests a copy of our complete proxy policies and procedures or information about how we voted proxies for their account(s), we will promptly provide such information to the Client.

## **Item 18. Financial Information**

Since FIA does not require or solicit client payment of fees in any amount, more than six months in advance of services rendered, we have not included a financial statement.

FIA is not aware of any particular financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.

FIA has not been the subject of a bankruptcy petition at any time.