

Item 1 – Cover Page

Form ADV Part 2A: FIRM BROCHURE



**EDWARDS CAPITAL, LLC**  
**d/b/a Flexpoint Ford, LLC**

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**March 27, 2021**

This Brochure provides information about the qualifications and business practices of Flexpoint Ford, LLC (“Flexpoint”). If you have any questions about the contents of this Brochure, please contact us at (312) 327-4520. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Flexpoint is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training.

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

## Item 2 – Material Changes

There have been no material changes since the last annual Brochure filing on March 27, 2020.

Flexpoint routinely makes changes throughout its Brochure to improve and clarify the descriptions of its business practices and compliance policies and procedures or in response to evolving industry and firm practices. In addition to the types of general updates discussed above, in this year's filing the following specific Items have been updated:

- Item 4: updated to reflect regulatory assets under management as of December 31, 2020;
- Item 5: updated to clarify fees and expenses; and
- Item 8: updated to reflect additional risk factors and potential conflicts of interest.

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## Item 4 – Advisory Business

Founded in 2005, Edwards Capital, LLC d/b/a Flexpoint Ford, LLC (together with its fund general partners and any applicable affiliates (unless otherwise specified), “Flexpoint” or the “Firm”), is a private equity management firm specializing in financial services and healthcare. With its primary place of business in Chicago, Flexpoint also maintains an office in New York.

Flexpoint serves as the investment manager for the following private funds: Flexpoint Fund II, L.P. (“Fund II”); Flexpoint Fund III, L.P. (“Fund III”); Flexpoint Fund IV-A, L.P. and Flexpoint Fund IV-B, L.P. (the “Fund IV Main Funds”); Flexpoint Overage Fund IV-A, L.P. and Flexpoint Overage Fund IV-B, L.P. (the “Fund IV Overage Funds” and collectively with the Fund IV Main Funds unless the context otherwise requires, “Fund IV”) (together, and unless the context otherwise requires, Fund II, Fund III and Fund IV, the “Main Funds”); Flexpoint Fund II (Cayman), L.P., Flexpoint Fund III AIV (Cayman), L.P., Flexpoint Fund III AIV (B), L.P. and Flexpoint Special Assets Fund AIV (Cayman), L.P. (together the “Alternative Investment Vehicles”); Flexpoint Special Assets Fund, L.P. (“Special Assets Fund”); FP DFT Aggregator, LLC and Flexpoint PPH Aggregator, LLC (together the “Co-Investment Funds”) (the Main Funds, Alternative Investment Vehicles, Special Assets Fund and Co-Investment Funds are collectively referred to as the “Funds,” unless the context otherwise requires).

Each Fund is managed by a general partner (each a “General Partner” and collectively, the “General Partners”), which has the authority to make investment decisions on behalf of such Fund. Each of the General Partners is deemed registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), pursuant to Flexpoint’s registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Funds, Flexpoint or an affiliate has been designated the role of investment adviser. For more information about the Funds and General Partners, please see Flexpoint’s Form ADV Part 1, Schedule D, Sections 7.A. and 7.B.(1). In certain circumstances, as more fully described in Item 7 below, the Firm also permits certain investors and third parties to co-invest alongside a Fund directly into a portfolio company. Unlike the Co-Investment Funds mentioned above, such direct co-investments are not considered Funds or clients of Flexpoint.

Each of Flexpoint’s Funds have specific investment mandates as further detailed in each Fund’s Governing Documents (as defined below). The Main Funds are focused on privately negotiated equity investments in financial services and healthcare companies and make primarily long-term private equity and equity-related investments; the Special Assets Fund was formed to invest primarily on a privately negotiated basis in financial assets that Flexpoint believes will provide an attractive risk-adjusted return, either directly by acquisition or indirectly by funding investments backed by such assets. The Alternative Investment Vehicles were organized to address specific tax, legal, business, accounting and regulatory-related matters. The Fund IV Overage Funds were formed to invest alongside the Fund IV Main Funds on an “overage” basis and will only make a limited number of

investments made by the Fund IV Main Fund. The Co-Investment Funds were formed to permit certain existing investors to invest in portfolio companies alongside existing Main Funds.

Flexpoint's advisory services consist of investigating, identifying and evaluating investment opportunities, structuring and negotiating the terms of investments, managing and monitoring investments and achieving dispositions of such investments. Each portfolio company has its own independent management team responsible for managing its day-to-day operations, although for portfolio company investments where Flexpoint holds a majority position, the senior principals or other personnel and/or third parties appointed by Flexpoint will generally serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds. In addition, in some cases, Flexpoint will more directly influence the day-to-day management of the company by participating in the hiring of individuals as chief executive officer, chief operations officer, chief financial officer or in other senior roles. Some of the investments in the Funds may be in public companies or in private companies that go public while owned by a particular Fund. Flexpoint provides investment advisory services to each Fund in accordance with the applicable limited partnership agreement, limited liability company agreement, subscription agreement, private placement memorandum, investment advisory agreement, and, if applicable, any side letters as well as any analogous organizational or constituent documents of such Fund (collectively, the "Governing Documents").

Flexpoint does not tailor its advisory services to the individual needs of investors in its Funds; the Firm's investment advice and authority for each Fund is tailored to the investment objectives of that Fund as described in the Governing Documents of the applicable Fund. Investors in Funds participate in the overall investment program for the applicable Fund and generally cannot be excused from a particular investment except pursuant to the terms of the Governing Documents. Flexpoint has entered into side letters or similar agreements with certain investors including those who make substantial commitments of capital or who were early-stage investors in the Funds, or for other reasons in the sole discretion of Flexpoint, in each case that have the effect of establishing rights under, or altering or supplementing, a Fund's Governing Documents with respect to the applicable investor. Examples of side letter rights include but are not limited to co-investment preferences, notification provisions, reporting requirements and "most favored nations" provisions, among others. These rights, benefits or privileges are not always made available to all investors nor in some cases are they required to be disclosed to all investors. Side letters are negotiated at the time of an investor's capital commitment and, once invested in a Fund, investors generally cannot impose additional investment guidelines or restrictions on such Fund.

Flexpoint does not participate in wrap fee programs.

As of December 31, 2020, Flexpoint managed approximately \$4,720,319,673 of regulatory assets under management, all of which are managed on a discretionary basis. The calculation of regulatory assets under management includes remaining commitments and duplicates certain assets in Co-Investment Funds managed by Flexpoint, as such Co-Investment Funds are invested in by other

Flexpoint managed Funds. Without such duplication, Flexpoint regulatory assets under management, including remaining commitments, are approximately \$4,190,192,498.

## **Principal Owners**

Flexpoint is owned by the Firm's Chief Executive Officer, Donald J. Edwards. For more information about Flexpoint's owners and executive officers, see Flexpoint's Form ADV Part 1, Schedule A.

## **Item 5 – Fees and Compensation**

For services provided to a Fund, such Fund pays a management fee and a performance-based fee (as described in Item 6 below). In addition, on occasion the Funds pay directly, or indirectly through portfolio companies, certain supplemental fees and expenses as more fully discussed below. Further, the portfolio companies reimburse Flexpoint and the Funds for certain expenses advanced on their behalf. The following is a summary of how Flexpoint is compensated for its advisory services. Differences exist from Fund to Fund: certain Funds do not charge certain fees, and different Funds charge compensation or expenses in different amounts or do not charge certain compensation or expenses. Investors should refer to the Governing Documents of the applicable Fund for a complete understanding of how Flexpoint is compensated for its advisory services.

### **Management Fees**

As compensation for investment advisory services rendered to the Funds (and not the Co-Investment Funds, which do not pay management fees), each Fund pays the applicable General Partner or its designated management company a management fee (each, a "Management Fee"). The calculation of each Fund's Management Fee is (i) described briefly below and (ii) more specifically detailed in such Fund's Governing Documents.

Except as otherwise noted below, generally, the Main Funds and the Alternative Investment Vehicles pay the applicable General Partner or the designated management company an annual Management Fee of 2% of the Fund's aggregate commitments during the investment period. After the date the investment period expires and depending on the Fund, the Management Fee is computed based on the lesser of the Fund's committed capital, the respective Fund's net asset value or aggregate investment contributions, subject to other factors, exceptions and differences, and as further detailed in the Main Funds and Alternative Investment Vehicles' Governing Documents.

The Special Assets Fund pays to its General Partner or the designated management company an annual Management Fee equal to 2% of the excess of: (i) the daily average of (a) the aggregate acquisition cost of investments or the portion thereof not disposed of or completely written off, plus (b) the value of short term investments and the Special Asset Fund's cash over (ii) the daily average of the aggregate principal amount of the Special Assets Fund's outstanding indebtedness for borrowed money used to make investments, in each case as determined for the immediately preceding quarterly period, provided that investments in an issuer will be treated as having been disposed of or completely

written off only to the extent that, as of the date of any such disposition or write off, the aggregate fair market value of all remaining Special Assets Fund investments in such issuer is less than the Special Assets Fund's aggregate investment contributions (both existing and former) made with respect to such issuer.

The Fund IV Overage Funds pay to their General Partner or the designated management company an annual Management Fee equal to 2% of the sum of: (i) the aggregate investment contributions made with respect to portfolio investments that have not been disposed of or completely written-off; and (ii) the aggregate amount outstanding on the credit facility, in each case determined on the first day of the period with respect to which a determination is being made.

The precise amount of, and the manner and calculation of, the Management Fees for each Fund are established by Flexpoint as modified by negotiations with investors in the applicable Fund during its fundraising period and are set forth in each Fund's Governing Documents, in each case as received by each investor prior to investment in a Fund. Flexpoint is authorized, however, in its sole discretion, to waive or reduce a portion of the Management Fee. To date, with the exception of the Co-Investment Funds, which do not pay Management Fees, fees have been the same for all investors in the Funds.

Management Fees will generally be reduced by (in each case, solely to the extent applicable): (i) the amount of fees paid by such Fund to entities or persons acting as a placement agent or finder in connection with the offer and sale of interests in such Fund; (ii) costs incurred by Flexpoint in connection with the organization of such Fund that exceed a limit as specified in such Fund's Governing Documents; and (iii) certain supplemental fees and compensation with respect to portfolio companies, including closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees (whether in the form of cash, securities or otherwise) the amount of which are paid by the Funds (directly, or indirectly by the portfolio companies) and are determined by Flexpoint on a transaction-by-transaction basis, subject to the terms set forth in each Fund's Governing Documents. All such supplemental fees received are offset in whole against the Management Fee, net of any expenses incurred in connection with such portfolio company and any Management Fee waivers (described below); however, any such fees paid to non-Flexpoint employees (such as Operations Consultants, as defined below) or other individuals not affiliated with the Firm are not subject to an offset against Management Fees. Fees or expenses borne by a Fund directly do not offset Management Fees, nor do any portfolio company directors' or board fees paid by a former portfolio company to a Flexpoint employee who remains on the company's board of directors following the Fund's disposition of its investment in the company, if applicable. Any such reduction of a Fund's Management Fee is typically limited to the extent of such Fund's proportionate interest in any such portfolio company and only to the extent a Management Fee is payable by a Fund currently or in the future. Thus, the allocable portion of any supplemental fees received on behalf of a Co-Investment Fund are retained by Flexpoint and not such Co-Investment Fund. The amount and manner of such reduction is set forth in the relevant Governing Documents of the applicable Fund.

To the extent that such an offset credit would reduce a Fund's Management Fee for a given period below zero, the credit will be carried forward for future application against payable Management Fees, and if a credit remains upon dissolution, a payment will be made to investors that have not elected to waive such amount for tax or other reasons.

In addition, for Fund IV, as per the Governing Documents, Flexpoint is permitted to waive or reduce all or a portion of the Management Fee payable by Fund IV in exchange for a reduction in the cash capital contribution obligation of the Fund IV General Partner and certain employees and affiliates of Flexpoint to invest in and alongside the Fund, which could result in acceleration of investor capital contributions. Waived or reduced Management Fees are not typically subject to the various offsets or reductions as described herein. Due to waived or reduced Management Fees and/or the timing of receipt of fees subject to offsets, Fund investors could receive less than the full benefit of reductions or offsets.

Management Fees billed to and received from the Funds vary by Fund and, other than with respect to the Special Assets Fund, are payable on a semi-annual basis for the semi-annual period commencing on January 1 and July 1 of each year, payable on January 15 and July 15 of each year, in arrears with respect to the first fifteen days of the period and in advance for the remainder of the period. Management Fees for the Special Assets Fund are payable quarterly in arrears.

Withdrawals of capital from the Funds are not permitted as the Funds typically invest on a long-term basis. Accordingly, Management Fees are expected to be paid, except as otherwise described in the Governing Documents, over the term of the Funds.

### **Manager Expenses**

To the extent provided in the Governing Documents, Flexpoint will pay out of Management Fees all ordinary overhead and administrative expenses, including expenses on account of salaries, rent, utilities, equipment expenses, regulatory compliance under the Advisers Act and other routine administrative expenses relating to the services and facilities provided by Flexpoint to the Funds.

### **Fund Expenses**

With the exception of certain limited expenses which are paid directly from investor capital contributions as well as ordinary overhead and administrative expenses which are payable by Flexpoint, each Fund will bear all other fees, costs, expenses, liabilities and obligations relating to such Fund (and subsidiaries and intermediate entities), its activities, its business, its portfolio companies and/or its actual or potential investments, including with respect to any entity formed to effect the acquisition and/or holding of an investment (to the extent not borne or reimbursed by a portfolio company or potential portfolio company). Each Fund is governed by its own Governing Documents, which details a complete description of expenses for such Fund. While differences exist among Funds, the following is a description of expenses generally charged to each Fund and include, but are not limited to all fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities



with respect to the sourcing, diligencing, structuring, organizing, negotiating, consummating, financing, refinancing, acquiring, bidding on, owning, managing, operating, holding, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating or otherwise disposing of, as applicable, a Fund's investments 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, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; (ii) indebtedness of, or guarantees made by, any Fund, the Firm, the relevant General Partner or any affiliated partner on behalf of such Fund (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iii) financing, commitment, origination and similar fees and expenses; (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (v) brokerage, sale, custodial, depository, trustee, record keeping, account and similar services; (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with a Fund's third-party administrator and administration or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to the Operations Consultants, consultants performing investment initiatives and other similar consultants), tax and other professional services; (vii) reverse breakup, termination and other similar fees; (viii) insurance (including directors and officers liability, fidelity bond, management liability, cybersecurity, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles and broker fees, costs and commissions) and the cost of any consultants or other advisors utilized in the procurement, review and analysis of insurance policies; (ix) filing, title, transfer, registration and other similar fees and expenses; (x) printing and communications; (xi) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing, and compliance with any Foreign Account Reporting Regimes and any similar laws, rules and regulations, and fees and costs of any third-party service providers and professionals related to the foregoing; (xii) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of a Fund or its investors; (xiii) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information; (xiv) to the extent provided in the relevant Fund limited partnership agreement, or otherwise approved by the General Partner in its sole discretion, activities

or proceedings of the relevant advisory board (including any reasonable costs and expenses incurred by representatives of the General Partner, the advisory board members, permitted observers and other persons or entities in attending or otherwise participating in meetings of the advisory board); (xv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any partner or other person or entity pursuant to the relevant limited partnership agreement or otherwise, and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that can be subject to a right of indemnification pursuant to the limited partnership agreement), except as otherwise set forth in the limited partnership agreement; (xvi) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered into in connection therewith; (xvii) any annual investor meeting or other periodic, if any, meetings of the investors, any other conference or meeting with any investor(s) and any periodic executive forum of portfolio company management and/or other persons, in each case to the extent incurred by a Fund, relevant General Partner or any affiliate of such General Partner; (xviii) expenses related to attending industry meetings, conferences or similar events in connection with the evaluation of investment opportunities or business sector opportunities (including the evaluation of potential investments, regardless of whether such investment is ultimately consummated); (xix) except as otherwise determined by the relevant General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any Alternative Investment Vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such Alternative Investment Vehicle) that would be a Fund expense if it were incurred in connection with a Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to a Fund to the extent not paid by the investors investing in such entities; (xx) the termination, liquidation, winding up or dissolution of a Fund or any other Alternative Investment Vehicle; (xxi) defaults by the General Partner or investors in the payment of any capital contributions; (xxii) amendments to, and waivers, consents or approvals pursuant to, the Governing Documents of a Fund, the Firm or its affiliates and related entities and any Alternative Investment Vehicle, including the preparation, distribution and implementation thereof; provided that, with respect to the Governing Documents of the Firm or its affiliates, only to the extent such amendments, waivers, consents or approvals are related to an amendment to the Governing Documents of a Fund or its affiliates; (xxiii) complying with any law or regulation related to the activities of a Fund (including regulatory expenses of a Fund incurred in connection with the operation of such Fund and legal fees and expenses); (xxiv) any litigation or governmental inquiry, investigation or proceeding involving a Fund, including the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided in the limited partnership agreement; (xxv) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer as contemplated in the relevant limited partnership agreement; (xxvi) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of a Fund (except to the extent that such Fund is reimbursed therefor by a partner or such tax, fee or charge is treated as having been distributed to the General Partner or other investors pursuant to the

Governing Documents); (xxvii) distributions to the General Partner or other investors and other expenses associated with the acquisition, holding and disposition of a Fund's investments, including extraordinary expenses; (xxviii) unreimbursed expenses and unpaid fees of the Operations Consultants, employees or other persons engaged by the Operations Consultants; (xxix) compliance or regulatory matters related to a Fund, except as otherwise set forth in the Governing Documents; (xxx) any travel (including the cost of using private aircraft or other private air travel (including the use of a private aircraft owned or partially owned by the Firm, any of its affiliates or any of their respective owners) at a cost above the cost of first class commercial airfare), lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxi) any organizational expenses (as defined below); (xxxii) any placement fees; (xxxiii) any third party experts, including independent appraisers, engaged by the relevant General Partner in connection with a Fund considering, making or holding an investment in the same person as one or more other Funds; (xxxiv) closing dinners and any meeting of executives or other senior personnel of current or former portfolio companies sponsored by the Firm; and (xxxv) any other fees, costs, expenses, liabilities or obligations approved by the advisory board. For more information about Flexpoint's brokerage practices, please see Item 12 below.

## **Expense Reimbursement**

Each portfolio company typically pays for or reimburses the Firm or a Fund for certain expenses incurred in connection with Flexpoint's performance of services for such portfolio company. Such expenses generally include, without limitation: (i) travel expenses, which often will include expenses for chartered or first-class travel and meals and entertainment expenses (such expenses including, as applicable, those relating to (a) the usage of premium black car and other car services, which from time to time include waiting time, (b) premium meals (including outside normal business hours) and (c) social and entertainment events, including closing dinners and mementos, with portfolio company management, customers, clients, borrowers, brokers and service providers); (ii) expenses relating to training programs, meetings, conferences or other events (to the extent such programs, meetings or events are attended by portfolio company personnel); (iii) expenses relating to hiring portfolio company personnel (including background checks, recruiting and relocation expenses); (iv) indemnification expenses; (v) insurance; (vi) consulting; (vii) certain legal expenses; (viii) similar out-of-pocket expenses; (ix) consulting fees; and (x) other cash and non-cash compensation and expenses. In addition, to the extent a Fund or Flexpoint initially bears the cost of certain fees or expenses but the benefit of the related services or expense is also received by another Fund, portfolio company or future fund or portfolio company, Flexpoint will generally, subject to its ultimate discretion, cause such other Fund or portfolio company to reimburse the initial Fund or Flexpoint for such fees or expenses.

Out-of-pocket expenses associated with completed transactions are either billed directly to a Fund, reimbursed by portfolio companies or capitalized as part of the acquisition price of a consummated transaction. Except for travel expenses incurred by employees or Operations Consultants, which are

borne by the Firm, out-of-pocket expenses associated with unconsummated transactions (*i.e.*, broken deal expenses) are paid by the relevant Fund(s) selected as proposed investors in such transaction. Such reimbursements by a portfolio company of out-of-pocket expenses incurred by Flexpoint, a General Partner or their respective affiliates will not be offset against the Management Fee payable by the Funds.

### **Organizational Expenses**

Each Fund is responsible for organizational and startup expenses up to a permitted limit and for specific expenses as more fully detailed in each Fund's Governing Documents. Through their investment in the Fund, each investor therein will bear its pro rata share of the applicable Fund's "organizational expenses" which generally include, but are not limited to, all expenses related to travel (including, where appropriate, the cost of chartering private aircraft or other private air travel (including from an affiliate of the General Partner) at a cost above the cost of first class commercial airfare) printing, legal, capital raising, accounting, regulatory compliance (including the initial compliance contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), and any administrative or other filings) incurred in connection with the organization, funding and start-up of the relevant Fund, General Partner, various affiliates thereof, including the preparation of, and negotiations with respect to, the applicable Governing Documents, but not including any private placement or finders' fees paid to third parties in connection with the organization and funding of such Fund or alternate pooled investment vehicles (if applicable). As mentioned above, any amounts in excess of the organizational amounts specified in a Fund's Governing Documents are borne by Flexpoint and offset dollar for dollar against the applicable Management Fee.

### **Co-Investment Fees and Expenses**

As described above, in certain circumstances, Flexpoint permits certain Fund investors to co-invest in portfolio companies alongside one or more Funds either through a Co-Investment Fund or directly into a portfolio company, subject to the relevant Fund Governing Documents and Flexpoint's policies and procedures. Where a Co-Investment Fund is formed, such entity will bear expenses related to its formation and operation (reimbursable expenses), many of which are similar in nature to those borne by the Main Fund(s) participating in such transaction. In the event that a transaction in which a Co-Investment Fund was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all fees and expenses generated in the course of evaluating such investments, including out of pocket fees associated with due diligence, attorney fees and the fees of the other professionals and various other fees relating to such unconsummated transaction ("broken deal expenses") will be borne by the Main Fund(s), and not by any prospective co-investors that were to have participated in such transaction. However, to the extent that such co-investors have already committed to invest in a Co-Investment Fund in connection with such transaction, such investors in the Co-Investment Fund are expected to bear their share of such broken deal expenses. Similarly, investors who are contractually committed

to participate directly into a portfolio company (*i.e.*, not through a Co-Investment Fund) will also generally bear their share of broken deal expenses.

Flexpoint typically charges investors in a Co-Investment Fund a transaction fee and for their share of the applicable Co-Investment Fund's reimbursable expenses. Transaction fees are generally charged to a Co-Investment Fund as a one-time agreed-upon fee for organizing and closing such Co-Investment Fund payable upon consummation of the closing of the Co-Investment Fund. Co-Investment Funds do not have an offset for any transaction fees received as co-investors do not pay a Management Fee; similarly, there is no offset to a Main Fund for any transaction fees received on behalf of a Co-Investment Fund. Therefore, Flexpoint will retain the allocable portion of any transaction fees on behalf of a Co-Investment Fund.

### **Portfolio Company Remuneration**

Flexpoint is entitled to receive, but can choose in its sole discretion to defer or forego receipt of, certain supplemental fees and compensation with respect to portfolio companies, including all closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors' fees and other similar fees (whether in the form of cash, securities or otherwise) the amount of which are paid by the Funds (directly, or in the case of monitoring fees, indirectly by the portfolio companies) and are determined by Flexpoint on a transaction-by-transaction basis, subject to the terms set forth in each Fund's Governing Documents.

While under the Funds' Governing Documents, each Fund is permitted to be charged transaction fees, to date no transaction fees have been taken by Flexpoint on behalf of the Funds (but for the avoidance of doubt, as mentioned above, such transaction fees have been assessed on the Co-Investment Funds).

Flexpoint offsets the receipt of monitoring fees from a portfolio company 100% against the Management Fees of such Fund. On occasion, in certain circumstances (such as a portfolio company's liquidity needs or otherwise) Flexpoint determines in its discretion to waive, defer or renegotiate, in whole or in part, the monitoring fees received from a portfolio company. Flexpoint endeavors to require the payment of such fees only to the extent permitted by the earnings of the applicable portfolio company, and Flexpoint will defer or forego the payment of such fees if the portfolio company's earnings or cash position render the payment of such fees too burdensome for the portfolio company. Flexpoint makes such determinations on a case-by-case basis and reserves the right to take different actions (or no action) with respect to similarly-situated portfolio companies.

### **Operations Consultants**

Flexpoint and its affiliates engage and retain advisers, consultants, operating partners, operations consultants, executive partners and other similar professionals (collectively, "Operations Consultants"). Operations Consultants are not employees or affiliates of Flexpoint and are retained

primarily to provide sales, marketing, technology, human resources, industry expertise, acquisition integration/rationalization and/or other operations services, acquisition or other due diligence, or similar services to the Funds or any portfolio company or prospective portfolio company (including serving as a director on the board of directors or similar governing body of a portfolio company) or any alternative investment vehicle. The nature of the relationship with each of the Operations Consultants and the amount of time devoted or required to be devoted by them varies. In certain cases, Operations Consultants provide the Funds and/or Flexpoint with industry-specific insights and feedback on investment themes, assist in transaction due diligence, make introductions to and provide reference checks on management teams. In other cases, Operations Consultants take on more extensive roles and serve as executives or directors on the boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances, Flexpoint has formal arrangements with these Operations Consultants (which are often terminable upon notice by any party); in other cases, the relationship is more informal. There can be no assurance that any of the Operations Consultants will continue to serve in such role and/or continue their arrangement with Flexpoint and/or any portfolio company throughout the terms of the Funds.

Flexpoint typically pays Operations Consultants a retainer out of Management Fee proceeds. In addition, Operations Consultants will, from time to time, receive compensation including, but not limited to, fees (including finder's fees), payments, co-investment rights (including in Funds and/or investments in which they are not involved), equity allocations and/or allocations with respect to portfolio companies, including incentive equity or other stock awards from a portfolio company or prospective portfolio company (which payments are not included as transaction fees). Operations Consultants on occasion also receive a discretionary bonus or a success fee (in the form of cash or equity) based on pre-determined targets or milestones. Flexpoint often appoints an Operations Consultant to serve on the board of a Flexpoint portfolio company, which fees are generally paid directly by such portfolio company to the Operations Consultant. Certain fees payable to Operations Consultants are associated with a particular transaction and will typically be included in the closing costs payable by the applicable portfolio company. In the event an Operations Consultant provides work for a portfolio company in addition to board service, any such fees are paid by the portfolio company directly to the Operations Consultant. The determination of the appropriate form and amount of compensation for such services takes into account a variety of factors but will ultimately be at the discretion of the General Partner.

Operations Consultants typically incur expenses while working with Flexpoint portfolio companies, and such expenses are paid or reimbursed by either Flexpoint, the relevant portfolio company (generally in the case of consummated transactions) or the relevant Fund (generally in the case of unconsummated transactions), depending on the nature of the services provided. Operations Consultants are also reimbursed for the cost of their travel to and from portfolio company board meetings and other portfolio company business and such expenses are generally borne by the relevant portfolio company (generally in the case of consummated transactions), or by the Firm in the event the deal in question is not consummated. Some Operations Consultants are also investors in the Flexpoint Funds. None of these fees, bonuses, profits interests, other compensation or

reimbursements paid by the portfolio companies and received by Operations Consultants are offset against Management Fees.

### **Fee Receipt Allocation**

From time to time, Flexpoint, a Fund or a portfolio company pays a portion of carried interest, equity grant or other fee to a third party, such as a consultant, advisor, Operations Consultant, finder, placement agent, broker and/or investment banker. Similarly, on occasion certain members of a portfolio company management team receive additional compensation, including bonus payments based on the applicable portfolio company meeting certain success hurdles. Such compensation indirectly reduces the revenue available for distribution to the relevant Fund at the time of such portfolio company's sale. None of these fees or compensation offset Management Fees payable by a Fund.

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

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

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

A portion of the profits of each Fund is distributed to its General Partner as carried interest (the "Carried Interest"). A Carried Interest allocation represents an adviser's compensation based on a percentage of net profits of the Funds it manages. The Carried Interest amount is generally equal to 20% of all realized profits after reimbursement of all relevant Fund expenses, including Management Fees. Calculated based on cumulative realized gains and income only, Carried Interest allocations are allocated to a General Partner as portfolio holdings are liquidated or otherwise monetized and are subject to specified minimum valuation tests as well as clawbacks in the event that a Fund's General Partner is paid in excess of its entitled Carried Interest distribution. Each Fund's Carried Interest fee structure, as well as the clawback provision of each Fund, is described in detail in the relevant Governing Documents received by each investor prior to investment in such Fund. The General Partner of each Fund, in its sole discretion, is permitted to waive or reduce the amount of Carried Interest for certain Fund investors. Investors in Co-Investment Funds do not pay a Carried Interest allocation.

Flexpoint's Carried Interest allocations have been structured to comply with Section 205(a)(1) of the Advisers Act and the rules and regulations thereunder, including the exemption set forth in Rule 205-3 of the Advisers Act.

The payment by the Funds of Carried Interest has the potential to create an incentive for Flexpoint to (i) disproportionately allocate time, services or functions to Funds paying Carried Interest, (ii) to allocate investment opportunities to such Funds or (iii) to make investments that are more speculative than would be the case in the absence of such distributions. Generally, and except as otherwise set forth in the Governing Documents of the Funds, Flexpoint believes that these potential conflicts of interest have been sufficiently mitigated by the fact that (i) the applicable Governing Documents create limitations on the ability of Flexpoint to establish new investment funds, (ii) the Funds are subject to certain contractual provisions requiring certain parallel Funds to purchase and sell investments contemporaneously, (iii) the General Partner makes a pro rata, but substantial, monied investment commitment to each Fund, (iv) losses on speculative investments would negatively impact overall Fund performance, thus reducing the Carried Interest payable to the General Partner, (v) Carried Interest is generally calculated only after investors have first received as distribution 100% of their capital contributions related to any such realized investment, and (vi) Flexpoint's ability to attract future investors is tied to the performance of its investments.

Flexpoint manages multiple Funds with similar investment strategies on a side-by-side basis. Management of multiple vehicles on a side-by-side basis has the potential to create conflicts of interest with regard to Flexpoint's consideration of certain transactions among the Funds and the allocation of investment opportunities, expenses, time and attention of advisory personnel. Although Flexpoint generally makes new investments for a Fund with the same investment objectives only after a predecessor Fund is substantially invested or committed as more fully described in the applicable Fund's Governing Documents, management of side-by-side Funds can create an incentive for the Firm or its personnel to favor a Fund or other investment vehicle in which Flexpoint or an affiliate has a greater financial interest. To help minimize such conflicts of interest, Flexpoint allocates investment opportunities which satisfy the investment parameters of more than one Fund in accordance with Flexpoint's policies and procedures regarding investment allocation, applicable Governing Documents and taking into consideration certain factors, as determined in the Firm's sole discretion, which can include, but are not limited to: the amount of available capital commitments of the applicable Fund(s); anticipated future capital requirements of an investment opportunity; life-cycle of the applicable Fund(s); expected time to obtain liquidity; legal, tax and regulatory considerations; and any other factors deemed relevant by Flexpoint. Flexpoint's procedures are designed to ensure that all investment decisions are made in accordance with Flexpoint's fiduciary duties to its Funds and without consideration of Flexpoint's (or its affiliates' or employees') pecuniary interest. Flexpoint will not allocate investment opportunities based in whole or in part on (i) the relative fee structure or amount of fees paid by any Fund or (ii) the profitability of any Fund.



## Item 7 – Types of Clients

Flexpoint provides investment advisory services directly to the Funds, subject to the direction and control of the General Partner of each such Fund. Interests in the Funds are offered pursuant to applicable exemptions from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Investors in the Funds must meet certain suitability and net worth qualifications prior to making an investment in the Funds. Investors in the Funds are “accredited investors” as defined in the Securities Act of 1933, as amended, and either “qualified purchasers” or “knowledgeable employees,” each as defined in the Investment Company Act. Interests in the Funds are not made available to the general public and are privately placed to qualified investors. Qualified investors include individuals or entities to which Fund interests are allowed to be sold, which generally includes (i) in the United States, people or organizations who meet certain net worth, income and/or financial sophistication requirements as described above or (ii) in other countries as permitted by the relevant securities laws in such jurisdiction and in compliance with any foreign offering provisions applicable to Flexpoint and/or the Funds. Investors in the Funds include, among others, high net worth individuals, banks, thrift institutions, pension and profit-sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships and limited liability companies or other entities. In addition, employees and other persons associated with Flexpoint and/or its affiliates are investors in the Funds.

Funds I (no longer active) and II had a \$1.0 million minimum commitment requirement for investment in the Funds; Fund III had a minimum commitment amount of \$3.75 million; the Special Assets Fund had a minimum commitment amount of \$1.25 million; and Fund IV had a minimum commitment amount of \$5 million (allocated 75% to the Fund IV Main Funds and 25% to the Fund IV Overage Funds). There is no minimum commitment amount for the Alternative Investment Vehicles, as these vehicles are organized primarily for tax purposes. Similarly, there is no minimum commitment amount for Co-Investment Funds, as these vehicles are established based on the funding needs of the portfolio company in which such investment is made. The General Partner of each Fund has, in its sole discretion, permitted investments below the minimum amount set forth in a Fund’s Governing Documents.

As referenced in Item 4 above, in certain cases co-investments have been structured either as (i) a separate and dedicated Co-Investment Fund or (ii) a direct investment by certain investors into a portfolio company or its holding or operating company. When structured as a dedicated Co-Investment Fund, Flexpoint considers the investment to be a Fund client, identifies the Co-Investment Fund in its Form ADV Part 1, Schedule D, Section 7.B.(1), obtains an audit for the Fund, may choose to assess a Management Fee and/or Carried Interest on such Fund (although no Management Fee or Carried Interest has been charged to date) and includes the amount of assets of such Fund in the Firm’s regulatory assets under management. In the case of direct co-investments, Flexpoint does not consider the investment to be a Fund or a client, does not act as the investment manager to the co-investment portion of the investment, does not charge Management Fees or Carried Interest to the investment, does not have custody of the investment or include the amount of assets

of the co-investment in the Firm's regulatory assets under management. In such direct co-investment opportunities, Flexpoint will perform management, advisory and other services for the portfolio companies in which these co-investors invest, generally at no cost to such co-investors except expenses.

For co-investment opportunities, in its sole direction, Flexpoint permits certain investors (generally Fund investors) to invest in a single portfolio company alongside a Fund or Funds through an aggregator or special purpose vehicle. The Firm will usually only consider a co-investment opportunity in the event a Fund investment is too large for a Fund or Funds; such determinations are based on the provisions of the applicable Governing Documents and such other factors as Flexpoint considers in its sole discretion, including those specified in its policies on investment allocation and co-investments. Subject to any restrictions contained in the Governing Documents of the relevant Fund or any side letter or other terms negotiated with respect to such Fund, in general no investor has a right to participate in any co-investment opportunity. Flexpoint's exercise of discretion in allocating co-investment opportunities often will not result in proportional allocations among such co-investors and such allocations can be more or less advantageous to some co-investors relative to other co-investors. When co-investment opportunities are permitted, it is possible that the size of the investment opportunity otherwise available to Flexpoint's Fund(s) will be less than it would otherwise have been without the inclusion of such co-investors.

Factors Flexpoint considers when determining who to include in a co-investment opportunity include: (i) any expressed interest of the prospective co-investor as memorialized in a side letter; (ii) whether the prospective co-investor brought the investment opportunity to Flexpoint; (iii) Operations Consultants, senior advisors, members of an advisory board or other "friends of the Firm"; (iv) the ability and expected interest of the prospective co-investor to participate in the applicable investment and meet the desired due diligence, approval and funding timetable; (v) Flexpoint's prior experience with the prospective co-investor; (vi) Flexpoint's anticipated alignment of interest with the prospective co-investor; (vii) any expertise or experience of the prospective co-investor that is relevant to or otherwise of strategic value to Flexpoint, the Fund(s) or the particular investment; (viii) any anticipated legal or regulatory complications involving the prospective co-investor; (ix) Flexpoint's expectations regarding the portfolio companies or investments and any other expected co-investor's view of the prospective co-investor's participation in the co-investment opportunity; (x) the size of the investment allocation available to Flexpoint (and not being allocated to the Funds), and the practicality of splitting the allocation into smaller tranches; (xi) any requirements of any third-party lenders as to the identity of any individual participating as co-investors, or as to the creditworthiness of any potential co-investors, or as to the number of potential co-investors, or as to other matters with respect to the co-investors in the transaction; (xii) the ability of the potential co-investor to invest an amount of capital that is consistent with the needs of the investment; (xiii) the knowledge and sophistication, as determined by Flexpoint in good faith, of the proposed co-investor; (xiv) whether the proposed co-investor has expressed an interest in evaluating co-investment opportunities; (xv) whether the proposed co-investor has any interests in any competitor of the underlying investment; and (xvi) other factors that Flexpoint considers important in connection with the specific transaction or investment.

In the event Flexpoint offers a co-investment opportunity, the size of the investment opportunity otherwise available to Flexpoint's Fund(s) will be less than it would otherwise have been without the inclusion of such co-investors. Additionally, certain individuals who source transactions or provide financing have in the past and expect to in the future negotiate co-investment rights or co-investment priority rights as a component of their compensation or other arrangements with the relevant Fund(s).

Some co-investors will potentially be provided the opportunity to sit, or have a representative sit, on the board of directors or board of advisers of a Flexpoint portfolio company. Positions on boards of directors or advisers of such portfolio companies provide such persons with voting rights, access to information and potentially the ability to influence the operations and decision-making of the portfolio company that are not necessarily available to other investors. Any board fees received by such co-investors are paid by the relevant portfolio company and are not subject to the offset against Management Fees.

Participation in a co-investment opportunity with the applicable Funds generally will be allocated among electing eligible investors based on their respective allocation percentages, which are determined by Flexpoint in good faith, taking into consideration: (i) certain allocation factors included in Flexpoint's investment allocation policy; (ii) the amount requested by such eligible investor in respect of a particular co-investment opportunity; (iii) the total amount requested by all eligible investors in respect of a particular co-investment opportunity; and (iv) the total capital commitments of such eligible investor in the applicable Fund.

Co-investments structured through a separate Co-Investment Fund typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as are offered to the corresponding Fund(s) making the investment. However, from time to time, for strategic and other reasons, an individual co-investor or Co-Investment Fund will purchase a portion of an investment from one or more Funds after such Fund(s) have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by an individual co-investor or Co-Investment Fund generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment, and the co-investor or Co-Investment Fund can be charged interest on the purchase to compensate the relevant Fund for the holding period, and as mentioned in Item 5 above, generally will be required to reimburse the relevant Fund for related costs.

In the event Flexpoint is not successful in offering a co-investment opportunity to potential co-investors, in whole or in part, a Fund will consequently hold a greater concentration and have greater exposure in the related investment opportunity than was originally intended, which could make the Fund more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto and would result in a greater concentration of risk as a result. Thus, an investment that is not syndicated to co-investors as originally anticipated could result in a significant impact to a Fund's overall investment returns.

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

### Methods of Analysis

*Deal Sourcing and Idea Generation.* Flexpoint believes, across both the financial services and healthcare sectors, that the most readily available investment opportunities (*i.e.*, companies for sale by intermediaries) create a level of interest among potential investors that can drive entry valuations to levels where the risk-return profiles become, in Flexpoint’s judgement, unappealing. As such, Flexpoint has worked hard in several ways to source opportunities where strict price competition is more muted. Only a minority of Flexpoint’s investments to date have been made as the result of Flexpoint offering the highest price in a traditional auction process.

Flexpoint proactively focuses its efforts where it believes the industry expertise of its Managing Directors and other investment professionals provides it an advantage, typically becoming immersed in an industry subsector in advance of finding an investment opportunity. The Firm networks with senior managers, consultants and commercial bankers in target industries and markets to intermediaries such as investment banks and M&A advisors.

In addition to these efforts to help Flexpoint be an “early mover” with its investment theses in attractive niche sectors, the Firm believes that its flexible approach to investment structure is a powerful tool to mitigate the dominance of entry price as the determinant of closing investment opportunities. A significant number of Flexpoint’s investments have been in structures other than majority-control buyouts. Leading with its financial services and healthcare industry expertise, Flexpoint has tailored its investment structures to invest in what the Firm believes are the best opportunities available.

*Analysis and Due Diligence.* As in deal sourcing and idea generation, the application of Flexpoint’s financial services and healthcare industry strategy drives its due diligence process, and diligence focus and capability serves to differentiate the Flexpoint approach to investing. The Firm has often developed the preliminary framework of an investment thesis in a sector even before it has had the opportunity to diligence a particular investment opportunity. As such, Flexpoint is generally well-prepared to move quickly in its analysis and diligence on a specific company when the opportunity arises.

Following the industry specific diligence referenced above, which Flexpoint believes is critical to the development of its investment thesis, the Firm performs rigorous diligence on a variety of areas or a portfolio company’s business, including accounting and financial, legal, operational and customer and supplier. Flexpoint often uses outside firms and works closely with them to assist in elements of accounting and legal diligence. While financial and legal diligence are critical components of the investment process, Flexpoint places equal emphasis on using the diligence process to delve into the assumptions behind its investment thesis. Flexpoint believes that industry knowledge and experience are preconditions to developing a fully formed judgment taking these factors into account.

*Deal Execution.* Flexpoint has successfully completed investments across a broad spectrum of structures, including minority investments in private companies, and has raised a full range of debt capital to facilitate deals (including bank debt, institutional senior and subordinated debt).

*Portfolio Company Guidance.* Flexpoint and its personnel have many years of industry experience in building portfolio companies, leveraging the Managing Director's background, knowledge and networks. Flexpoint provides guidance on a wide range of topics including business strategy, management structure, operational improvements, financial capitalization, strategic alliance, acquisitions and divestitures. Flexpoint works closely with portfolio company management on major strategic decisions, to assist in company financings, to help find and execute add-on acquisitions, and to recruit senior management as appropriate.

In financial services, Flexpoint often leads the process of financing the portfolio companies' businesses as they grow over time. Further, Flexpoint believes experience across a wide range of businesses over many years positions Flexpoint as a trusted partner for its portfolio company management teams as they assess the many regulatory changes they inevitably face over time in their sub-sectors of the financial services and healthcare industries.

*Exits.* While portfolio company financial performance over time is certainly the key factor in achieving attractive equity returns, Flexpoint believes that well-timed and well-executed liquidity actions can enhance returns. The Firm has demonstrated a historical record of optimizing exit timing and value through a variety of vehicles including sales, recapitalizations, public offerings and liquidation of public positions. Flexpoint believes that its industry-focused approach provides enhanced insight into optimal exit opportunities and, as applicable, into the dynamics affecting specific potential strategic acquirers that allow the Firm to oversee a successful sale process.

Just as in other areas of the investment process, the Firm believes its industry expertise and experience contributes substantially to the sale of its investments. Flexpoint has seldom relied on third-party advisers or intermediaries to source and negotiate exit opportunities. Most importantly, the Firm believes that direct involvement with its extensive industry contacts has served to optimize exit opportunities.

## **Investment Strategy**

### *Financial Services Investment Strategy*

The Firm targets investments with differentiated business models, defensible market positions and an ability to generate attractive growth and returns on capital through economic cycles. The Firm leverages its strong reputation, deep industry expertise and network of executives to identify and pursue partnerships with industry-leading financial services companies. Flexpoint has a record of investing across a variety of financial services subsectors, including specialized commercial and consumer lending, risk-bearing insurance, insurance distribution and services, asset management, finance and accounting services, trading technology, payment processing, and consumer debt

collection. This breadth of experience allows the investment professionals to continue to provide differentiated market and competitive perspectives to portfolio companies, which will help inform executive and board level decision making, particularly as it relates to corporate strategy, acquisitions, and capital structure optimization.

Flexpoint's financial services investments include specialized commercial and consumer lending, risk-bearing insurance (including property/casualty, life and reinsurance), insurance distribution and services, trading technology, asset and wealth management, transaction processing and other services and technology solutions to the financial services industry. Flexpoint intends to add value to the operations and subsequent investment returns of each portfolio company. Consistent with this core strategy, Flexpoint expects that the majority of the investments will be in private companies or public companies where the Funds have a significant ownership interest and at least one board seat.

The Firm believes there are opportunities to invest at various stages of the lifecycle of a financial services company, including during: the growth and rollout of an existing strategy, a mature phase focused on maximizing cash flow, a period of industry consolidation or a required turn-around. Each of these stages can offer different risks and rewards, and Flexpoint has experience investing and operating across this spectrum.

#### *Special Assets Fund Investment Strategy*

Flexpoint believes that through its focus and expertise in financial services private equity, it has developed the opportunity to invest in what it calls "financial assets" in addition to private equity. Financial assets include, but are not limited to, loans, leases, books of insurance, advance lines to commercial and consumer lenders, life settlements and other assets of different financial services companies. Flexpoint believes that one of the defining characteristics of the Firm is that, in connection with making and managing various private equity investments in the financial services sector, it has developed in-house expertise to evaluate many types of financial assets. The Firm has drawn heavily on this expertise in establishing its record of identifying, analyzing and investing in companies that originate and service financial assets.

#### *Life Settlements*

Certain Funds are expected to participate in a more directed investment strategy related to life settlements, and it is possible that such assets will be acquired by a Fund individually or in coordination with other Funds. Specifically, within the life settlements market, these Funds will acquire life settlements in (i) the secondary market from one or more licensed life settlement providers (which are the regulated entities that are authorized by state governmental authorities to purchase life insurance policies from consumers) as well as in (ii) the tertiary market directly from various sellers. The Firm's management team has studied the life settlements market and believes it has developed proprietary techniques, technology and datasets to transform market challenges into competitive advantages. The capabilities of the Firm's management team derive from their collective experience in key areas of the asset class: investment through the secondary market and tertiary market, portfolio management,

underwriting, origination, premium finance and servicing spanning multiple decades. Investments in the life settlements market are expected to be relatively uncorrelated to traditional asset classes such as the U.S. stock market and U.S. credit market.

### *Healthcare Investment Strategy*

Flexpoint's healthcare strategy is intended to strike a balance between our enthusiasm for the prospects of long term and non-cyclical demand growth for all types of healthcare services and products and our understanding of the risks presented by significant government influence over pricing and extensive regulatory oversight of the healthcare sector. The Firm's collective experience investing in healthcare businesses leads us to believe that our best investment opportunities have arisen when it has found subsectors where the Firm's view of the appropriate balance point differs from that of the market.

Due to the nature of the third-party reimbursement system in the U.S., with a substantial portion of that reimbursement coming from government sources, Flexpoint believes that healthcare businesses as a whole tend to be uncorrelated with the economic cycle. Instead, Flexpoint believes that growth in individual healthcare businesses tends to be driven by population growth, demographic trends, innovation and political changes that can change overall reimbursement or potentially favor one particular type of healthcare service or product over another. In addition, due to the third-party payor system in the U.S. and the related disconnect between a healthcare purchase decision and the ultimate payment for that decision, there are substantial regulatory protections in place to prevent self-dealing or fraudulent behavior, often placing significant operational burdens on all providers of healthcare. Successful investors in healthcare businesses must be adept at anticipating the prospects for reimbursement change over both the short and long term, and projecting likely increases in regulation that could impact the way a business acquires customers or manages its operations.

Flexpoint divides the universe of healthcare investing opportunities into four categories: providers (*e.g.*, hospitals, long term care facilities, clinical laboratories, home health, pharmacy); payors (*i.e.*, managed care organizations focused either on a particular population or on a particular type of healthcare benefit); product companies (*i.e.*, manufacturers and marketers of pharmaceuticals and medical devices); and outsourced services to the product companies, providers and payors (*e.g.*, distribution, marketing services and clinical research).

### **Risks (for all Funds)**

Investing in securities involves a substantial degree of risk. An investment in a Fund is speculative, illiquid and long-term in nature and a Fund can lose all or a substantial portion of its investments, and investors must be prepared to bear the risk of a complete loss of their investments. Investors should also refer to a Fund's Governing Documents for a description of the risk factors specific to their Fund. Different or new risks not addressed below can arise in the future and, therefore, the following list is not intended to be exhaustive. While the following discusses risks as they relate to all Funds, Co-Investment Funds will also be subject to some or all of the following risks, depending on the risks

associated with the applicable transaction or investment strategy. To the extent certain Co-Investment Funds pursue investments or strategies that are not pursued by the Funds, such Co-Investment Funds will likely be subject to additional risks as described in their respective offering documents. Material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the Funds, include but are not limited to the following:

*Business Risks.* The Funds' investment portfolios consist primarily of securities issued by privately held companies and other financial assets, and operating and/or other financial results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses. In addition, all investments risk the loss of capital. Flexpoint believes that each Fund's investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. No guarantee or representation is made that a Fund's investment program will be successful.

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

*Concentration of Investments.* Each Fund will participate in a limited number of investments and intends to make the most of its investments in a limited number of industries or a limited number of industry segments (*i.e.* healthcare and financial services industries) or within a short period of time. As a result, each Fund's investment portfolio could become highly concentrated, and the performance of a few holdings, or of a particular industry, can substantially affect its aggregate return. Furthermore, to the extent that the capital invested is less than the committed amount, the Funds are likely to invest in fewer portfolio companies and, thus, be less diversified. To the extent that a particular industry, market segment or geographic region outperforms a Fund's targeted industries, market segments and/or geographic regions, a Fund will possibly achieve lower returns than if the Fund's investment strategy were more diversified. Investments in the Co-Investment Funds are made in one portfolio company and thus are concentrated solely on that one investment.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity and financial asset transactions is highly competitive and involves a high degree of uncertainty. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. Also, regardless of a Fund's investment activity, investors will typically be required to bear (a) Management Fees during a Fund's investment period based on the entire amount of the respective Fund's investors' capital commitments and (b) other expenses as set forth in the relevant Governing Documents.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments will sometimes be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment can be sold at any time, it is generally expected



that this will not occur for a number of years after the initial investment. Before such time, there will likely be no current return on the investment. Furthermore, at certain times the expenses of operating a Fund (including the Management Fee payable to its General Partner) can exceed its income, thereby requiring that the difference be paid from such Fund's capital, including unfunded capital commitments of investors.

*Leveraged Investments.* The Funds expect, in certain circumstances, to make use of leverage by incurring, or having a portfolio company incur, debt to finance a portion of its investment in a given portfolio company or other investment, including in respect of portfolio companies or investments not rated by credit agencies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets are impacted by regulatory restrictions and guidelines), which is difficult to accurately forecast, especially in light of the uncertainty in connection with the ongoing COVID-19 pandemic. As a result, at times it will be difficult to obtain or maintain the desired degree of leverage. The availability of leverage also is subject to governmental and regulatory oversight, and certain governmental bodies (including the U.S. Federal Reserve System, the U.S. Office of the Comptroller of the Currency and the U.S. Federal Deposit Insurance Corporation) can restrict or otherwise discourage lending that results in companies carrying large amounts of debt.

The use of leverage by a Fund (and potentially on behalf of co-investors) will also result in interest expense and other costs to such Fund that would not be covered by distributions made to such Fund or appreciation of its investments. To the extent the Funds use their leverage to fund or bridge a co-investor's investment, the Funds have greater risk of loss until the Funds' leverage is paid down for the co-investor's portion of the leverage. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and will impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies and other investments will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of a Fund's investments in the leveraged portfolio companies or other investments in a down market. In the event any portfolio company or other investment cannot generate adequate cash flow to meet its debt service, a Fund would suffer a partial or total loss of capital invested in such portfolio company or investment, which could adversely affect the returns of the Funds. Furthermore, should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company or other investment, such Fund would not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Funds plan to invest generally will not be rated by a credit rating agency. A Fund is permitted to borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefore, and in such situations, it is not expected that a Fund would be compensated for providing such guarantee or exposure to such liability. Similarly, a Fund can incur leverage on a joint and several basis with one or more other investment funds and entities managed by its General Partner or any of

its affiliates and, in such cases, will generally have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts are typically secured by capital commitments made by such Fund's investors and such investors' contributions are required to be made directly to the lenders instead of such Fund. A Fund's use of a revolving credit or other debt facility will be determined by the General Partner, and the relevant Fund's performance can be affected by how the General Partner causes such Fund to utilize such facilities. A General Partner faces conflicts of interest in causing a Fund to use such facilities as such use would likely delay the need for investors to contribute capital to a Fund, which would likely enhance such Fund's performance figures and thereby benefit the relevant General Partner and its affiliates. Moreover, tax-exempt investors should note that the use of borrowings by the Fund has the potential to cause the realization of UBTI.

To the extent a Fund uses borrowed funds in advance or in lieu of capital contributions, or a portfolio company borrows funds directly through the Fund facility, a Fund's investors generally make later capital contributions, but a Fund will bear the expense of interest on such borrowed funds. In addition, a Fund's use of borrowed funds has the potential to impact the calculation of net performance metrics (to the extent that they measure investor cash flows) and make net IRR calculations higher than they otherwise would be without Fund-level borrowing (especially where financing remains outstanding for longer durations), as these calculations generally depend on the amount and timing of capital contributions which timing is delayed by virtue of the use of the line. Flexpoint therefore has a conflict of interest in deciding whether to borrow funds because Flexpoint has the potential to receive disproportionate benefits from such borrowings.

*Bridge Financing.* Although Flexpoint generally structures Funds to avoid cross-guarantees and other circumstances in which one Fund bears liability for all or part of the obligations of another Fund, in certain circumstances (i) a cross-guarantee would be more efficient and convenient for administrative purposes and/or (ii) lenders and other market parties negotiate for the right to face only select Fund entities, which would result in a single Fund being solely liable for other Funds' share of the relevant obligation and/or joint and several liability among Funds. In each such case, Flexpoint intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or other similar reimbursement arrangement; provided, however, that the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

Further, a Fund has drawn on its line of credit to bridge financing to Co-Investment Funds. In such circumstances, the Co-Investment Fund was not a guarantor on the line of credit although it did receive the benefit of the loan. In each such case, the applicable Co-Investment Fund has repaid the loan and all interest and fees on the loan and the relevant Fund did not incur any expenses associated with use of such Fund's line of credit or the applicable Co-Investment Fund's portion of the loan. Additionally, in the event Flexpoint or a General Partner to a Fund lends another Fund capital through a short-term loan facility to bridge an investment pending the receipt of capital contributions from the borrowing Fund's investors, subject to such Fund's Governing Documents, the General Partner is authorized to charge (or decide not to charge) such Fund (including the Fund investors) interest

costs incurred in connection with such loan for the time period between the receipt of capital from such loan to the date on which the loan is paid off by such Fund.

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

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Funds' investments, and hence, most of the Funds' investments will be difficult to value. In certain situations, some investments will be distributed in kind to the investors and in such cases it will likely be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such investors. After a distribution of securities is made to the investors, it's possible that a substantial number of investors will decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. There can be no guarantee that the price at which such securities are eventually sold by such investors will not be lower than the value of such securities determined pursuant to the applicable Governing Documents, including the value used to determine the amount of Carried Interest available to the applicable General Partner with respect to such investment.

*Reliance on the General Partners and Portfolio Company Management; Dependence on the Investment Professionals.* Control over the operation of a Fund is vested with its General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of the investment professionals. Investors are reminded that the composition of the professionals making up particular investment teams change over time, and there can be no guarantee that the professionals included in such teams and who have contributed to the past performance of any prior Flexpoint Funds will continue to be members of the particular team or serve in the same or similar roles thereon (and in some cases, are no longer with Flexpoint, or will leave such team or Flexpoint during the life of the Fund). The loss or reduction of service of one or more of the investment professionals could have an adverse effect on a Fund's ability to realize its investment objectives.

While the investment professionals have previous experience making and managing investments similar to those contemplated by each Fund, there can be no assurance that the Fund's investments will achieve results similar to those attained by previous investments made by the investment professionals. A Fund's investments differ from previous investments made by the investment professionals in a number of respects, including target return levels, level of risk associated with a particular investment, amount invested in a particular company, types of companies within a particular industry sector, amount of leverage used, structure and holding period. Also, the Special Assets Fund's primary investment focus differs from that of the Main Funds and therefore returns can differ, possibly materially.

In addition, the investment professionals manage several Funds and the investment professionals are expected to devote substantial amounts of their time to the investment activities of such other funds,

which will pose conflicts of interest in the allocation of the time of the investment professionals. Many investment professionals will devote time to multiple Funds. Investors generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of such Fund will depend on the actions of Flexpoint personnel. In certain instances, and in its sole discretion, Flexpoint has made carried interest loans to employee investors in the General Partner of the Special Assets Fund. In addition, certain changes in personnel or circumstances relating to Flexpoint can have an adverse effect on the applicable Fund or one or more of its portfolio companies or other investments, including potential acceleration of debt facilities.

Although Flexpoint will monitor the performance of its Funds' investments, it will primarily be the responsibility of each portfolio company's or other issuer's management team to operate such portfolio company or other issuer on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the management of such companies will be able or willing to successfully operate a company in accordance with the Funds' objectives.

*Projections.* Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by each company's management, with adjustments to such projections made by Flexpoint in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values. The Funds use financial projections to help analyze a potential investment or future capital raises and financing for portfolio companies or other transactions. There can be no assurance that the results set forth in the projections will be attained, and actual results can be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company or other issuer, a Fund will, at times, decide to provide additional funds to such portfolio company or other issuer or have the opportunity to increase its investment in a successful portfolio company or other issuer (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that a Fund will make follow-on investments or that such Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments would have a substantial negative effect on a portfolio company or other issuer in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments is likely to result in a lost opportunity for a Fund to increase its participation in a successful investment or the dilution of such Fund's ownership in an investment if a third party invests.

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

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

*Non-Controlling Investments Risk.* Each Fund generally has the flexibility to hold non-controlling interests in portfolio companies and/or debt investments and, therefore, will have a limited ability to protect such Fund's position in such portfolio companies or other investments. A Fund will sometimes hold meaningful minority stakes in privately held companies and in some cases will have limited minority protection rights. In addition, during the process of exiting investments, a Fund at times will hold minority equity stakes of any size such as might occur if portfolio companies are taken public. As is the case with minority holdings in general, any such minority stakes that a Fund holds will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it will generally be more difficult for such Fund to liquidate its interests than it would be had such Fund owned a controlling interest in such company. Even if a Fund has contractual rights to seek liquidity of such Fund's minority interests in such companies, it can be very difficult to sell such interests or seek a sale of such company upon terms acceptable to such Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

*Co-Investment Risk.* Flexpoint is permitted, in its sole discretion, to provide or commit to provide co-investment opportunities to one or more investors and/or other persons, in each case on terms to be determined in its sole discretion. Conflicts of interest can arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which can be made to one or more persons for any number of reasons as determined by Flexpoint in its sole discretion and there can be no guarantee that such allocation will be in the best interests of a particular Fund or any individual investor. In exercising its sole discretion in connection with such co-investment opportunities, Flexpoint generally considers some or all of a wide range of factors, which can include factors which

benefit Flexpoint such as the likelihood that an investor will invest in a future fund sponsored by Flexpoint or its affiliates.

In addition, a Fund will be permitted to co-invest with third parties alongside financial, strategic or other third-party co-investors through joint ventures or other entities (especially with respect to certain investments (for example, in larger companies) that can only be made by a Fund with other third-party co-investors), which have larger or controlling ownership interests in such portfolio companies. In such cases, a Fund will rely significantly on the existing management and board of directors and other shareholders of such companies, which include representatives of other financial investors with whom such Fund is not affiliated and whose interests at times conflict with the interests of the Fund, including the possibility that co-investor(s) have interests or objectives that are inconsistent with those of a Fund, be in a position to take actions contrary to a Fund's investment objectives or become bankrupt or otherwise default on their obligations. Investments made with third parties in joint ventures or other entities can also involve carried interests and/or other fees payable to such third-party partners or co-venturers. In addition, a Fund will, in certain circumstances, be liable for actions of its third-party co-venturer or partner. Although Flexpoint generally expects that appropriate minority shareholder rights will be obtained to protect a Fund's interests to the extent possible, there can be no assurance that such minority shareholder rights will be available or that such rights will provide sufficient protection of a Fund's interests. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

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

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

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

*Risks Relating to Due Diligence of and Conduct at Portfolio Companies.* Before making investments, Flexpoint conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence often entails evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisers, accountants, investment banks and other third parties are involved in the due diligence process to varying degrees depending on the type of investment. Such involvement presents a number of risks primarily relating to Flexpoint's reduced control of the functions that are outsourced. When conducting due diligence and making an assessment regarding an investment, Flexpoint will rely on the resources available to it, including information provided by the target of an investment and, in some circumstances, third-party investigations. Flexpoint's due diligence investigation with respect to any investment opportunity will not necessarily reveal or highlight all relevant facts that could be necessary or helpful in evaluating such investment opportunity. Moreover, a due diligence investigation will not necessarily result in any particular investment being successful. There can be no assurance that attempts to provide downside protection with respect to investments will achieve their desired effect and potential investors should regard an investment in each Fund as being speculative and having a high degree of risk.

*Valuation of Assets.* There is not expected to be an actively traded market for most of the securities owned by the Funds. When estimating fair value, Flexpoint will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values can differ from values that would have been determined had an active market existed for such securities and can differ from the prices at which such securities are ultimately sold, if applicable. The Firm has established a valuation policy which it will follow when performing portfolio company valuations. The exercise of discretion in valuation by the Firm could give rise to conflicts of interest, including in connection with

determining the amount and timing of distributions of Carried Interest and the calculation of Management Fees.

In addition, on occasion the Firm reports to Fund investors and (as determined appropriate) makes reports to prospective investors or the investor community more generally regarding metrics of each Fund's performance, such as rates of return and multiples-of-money, whose calculation depends on the value of the Funds' investments, including unrealized investments. These reports are an indication of the overall health of a Fund and are important to the Firm's efforts to attract investors to the Firm and any current or future Fund. An objective of Flexpoint's valuation methodologies and procedures is to eliminate any influence these incentives have on fair value determinations.

*Recourse to the Fund's Assets.* The Funds' assets, including any investments and any funds held by the Funds, are available to satisfy all liabilities and other obligations of the Funds. If the Funds become subject to a liability, parties seeking to have the liability satisfied have recourse to the Funds' assets generally and are not limited to the particular investment giving rise to the liability.

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

*Fund Expenses.* Each Fund will pay and bear all expenses related to its investment activities, which will be substantial and will reduce the actual returns realized by investors on their investment in such Fund (and in certain circumstances, reduce the amount of capital available to be deployed by such Fund in investments). Fund expenses encompass a broad category of expenses, including recurring and regular items, as well as extraordinary expenses for which it is hard to budget or forecast. Accordingly, the amount of Fund expenses ultimately called or called at any one time could exceed amounts expected or budgeted by the General Partner and/or investors. Such expenses are generally expected to be borne directly by a Fund or indirectly through reimbursement by portfolio companies and will reduce returns to investors.

In addition, the Funds, through portfolio companies or directly, bear the cost, including compensation, of directors, executives or consultants to portfolio companies, which often include former senior principals or employees of Flexpoint, in connection with management or consulting services provided by such persons. Any such cost will generally not offset Management Fees paid to Flexpoint. Because such persons are former senior principals or employees of Flexpoint, Flexpoint could have a potential conflict of interest in approving such arrangement, although it seeks to do so generally at market rates for the services provided. There can be no assurance, however, that such rates are the lowest cost available.



*Limited Access to Information.* Investors' rights to information regarding each Fund will be specified in and limited to the information set forth in each Fund's Governing Documents. In particular, it is anticipated that Flexpoint will obtain certain types of material information from investments that will not be disclosed to investors because such disclosure is prohibited for contractual, legal or similar obligations outside of such Flexpoint's control. Decisions by Flexpoint to withhold information can have adverse consequences for investors in a variety of circumstances. Decisions to withhold information will also make it difficult for investors to monitor Flexpoint and its performance. Additionally, it is expected that investors who designate representatives to participate on the advisory board will, by virtue of such participation, have more information about a Fund and investments in certain circumstances than other investors generally and will be disseminated information in advance of communication to other investors generally.

*Recycling; Reinvestment.* Each Fund's General Partner has the ability to recall (or retain and reinvest) distributions to the extent of capital contributions for investments realized within one year and as otherwise set forth in the relevant Fund Governing Documents. During the Special Assets Fund's investment period, its General Partner has the right to generally recall (or retain and reinvest) distributions from an investment during the investment period. Any amount drawn down to pay such Fund's expenses will, to the extent investors receive subsequent distributions, be subject to recall by such Fund's General Partner. Accordingly, in such circumstances, an investor will be required to make capital contributions to a Fund in excess of its capital commitment to such Fund, and to the extent such recalled or retained amounts are reinvested in investments, an investor will remain subject to investment and other risks associated with such investments.

*Cybersecurity Risk.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company will potentially be subject to substantial losses in the form of stolen, lost or corrupted: (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks can be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or a Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Flexpoint or one of its service providers holding its financial or investor data, Flexpoint, its affiliates or a Fund will also be at risk of loss.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence have the potential to be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises, trade wars or other sources of political, social or economic unrest. Such erosion of confidence can in turn lead to or extend a localized or global economic downturn. There is a risk that a climate of uncertainty will reduce the availability of potential investment opportunities, and increases the difficulty of modeling market

conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn is likely to have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. Such circumstances would likely slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn is likely to have an adverse effect upon a Fund's portfolio companies or other investments.

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

*Economic Disruptions Due to Public Health Emergencies.* Pandemics and other widespread public health emergencies, such as, and including but not limited to the recent global spread of COVID-19 (the "coronavirus") have shown an ability to result in a broad-based economic decline and significant market volatility. In particular, the ongoing coronavirus outbreak has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. Pandemics represent economic threats that are subject to frequent and rapid change and therefore present material uncertainty and risk with respect to the Funds' performance and financial results. In an attempt to decrease the global impact of such pandemics, countries, states and municipalities have instituted quarantines, prohibitions on travel and the closure of offices, businesses,

schools, retail stores and other public venues. Different countries, states and municipalities have instituted different levels of such security measures and have had varying levels of success in implementing such restrictions. This has resulted in sometimes stark geographic differences in economic activity as well as safety standards. Businesses have also implemented similar precautionary measures, notably including a significant shift to work-from-home and restrictions on business travel. The extent of the impact of any public health emergency on the Funds' and their portfolio companies' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, how quickly vaccines can be rolled out and whether such vaccines will provide lasting benefits or if it will require annual inoculations, and governmental, regulatory and private sector safety precautions, all of which are highly uncertain and cannot be predicted.

Aside from the broad effects on the economy, the coronavirus has had specific implications for the Firm's operations and activities of its personnel, including employees needing to work from home to more significant impacts such as illness, restrictions on non-essential travel, difficulty hosting fundraising meetings and absence from in person portfolio company board meetings. The Firm instituted procedures in the spring of 2020, as it deemed appropriate, to deal with operational impacts from the coronavirus. Many of these procedures mirrored procedures contained in the Firm's Business Continuity Plan for dealing with other significant business disruption events. As the length of the current coronavirus pandemic has been extended, the Firm has considered additional or modified safeguards to reflect the fact that employees have often been required to work from home for an extended period of time.

Additionally, although the Funds generally invest on a long-term basis in privately held companies that are less correlated to broader market forces, the impact of a global economic slowdown, including from a pandemic, has the potential to impact the Funds' performance and/or financial results by negatively effecting the Firm's ability to, among other things, source new investments, diligence such potential investments, exit current investments (or exit them at the valuations previously expected) or obtain financing. Depending on the specific industries in which the Funds' portfolio companies operate and where their supply and distribution chains are located, the coronavirus or other pandemics could have an outsized impact on individual portfolio companies.

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

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

**The Following Additional Risks are Applicable to an Investment in the Fund IV Overage Funds Only**

*Limited Number and Concentration of Investments; Impact of Excuse or Exclusion.* The General Partner anticipates that the Fund IV Overage Funds will make only a limited number of investments. There is a risk that there will be relatively few attractive investment opportunities at certain times during the Fund IV Overage Funds' investment period and there can be no assurance that the Fund IV Overage Funds will succeed in obtaining a sufficient number of such investment opportunities, that the investments ultimately acquired by the Fund IV Overage Funds will achieve the return objectives or that the Fund IV Overage Funds will be able to invest all of its available capital. Since the Fund IV Overage Funds will only invest alongside the Fund IV Main Funds following its formation on an "overage" basis, the Fund IV Overage Funds will only make a limited number of investments made by the Fund IV Main Funds and accordingly, the Fund IV Overage Funds will hold a more concentrated portfolio than the Fund IV Main Funds.

In addition, the Fund IV Overage Funds intend to make all of its investments in various segments of the healthcare and financial services industries and, as a result, the Fund IV Overage Funds' investment portfolio will become highly concentrated, such that the performance of a few holdings or industry segments can substantially affect its aggregate return. Concentrating in two industries involves risks greater than those generally associated with diversified acquisition funds, including fluctuations in returns.

Furthermore, an investor's participation in the Fund IV Overage Funds' investments will be limited by virtue of the General Partner's right to exclude an investor from, or an investor's right to be excused from, participating in certain of the Fund IV Overage Funds' investments as set forth in the Governing Documents, thereby increasing the participation of other investors. As a consequence of one or more investors being excused or other factors limiting investments, the aggregate returns realized by the participating investors could be adversely affected in a material manner by the unfavorable performance of even one investment by the Fund IV Overage Funds. The performance of one or more substantial investments will possibly have a significant impact on the overall performance of the Fund IV Overage Funds.

*Uncertain Investment Activity.* While the General Partner intends for the Fund IV Overage Funds to invest alongside the Fund IV Main Funds in circumstances where a portion of any such investment remains available after the Fund IV Main Funds has taken the portion of such investment that its General Partner has determined to be prudent, there can be no assurance of the frequency or timing of such circumstances or the amount of the investments, if any, that will be available to the Fund IV Overage Funds. Since the Fund IV Overage Funds do not have a right to participate in any particular

transaction or transactions, there can be no assurance that the Fund IV Overage Funds will be allocated a percentage of any or all of the investments made by the Fund IV Main Funds. Additionally, it is possible that the Fund IV Overage Funds will only participate in larger investment opportunities that are made available to the Fund IV Main Funds.

*Investment Decisions.* The Fund IV Overage Funds will not be managed in the same manner as a traditional private equity fund given that the General Partner will not be seeking investment opportunities solely for the Fund IV Overage Funds and that the Fund IV Overage Funds do not have a right to make an investment in all investments made by the Fund IV Main Funds. Typical investment related decisions and determinations, such as investment diversity limitations, are likely to be viewed differently given the purpose of the Fund IV Overage Funds. When making such decisions and determinations, the General Partner will likely emphasize factors in a different manner and consider different factors, in each case, as compared to such decisions and determinations relating to a traditional private equity fund.

*Lack of Diversification.* The Fund IV Overage Funds generally invest up to 50% of the aggregate capital commitments in any single portfolio company. While the General Partner has historically sought to balance investments across its core industry sectors as described in the Governing Documents, the Fund IV Overage Funds' investment strategy does not purport to give investors a similar degree of diversification that ultimately will be achieved among the Fund IV Main Funds' investments.

### **The Following Additional Risks are Applicable to an Investment in the Special Assets Fund Only**

*Credit Risks of Investments in Debt Securities.* The Special Assets Fund invests primarily in "financial assets", which include but are not limited to: loans, leases, books of insurance, advance lines to commercial and consumer lenders, life settlements, litigation receivables and other assets of many other kinds of financial services companies. Debt portfolios are subject to credit risk, which is the likelihood that an issuer will default in the payment of principal and/or interest on an instrument, and interest rate risk, which is the risk associated with market changes in interest rates. Financial strength and solvency of an issuer are the primary factors influencing credit risk. Borrowers often face intense competition, changing business and economic conditions or other developments that can adversely affect their performance and increase credit risk. In addition, subordination or lack or inadequacy of collateral or credit enhancement for a debt instrument will affect its credit risk. Credit risk is expected to change over the life of an investment. In addition, borrowers are permitted to contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce debt obligations. If any of the above occurred, the Special Assets Fund's investment in such financial assets could be adversely affected.

*Non-Payment of Principal and Interest; Adequacy of Collateral.* Debt investments are subject to the risk of non-payment of scheduled interest or principal by the borrowers with respect to such investments, for example, if the borrower cannot generate adequate cash flow to meet its debt service. Such non-payment would likely result in a reduction of income to the Special Assets Fund and a reduction in

the value of the loans experiencing non-payment. The Special Assets Fund could suffer a partial or total loss of capital invested in the borrower, which could adversely affect the returns of the Special Assets Fund. Although the Special Assets Fund will generally make investments that its General Partner believes are secured by specific collateral, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of a borrower's bankruptcy, the Special Assets Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment in a portfolio company.

Under certain circumstances, collateral securing an investment in a portfolio company will be released without the consent of the Special Assets Fund. Moreover, in certain situations, the Special Assets Fund's security interests could be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, the Special Assets Fund would not have priority over other creditors as anticipated. When making a debt investment generally, the Special Assets Fund intends to obtain security interests in assets of its portfolio companies, but the protection obtained through such interests can be inadequate to return all capital invested by the Special Assets Fund, especially in cases in which the loan is primarily based on the portfolio company's cash flow. The companies and securities in which the Special Assets Fund will invest generally will not be rated by a credit rating agency.

*Prepayment of Investments.* While a debt investment generally has a stated maturity, the terms of such investment generally allow the borrower to prepay their loan prior to such maturity. Early prepayment, particularly by good credits, reduces the Special Assets Fund's opportunity to earn long-term compounded returns. Later prepayment, particularly by weaker credits, can tie up the Special Assets Fund's capital in investments which, by their nature, are likely to have a greater risk of default. Either way, the shortening or lengthening of the holding period could prevent the Special Assets Fund from realizing its projected returns.

*Uncertain Exit Strategies.* Although the Special Assets Fund will often invest with the intention of holding a loan to maturity, in some cases its General Partner will determine it is advisable to exit a position earlier. However, due to the illiquid nature of some of the positions which the Special Assets Fund is expected to acquire, its General Partner is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available at an attractive price, or at all. Exit strategies which appear to be viable or profitable when an investment is initiated will sometimes be precluded or unprofitable by the time the investment is ready to be realized due to market, economic, legal, political or other factors.

*Non-Performing Nature of Debt.* It is anticipated that certain debt instruments purchased by the Special Assets Fund will be non-performing and possibly in default at the time of such purchase. Furthermore, the obligor or relevant guarantor could also potentially be in bankruptcy or liquidation.

There can be no assurance as to the amount and timing of payments, if any, with respect to the loans in which the Special Assets Fund invests.

*Zero-Coupon and Deferred Interest Bonds.* The Special Assets Fund is authorized to invest in zero-coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original issue discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

*Covenant-Lite Loans.* Although the managing directors generally expect the loan documentation of most of the Special Assets Fund's debt investments in portfolio companies to include both incurrence and maintenance-based covenants, there will sometimes be instances in which the Special Assets Fund invests in "Covenant-Lite Loans." An investment by the Special Assets Fund in a Covenant-Lite Loan will potentially hinder the ability to re-price credit risk associated with the portfolio company and reduce the ability to restructure a problematic loan and mitigate potential loss. As a result, the Special Assets Fund's exposure to losses would be increased, which could result in an adverse impact on the Special Assets Fund's return to the investors.

*Lower Ratings; Non-Rated Securities.* The Special Assets Fund will, on occasion, invest in "high-yield" debt, preferred stock, convertible debt or debt securities which are rated in the lower rating categories by the various credit rating agencies or, more commonly, in non-rated securities, including those rated lower than investment grade and considered to be "junk bonds" or distressed securities. Securities in the lower rating categories and non-rated securities are subject to greater risk of loss of principal and interest than higher-rated and non-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings and non-rated securities in the case of deterioration of general economic conditions. The market for lower-rated and non-rated securities is thinner, often less liquid, and less active than that for higher-rated and non-rated securities, which can adversely affect the prices at which these securities can be sold and even make it impracticable to sell such securities. There is no minimum credit standard that is a prerequisite to the Special Assets Fund's investment in any security, and most debt securities and preferred stock that offer potential for capital appreciation are likely to be non-investment grade.

*Interest Rate Risk.* Credit risk could change over the life of an instrument. Interest rate changes often affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar

manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

*Nature of Investment in Senior Loans.* The assets of the Special Assets Fund's investment portfolio are likely to include first-lien senior-secured debt, as well as selected second-lien senior-secured debt, which involves a higher degree of risk of a loss of capital. The factors affecting an issuer's first- and second-lien leveraged loans, and its overall capital structure, are complex. Some first-lien loans will not necessarily have priority over all other unsecured debt of an issuer. For example, some first-lien loans will permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company) or involve first liens only on specified assets of an issuer (e.g., excluding real estate). Issuers of first-lien loans can have two tranches of first-lien debt outstanding, each with first liens on separate collateral. Furthermore, any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity and interest rate rises. Although the amount and characteristics of the underlying assets selected as collateral allow the Special Assets Fund to withstand certain assumed deficiencies in payments occasioned by the borrower's default, if any deficiencies exceed such assumed levels or if underlying assets are sold it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to the Special Assets Fund in respect of its investment. The Special Assets Fund's investments can be subject to early redemption features, refinancing options, prepayment options or similar provisions which in each case could result in the issuer repaying the principal on an obligation held by the Special Assets Fund earlier than expected. As a consequence, the Special Assets Fund's ability to achieve its investment objective would be adversely affected.

*Nature of Investment in Subordinated Loans.* Subordinated investments involve a high degree of risk with no certainty of any return of capital. Although subordinated securities are typically senior to common stock and other equity securities in the capital structure, they will, in some cases, be subordinated to large amounts of senior debt and can be unsecured. Many of the remedies available to subordinated holders are available only after satisfaction of claims of senior creditors. Therefore, in the event that a portfolio company does not generate adequate cash flow to service its debt obligations, the Special Assets Fund is likely to suffer a partial or total loss of invested capital. The ability of the Special Assets Fund to influence a portfolio company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under the terms of subordination agreements, senior creditors are typically able to block the acceleration of the subordinated debt or other exercises by the Special Assets Fund of its rights as a creditor. Accordingly, the Special Assets Fund would not be able to take the steps necessary to protect its investments in a timely manner or at all. In addition, the debt securities in which the Special Assets Fund invests are not necessarily protected by financial covenants or limitations upon additional indebtedness, have limited liquidity and not be rated by a credit rating agency.



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

*Warrants.* The Special Assets Fund expects, in certain situations, to receive warrants, and in certain circumstances prior to exit, will be required to exercise such warrants in order to hold the underlying securities. The Special Assets Fund would seek to negotiate "cashless" exercise for all warrants that it receives, whereby no investment will be required to convert, however, on occasion it is not possible to negotiate such "cashless" exercise, and the Special Assets Fund will be required to invest cash to convert warrants and hold underlying securities, which subsequently lose some or all of their value.

*Future Funding Obligations.* The Special Assets Fund will from time to time incur funding obligations that arise in the future in connection with an investment. For example, the Special Assets Fund would purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Special Assets Fund would be obligated to fund the amount of the drawdown.

*Investments in Undervalued Assets.* The Special Assets Fund invests in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. The Special Assets Fund can in some instances be forced to sell, at a substantial loss, assets which it believes are undervalued, if they are not in fact undervalued. In addition, the Special Assets Fund will in some cases be required to hold such assets for a substantial period of time before realizing their anticipated value. During

this period, a portion of the Special Assets Fund's funds would be committed to the assets purchased, thus possibly preventing the Special Assets Fund from investing in other opportunities.

*Risks Associated with Bankruptcy Cases.* The Special Assets Fund's investments will involve portfolio companies that are experiencing or are expected to experience severe financial difficulties, and it is possible such difficulties will never be overcome and have the potential to cause a portfolio company to become subject to bankruptcy or insolvency proceedings. Many of the events within bankruptcy or insolvency proceedings are adversarial and are often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that bankruptcy courts would decide favorably toward, or consistent with the interests of, the Special Assets Fund. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and/or functional operating control of a debtor. As the duration of bankruptcy cases can be only roughly estimated, the reorganization process can involve substantial legal, professional and administrative costs to a company and/or the Special Assets Fund, and is subject to unpredictable and lengthy delays. In addition, during the process a company's competitive position can erode, key management can depart and there can be no guarantee that the company will be able to invest adequately. In some cases, a company will not be able to reorganize and would be required to liquidate assets. Decisions by the Special Assets Fund to invest primarily in the debt of such companies will in some cases not be protective of the Special Assets Fund's economic interests, as the debt of companies in the process of financial reorganization generally will not pay current interest, will not accrue interest during reorganization and will be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

There exists a significant risk that the Special Assets Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, a class. In addition, certain administrative costs and claims (for example, claims for taxes) that have priority by law over the claims of certain creditors can be quite high.

The Special Assets Fund will, in certain situations, purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase will be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which would result in the rescission of the transaction or forfeiture by the Special Assets Fund.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process can differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

*Participation on Creditors' Committees.* The Special Assets Fund expects to serve on committees formed by creditors ("Creditors' Committees") to negotiate with the management of financially troubled companies that can, in some cases, be in bankruptcy. The Special Assets Fund will also seek to negotiate directly with debtors with respect to restructuring issues. Even if the Special Assets Fund chooses to join a Creditors' Committee, there can be no assurance that the Special Assets Fund would be successful in obtaining results favorable to it in such proceedings, and the Special Assets Fund can incur significant legal fees and/or other expenses in attempting to do so, as Creditors' Committees generally consist of many participants, each of which attempts to obtain an outcome that is in its individual best interests. As a result of the Special Assets Fund's service on such Creditors' Committees, the Special Assets Fund would likely be deemed to have duties to other creditors represented by the Creditors' Committees, which might thereby expose the Special Assets Fund to liability to such other creditors who disagree with the Special Assets Fund's actions. The Special Assets Fund's General Partner, on behalf of the Special Assets Fund, will elect to serve on Creditors' Committees, equity holders' committees or other groups to ensure preservation or enhancement of the Special Assets Fund's position as a creditor or equity holder. A member of any such Creditors' Committee or group typically owes certain obligations generally to all parties similarly situated that the Creditors' Committee represents. If the Special Assets Fund's General Partner concludes that its obligations owed to the other parties as a Creditors' Committee or group member conflict with its duties owed to the Special Assets Fund, it expects to resign from that Creditors' Committee or group, and the Special Assets Fund would not realize the benefits, if any, of its General Partner's service on the Creditors' Committee or group. Additionally, if the Special Assets Fund is represented on a Creditors' Committee or group, it would be restricted or prohibited under applicable law from disposing of its investments in the subject company while it continues to be represented on such Creditors' Committee or group.

*Structured Finance Securities.* "Structured Finance Securities" are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from or sale proceeds of a specified pool of assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to ensure the servicing or timely distribution of proceeds to holders of such securities. Structured Finance Securities in which the Special Assets Fund can invest include limited recourse collateralized debt obligation securities ("CDO Securities"). Holders of Structured Finance Securities bear various risks: credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Structured Finance Securities are subject to the significant credit risks inherent in the underlying collateral and to the risk that the servicer or trustee fails to perform.

*Risks Associated with CDO Securities.* In case of a default, CDO Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("CDO Collateral") or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets,

the obligations of the issuer to pay such deficiency will be extinguished. Many subordinate classes of CDO Securities provide that a deferral of interest thereon or a write-down does not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of nonpayment or partial nonpayment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such CDO Securities. CDO Securities are subject to operational, credit, liquidity and interest rate risks. Issuers of CDO Securities acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; provided, however, its rights can be more restricted than those of the assigning institution. In purchasing participations, an issuer of CDO Securities will usually have a contractual relationship only with the selling institution, and not the borrower. The issuer generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The issuer would likely not directly benefit from the collateral supporting the related loan and would be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under U.S. federal and state laws, the issuer would be treated as a general creditor of such selling institution, and would not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the issuer would be subject to the credit risk of the selling institution as well as of the borrower. CDO Securities are also subject to interest rate risk and day count basis risk. The CDO Collateral of an issuer of CDO Securities generally bear interest at a fixed or floating rate while the CDO Securities issued by such issuer would bear interest at the opposite kind of rate. As a result, there could be an interest rate mismatch between such CDO Securities and CDO Collateral, where the CDO Collateral bears interest that is, at certain times, insufficient to adequately collateralize the CDO Securities. There can be a timing mismatch between the CDO Securities and CDO Collateral assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate would adjust more frequently or less frequently and/or on different dates and/or based on different indices than the interest rates on the CDO Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Securities. In addition, hedges would likely have been acquired to manage the interest rate risk of such CDO Securities, making such CDO Securities also subject to the credit risk of the applicable hedge counterparty.

*Credit Default Swaps.* The Special Assets Fund is allowed to invest in credit default swaps ("CDS"). Generally, CDS are contracts where termination occurs prior to the contract's scheduled maturity date if a credit event occurs. Credit events include a ratings downgrade of the reference obligation below certain specified ratings levels, a write-down (including an implied write-down) of the reference obligation, a failure by the reference company to pay principal or interest with respect to the reference obligation, a restructuring of the final maturity date of the reference obligation, or an acceleration of the reference obligation so that it is due prior to its stated maturity date, among others. CDS can be

used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, CDS can be used to implement the view of the Special Assets Fund's General Partner that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Special Assets Fund can "write" credit default protection in which it receives spread income. The Special Assets Fund can also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of its General Partner, there is a high likelihood of credit deterioration. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock and debt of the company, and potential loss realized on the debt upon default, among other factors. As such, there are many factors upon which market participants have divergent views. If the Special Assets Fund's General Partner has a positive view of a company's credit outlook, it will, in some cases, enter into CDS transactions in which it assumes the risk of default of the company. The Special Assets Fund can also enter into an opposite transaction, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components determining the value of a swap. Upon the occurrence of a credit event, CDS can be physically settled or cash settled depending upon the terms of the particular CDS. In the event of physical settlement of a CDS, if the Special Assets Fund is long the credit risk, the CDS counterparty will satisfy its obligations under the CDS by delivering to the Special Assets Fund one or more deliverable obligations (which frequently are the reference obligation, although can instead be an obligation which is ranked *pari passu* with the reference obligation). Because the obligation is delivered after a credit event, it is likely that the delivered obligation is a defaulted or credit impaired security and will not be worth the same value as the reference obligation related to the CDS prior to the occurrence of any credit event. In the event of cash settlement, the CDS counterparty would, if the Special Assets Fund is long the credit risk, obtain prices in the general credit market for the final principal value of the reference obligation subject to a credit event and the Special Assets Fund would be obligated to pay the difference of the initial principal amount referenced in the CDS over the final principal value of the reference obligation as obtained by the CDS counterparty in the general credit market. It is likely that because the reference obligation will at the time of such settlement be a defaulted or credit impaired security, the final value of the reference obligation would be less than the initial principal balance referenced in the CDS.

*Derivatives.* The Special Assets Fund will, in certain situations, invest in complex derivative instruments that seek to modify or replace the investment performance of particular securities, commodities, currencies, interest rates, indices or markets on a leveraged or unleveraged basis. These instruments generally have counterparty risk and potentially will not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the investor. These investments are all subject to additional risks that can result in a loss of all or part of an investment, in particular, interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity. Derivatives can have very high leverage embedded in them that can substantially magnify market movements and result in losses greater than the amount of the investment. Some of the markets in which the Special Assets Fund enters into derivative transactions are over-the-counter ("OTC") or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the

Special Assets Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a credit or liquidity problem with the counterparty.

*Counterparty Risk.* Some of the markets in which the Special Assets Fund effects transactions will include the OTC or “interdealer” markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of “exchange-based” markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such OTC transactions. This exposes the Special Assets Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Special Assets Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events can intervene to prevent settlement, or where the Special Assets Fund has concentrated its transactions with a single or small group of counterparties. The Special Assets Fund’s General Partner is not restricted from dealing with any particular counterparty or from concentrating any or all of the Special Assets Fund’s transactions with one counterparty. Moreover, the Special Assets Fund’s General Partner has no formal credit function which evaluates the creditworthiness of the Special Assets Fund’s counterparties. The ability of the Special Assets Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement will potentially increase the potential for losses by the Special Assets Fund. In addition, the counterparties with which the Special Assets Fund effects transactions will, from time to time, cease making markets or quoting prices in certain of the instruments. In such instances, the Special Assets Fund would be unable to enter into a desired transaction, or to enter into an offsetting transaction with respect to an open position, which might adversely affect its performance. Further, in contrast to exchange-traded instruments, certain forward, spot and option contracts and swaps will not necessarily provide a trader with the right to offset its obligations through an equal and opposite transaction. For this reason, in entering into forward, spot or options contracts or swaps, the Special Assets Fund would be required, and must be able, to perform its obligations under the contract.

*Derivative Clearinghouses and Exchanges; Required Central Clearing for Derivatives.* Currently, OTC derivatives (including, without limitation, CDS and other swaps, forward contracts, certain options and other instruments) are typically settled on an individual basis by the counterparties to the derivative instrument. As a result, each party to an OTC derivative is subject to the risk that the other party will default on its obligations under the terms of the derivative instrument. In the case of CDS, a number of market participants have announced their intention to establish CDS clearinghouses and exchanges, which sometimes have the effect of minimizing the risk of counterparty default with respect to CDS traded on or cleared through such clearinghouses or exchanges. Other market participants can also propose other clearinghouses or exchanges for other types of derivatives instruments in the future. However, there can be no assurance that any such clearinghouses or exchanges will in fact be established, or that they will provide clearing facilities or a market of sufficient size or scope to benefit the Special Assets Fund. In particular, in the case of CDS, any such clearinghouses or exchanges are

expected to be limited to CDS with standardized terms, which are yet to be formulated; the same can also be true of any other clearinghouses or exchanges proposed in the future with respect to other types of derivatives instruments. There can be no assurance that the Special Assets Fund's General Partner would deem any such standardized terms to be suitable for implementing the Special Assets Fund's investment program in all cases or in any particular case. Accordingly, the Special Assets Fund will not necessarily trade or clear some or all of its derivative instruments on or through any such clearinghouse or exchange even if one were to become available. In such cases, the Special Assets Fund would remain subject to counterparty risk with respect to such instruments. In addition, due to legislative and regulatory developments in the United States, it is expected that most derivatives that currently are entered into on an OTC basis will be required to be cleared through a central clearinghouse, subject to certain limited exceptions. Other similar measures can also be proposed in other jurisdictions. It is expected that such requirements will lead to the standardization of the terms of any derivative instruments cleared in such manner. Any such standardized terms are yet to be formulated and, thus, it is not possible to assess the degree to which any such standardized terms might permit the Special Assets Fund's General Partner to implement, or prevent the Special Assets Fund's General Partner from implementing, the Special Assets Fund's investment program. Accordingly, to the extent that the Special Assets Fund's General Partner relies on the use of OTC derivatives incorporating specific terms in seeking to implement certain aspects of the Special Assets Fund's investment program, and to the extent that such terms become unavailable as a result of any such standardization of terms, there can be no assurance that the Special Assets Fund's General Partner would be able to utilize alternate methods to seek to implement such aspects of the Special Assets Fund's investment program. In such cases, if the Special Assets Fund's General Partner were unable to utilize such alternate methods, the impact on the Special Assets Fund could be substantial and adverse.

*Cross Collateralization.* The Special Assets Fund is permitted to engage in financings where several investments are cross-collateralized, thereby subjecting multiple investments to the risk of loss. As a result, the Special Assets Fund could lose its interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments.

*Currency Exchange Exposure.* The Special Assets Fund makes investments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Special Assets Fund, however, values its investments in U.S. dollars. The Special Assets Fund has the option to seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that investments suitable for hedging currency or market shifts will be available at the time when the Special Assets Fund wishes to use them, or that hedging techniques employed by the Special Assets Fund will be effective. Furthermore, certain currency market risks will not necessarily be fully hedged or hedged at all.

To the extent unhedged, the value of the Special Assets Fund's positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the

various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Special Assets Fund makes investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the Special Assets Fund's investments in their local markets and can result in a loss to the Special Assets Fund. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Special Assets Fund's non-U.S. dollar investments.

*Options.* The Special Assets Fund is permitted to buy or sell (write) both call options and put options (whether exchange-traded, OTC or issued in private transactions), and when it writes options it is permitted to do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Special Assets Fund's options transactions will generally be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Special Assets Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Special Assets Fund will potentially enter into. When the Special Assets Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, would result in a total loss of the Special Assets Fund's investment in the option (including commissions). The Special Assets Fund could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (*i.e.*, by buying the securities or buying options on them) on securities underlying put options. When the Special Assets Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. Theoretically, the risk is unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the Special Assets Fund to lose the opportunity for gain on the underlying security — assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Special Assets Fund might suffer as a result of owning the security.

*Futures.* Investments in commodities, futures and options contracts involve risks including, without limitation, leverage (*e.g.*, margin is usually only 5% to 15% of the face value of the contract and exposure can be nearly unlimited) and credit risk vis-a-vis the contract counterparty. The Special Assets Fund's futures positions can be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, trades will generally not be allowed to be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the



limit. This could prevent the Special Assets Fund from promptly liquidating unfavorable positions and subject it to substantial losses.

*Forward Trading.* The Special Assets Fund is permitted to engage in forward trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The managing directors who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have been unable to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Special Assets Fund due to unusually high trading volume, political intervention or other factors. Market illiquidity or disruption could result in major losses to the Special Assets Fund.

### **Certain Risks Related to Life Settlements/Policies and Mortality-Linked Investment Products**

*Illiquid Market for Policies.* The market for investment in underlying life insurance policies and other investments where cash flow is based upon a mortality event (each a “Policy”) is relatively illiquid when compared to other asset classes, including the tertiary markets for life insurance. It could prove difficult to sell Policies at attractive prices, if at all, at any given time. The ability to sell any Policies would be made even more difficult if the characteristics of the Policies marketed (including facts about the manner in which such Policies were originated) are disfavored by active investors at the time when they are offered for sale. In addition, although a number of institutions will be actively trading a Policy, the resale of these investments can be difficult or impossible, and it can in some circumstances require substantial time for the Funds to enter into or exit a position. Therefore, a Fund that has participated in such a Policy will bear the risks of (i) selling such Policy at a substantial discount or (ii) not being able to sell the Policy either (A) in a timely manner or (B) at all. This lack of liquidity could result in reduced or delayed cash flow to the participating Fund. Investors will potentially experience a loss if a Policy must be disposed under less than optimal market conditions.

*Life Expectancy of the Insureds.* The Funds will be required to pay future premiums on Policies, and the right of the Funds to receive payment of the death benefit under a Policy will be delayed the longer that the related insured lives. Accordingly, the amount and timing of payments to the Funds and ultimately to investors could be materially and adversely affected if one or more of the insureds live longer than anticipated. Moreover, in certain cases, the Policy provides that if the related insured reaches a certain pre-defined age (generally 95 or 100 years), the owner will be entitled to receive an amount less than the specified death benefit, whether only the remaining cash surrender value of such Policy (which could be zero) or no amount.

*The Estimation of Life Expectancies is Inherently Inexact and Imprecise.* The medical underwriting process is subjective and mortality estimates are uncertain. Future mortality does not always follow past mortality experience, and it is possible for insureds to experience lower mortality rates in the future than those historically experienced by other persons having similar traits. The process of developing an estimate of life expectancy includes, but is not necessarily limited to, subjective interpretation of lifestyle, medical history, ancestry, educational background, improvements in mortality rates, wealth and access to and impact of changes in medical techniques. In addition, advances in medical science and disease treatment can lengthen the expected mortality estimate of some or all of the insureds under the Policies. Other factors, including, but not limited to, better access to health care, better adherence to treatment plans, improved nutritional habits, improved lifestyle, an improved economic environment and a higher standard of living could also lead to increases in the longevity of the insureds under the Policies.

In connection with each investment opportunity, as well as for purposes of ongoing valuation of a Fund's investments, the Funds expect to receive one or more life expectancy reports regarding each insured that are prepared by one or more third-party medical underwriting firms. There can be no assurance that the medical underwriting firm received accurate or complete information regarding the health of an insured under a Policy, or that such insured's health has not changed since the information was received. Accordingly, the life expectancy of an insured determined by a medical underwriting firm can be inaccurate if such firm was provided with incorrect or incomplete information regarding the insured or if the insured's medical condition changed from that reflected in the medical records furnished to such firm. If one or more life expectancy providers underestimate or overestimate the life expectancy of an insured under a Policy with respect to which a Fund invests, the Fund would be required to: (a) (if underestimated) pay premiums on the Policy for a longer period of time than expected or lapse or sell the Policy in order to properly manage the overall targeted returns of a Fund's investment portfolio, or (b) (if overestimated) receive death benefit proceeds more quickly than expected. Therefore, the amount and timing of payments to the Funds and ultimately to investors could be materially and adversely affected by inaccurate life expectancies. Different medical underwriting firms use different methods and can arrive at materially different mortality estimates for the same individual based on the same information.

No information will be available to investors to enable them to make mortality estimates or to evaluate the procedures or methodologies used by any medical underwriting firm, and investors will not have any recourse to any person or entity in the event that the mortality estimates for one or more insureds are incorrect.

*Policy Origination Risks.* A Policy owner, insured, insurance agent or other party will, at times, have committed fraud, or misstated or failed to provide material information to the purchaser of a Policy, including a Policy seller or its affiliates, in connection with the life settlement transaction. In particular, there can be information directly relevant to the value of the related Policy, including, but not limited to, information relating to the insured's medical or financial condition, to which the relevant seller, the Firm and/or the Funds will not have access. It is not possible to verify the accuracy or

completeness of each piece of information or the completeness of the overall information supplied by such parties. Any such misstatement or omission could cause the participating Fund to rely on assumptions which turn out to be inaccurate. Additionally, there can be no assurance that the Policy seller (or any additional or intermediate seller) properly acquired the Policy from the former owner, or that a former owner, former beneficiary or other interested party will not attempt to challenge the validity of the transfer. The occurrence of any one or more of these factors could adversely affect the amount and timing of distributable proceeds to investors.

*Privacy Laws and Other Factors Can Limit Information Received About an Insured.* U.S. and non-U.S. privacy laws and confidentiality considerations can limit the information the participating Fund or the Firm receives about an insured under a Policy, such as the insured's medical condition. In addition, other factors, such as the unwillingness of an insured or his/her physician to cooperate with the periodic release of medical records, can limit the information that the Funds or the Firm receives.

*Premium Payments.* Premium payments are set by life insurance companies and are a material consideration when computing the value of Policies. It is possible that one or more carriers will raise the cost of insurance for its Policies. Any increase in the level of premium payments for one or more Policies could result in the Funds needing to draw additional capital or borrow funds on a credit facility, if possible, to pay such premiums at times and in amounts previously unanticipated. Such funds will not necessarily be readily available and could result in a lapse of one or more Policies, following which the Funds would not be entitled to any death benefits under the subject Policy. An increase in the amount of premiums required to maintain a Policy in force, when evaluated with the life expectancy of the insured under the Policy, could also lead the Funds to conclude that it would be better to surrender or lapse such Policy than to continue paying premiums thereon, in which case the Funds would not be entitled to receive the death benefit under such Policy following the insured's death and would suffer a loss on its investment in such Policy. In addition, any such premium payment increase will potentially result in reduced or delayed cash flow and/or profits to the Funds and ultimately to investors.

*Adverse Scrutiny or Publicity Related to the Funds or the Life Settlement Market.* Many regulators, lawmakers and other governmental authorities, as well as many insurance companies and insurance industry organizations, are hostile to, or otherwise concerned about certain aspects of, the life settlement and premium finance markets. The life settlement industry and some of its participants have also been, and could continue to be, portrayed negatively in a number of widely read publications and other forms of media.

*Delays in Payment of Death Benefits.* Upon the death of an insured, the issuing insurance company is obligated to pay the death benefit under the Policy, subject to compliance with certain conditions (e.g., timely filing of acceptable Policy claim forms with due proof of death, etc.). However, there could otherwise be delays in payment of death benefits, including delays in obtaining due proof of death as well as delays caused by the issuing insurance company investigating facts surrounding one or more

death claims, which could materially and adversely affect the timing of payments to the Funds and ultimately to investors.

*Insurable Interest.* Insurance laws generally require the person procuring a Policy to have an insurable interest in the life of the underlying insured at the time the Policy is issued. Certain U.S. states not only require an insurable interest at the time the Policy is procured, but also require an insurable interest in connection with certain types of assignments or following a Policy's issuance, such as at the time of the insured's death. A person is presumed to have an insurable interest in his/her own life. People with an insurable interest in an underlying insured also generally include immediate family members (by blood or law) or other persons with substantial economic interest in the continued life of the underlying insured (*e.g.*, a creditor with respect to the debtor up to the amount of the loan, an employer with respect to certain key employees, etc.). An issuing insurance company can seek to rescind a Policy on the grounds that the Policy was void ab initio, or is voidable, for lack of insurable interest. In such circumstances, the insurance company is generally, but not always, required to return the premiums paid to date. Furthermore, in some states an insured's estate, spouse or children (*i.e.*, presumptive beneficiaries) have the right to the death benefit rather than the person who, or entity that, is named as the beneficiary under the Policy if such Policy is found or determined not to have been procured or assigned with the requisite insurable interest in the life of the insured. Any delay or failure of an issuing insurance company to pay death benefits under a Policy to the participating Fund resulting from any claim, challenge or proceeding (whether of an insurance company, a presumptive beneficiary or another party) asserting a lack of the requisite insurable interest could materially and adversely affect the amount and timing of payments to the Funds and ultimately to investors.

*Issuing Insurance Company Credit Risk.* The Funds will be subject to the credit risk associated with viability of life insurance companies that issue the Policies. The bankruptcy of any such life insurance company or a downgrade in the ratings of such life insurance company could have a material adverse impact on the ability to monetize the related Policies or the proceeds that would be received from monetizing the related Policies, the collectability of the related death benefits or access to cash surrender value or other amounts agreed to be paid by the life insurance company.

*Contestability of Policies.* Issuing insurance companies occasionally seek to rescind Policies, most often based on allegations of (i) fraud in the Policy application, (ii) lack of insurable interest at the date of issuance or (iii) violations of other laws limiting conveyance of interests in the Policy at the time of or soon after the issuance of such Policy. After such period, a Policy will generally provide that it is not contestable. However, in some U.S. states, existing case law or regulations allow an insurer to maintain a challenge to payment under the Policy for fraud or misrepresentation beyond the contestability period or individual insurance contracts can provide for such a defense even though it is not permitted under the laws of the relevant state. In most U.S. states, the expiration of the contestability period will not bar an insurable interest defense by an issuing insurance company. If an issuing insurance company successfully contests a Policy, whether within the specified contestability period or otherwise, then upon the death of the underlying insured, such issuing insurance company will not be obligated to pay the death benefit under such Policy, but instead will generally only be obligated to

return the premiums previously paid for such Policy (with or without interest on such premiums and potentially subject to offset against fees of the insurer in challenging the enforceability of the Policy). As a result, if one or more of the issuing insurance companies contests a Policy, such action has the potential to result in a negative impact on the market value or liquidity of such Policy and/or can materially and adversely affect the amount and timing of payments to the Funds and ultimately to investors. No assurance can be given that an issuing insurance company will not seek to rescind a Policy or deny payment thereof on any basis.

*Litigation Risk - Life Insurance Policy Assignment.* The assignment of Policies can be a contentious matter in the event that an insured or a family member of an insured disputes the transfer of the Policy. Even though the Fund will be acquiring interests in Policies primarily pursuant to tertiary market transactions, the Fund will in some cases also engage in primary settlement transactions, and can be named as a defendant in a lawsuit or regulatory action stemming from the origination of one or more Policies. In the event any litigation were to occur, the Funds would bear the costs of defending against the litigation, and would be unable to predict its outcome.

It is possible that the Funds will become subject to, or will otherwise become affected by, litigation involving one or more life insurance companies (either as a plaintiff or a defendant), including claims by an insurance company seeking to rescind a Policy prior to or after the death of the related insured. Moreover, such risk is enhanced with respect to an insurance company that is experiencing financial difficulty, since a successful claim by the insurance company could reduce its financial liabilities. In the event any litigation were to occur, the Funds would bear the costs of defending against the litigation, and would be unable to predict its outcome, which could include a Fund losing its right to receive (or retain) the proceeds otherwise payable under one or more Policies.

*Investments Acquired Subject to Retained Rights to Death Benefits.* A Fund can acquire Policies subject to an agreement to maintain the Policies in force and pay a portion of the death benefit proceeds to a third party such as the original owner of the Policy or its designee. If any such Policy lapses, the participating Fund will not only not receive the related death benefits but can also be contractually obligated to pay the third party the portion of the death benefits that would have been payable to such party in respect of its beneficial interest in the Policy at the death of the related insured.

## **Conflicts of Interest**

The Governing Documents for each Fund include a description of what Flexpoint believes to be the most significant conflicts of interest associated with an investment in such vehicle. The following summary is not intended to be an exhaustive list of all conflicts or their potential consequences and investors should carefully consider the conflicts of interest outlined in each applicable Fund's Governing Documents prior to investing in a Fund. Identifying potential conflicts of interest is complex and fact intensive and it is not possible to foresee every conflict of interest that will arise during a Fund's life. Investors should be aware that Flexpoint, its personnel and its affiliates will likely in the future engage in further activities that can result in additional conflicts of interest not addressed below. There can be no assurance that Flexpoint will identify or resolve all conflicts of interest and,

if resolved, that such conflicts will be resolved in a manner that is favorable to the Funds. To the extent that Flexpoint identifies conflicts of interest in the future, the Firm intends to, but is under no obligation to, disclose these conflicts and their implications to investors through a variety of channels, including in subsequent Brochures or in other written or oral communications to the advisory board or to investors.

*Allocation of Investment Opportunities.* Until such time as the applicable General Partner is permitted under the relevant Governing Documents to raise a successor investment fund, the investment professionals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of the most recent Fund for the benefit of such Fund, except where an investment also falls within the investment objectives of the Special Assets Fund and subject to certain other exceptions set forth in the Governing Documents. Over time, certain investment opportunities suitable for one Fund are likely also to be suitable for other investment Funds. Flexpoint affiliates will give advice and recommend assets, instruments, loans, securities or other investments to a Fund that will potentially differ from advice given to, or assets, instruments, loans securities or other investments recommended or bought for, another Fund, even though their investment criteria, strategy, objectives and scope are the same or similar.

Flexpoint generally has discretion over how or when to allocate certain investments among each Fund. In determining which Funds should participate in such investment opportunities, subject to the relevant Governing Documents, Flexpoint is subject to potential conflicts of interest among the investors in the Funds. For example, because the Fund IV Overage Funds charges Management Fees on capital contributions, Flexpoint can have an incentive to allocate investments to the Fund IV Overage Funds rather than allocate the entire investment to the Fund IV Main Funds. Flexpoint will endeavor to allocate investment opportunities in a fair and equitable manner consistent with each Fund's investment criteria, strategy, objectives and scope. In making allocation decisions with respect to investment opportunities that could reasonably be expected to fit the investment objectives of a Fund or multiple Funds, Flexpoint anticipates that it will consider each Fund's Governing Documents, as well as factors including, but not limited to: the objectives and investment programs of such other Funds, diversification limits and levels, the expected duration of the investment in light of a Fund's objectives and investment program, the amount of available capital (including financing), anticipated future follow-on needs, the magnitude of the investment opportunity, life-cycle, regulatory and tax considerations, the degree of risk arising from an investment, the expected investment return, the internal source of the investment opportunity, relative liquidity or the likelihood of current income.

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

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

*Investor Relationships.* Flexpoint and its affiliates have, and will in the future develop, relationships with a significant number of investors who hold or have held investments in the Funds, who hold or have held investments similar to the investments intended to be made by a Fund, who themselves represent appropriate investment opportunities for the Funds or who compete with the Funds for investment opportunities. It is difficult to predict the circumstances under which these conflicts could become material, but it is possible that such relationships could require Flexpoint to refrain from making all or a portion of any investment or a disposition in order for Flexpoint to comply with its fiduciary duties or other applicable laws.

*Investor Participation in Portfolio Company Financing.* In certain cases, certain Fund investors or their affiliates are expected to provide or seek to provide debt financing in connection with a Flexpoint portfolio company investment made on behalf of a Fund. Flexpoint pursues debt financing on terms it believes are advantageous for a Fund when weighing all the factors relevant to the transaction, including the prevailing financing rates and any original issue discount, scope of positive and negative debt financing covenants, prior experience with the applicable counterparty, and such counterparty's execution capability, reputation and expertise within the industry. Notwithstanding the foregoing, the participation of a Fund investor and its affiliates in multiple segments of a portfolio company's capital structure subject Flexpoint and its principals to potential conflicts of interest when negotiating the terms of the applicable debt financing as the provision of financing on favorable terms can encourage the Fund investor and its affiliates to participate in future Funds managed by Flexpoint.

*Conflicts Related to Purchases and Sales.* Conflicts will potentially arise when a Fund makes investments in conjunction with an investment being made by other Funds or in a transaction where another Fund has already made an investment. On occasion, certain investment opportunities are appropriate for Funds at the same in different or overlapping levels of a portfolio company's capital structure. Conflicts will potentially arise in determining the terms of investments, particularly where a Fund invests in different types of securities in a single portfolio company. Questions will arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring will raise conflicts of interest, particularly in Funds that have invested in different securities 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, the Funds will not necessarily be obligated to provide such additional capital, and if

provided each Fund will supply such additional capital in such amounts, if any, as determined by Flexpoint. In addition, a conflict will potentially arise in allocating an investment opportunity if the potential investment target could be acquired by either a Fund or a portfolio company of another Fund. Investments by more than one Fund in a portfolio company can also raise the risk of using assets of one Fund to support positions taken by other Funds. Employees and related persons of Flexpoint and its affiliates have made capital investments in or alongside certain Funds, and therefore have additional conflicting interests in connection with these investments. There can be no assurance that the return of a Fund participating in a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Flexpoint reserves the right to make independent decisions regarding recommendations of when a Fund should purchase and sell investments. As a result, it is possible that a Fund will be purchasing an investment at a time when another Fund is selling the same or a similar investment, or vice versa. Alternatively, a Fund can invest in opportunities that other Funds have declined, and likewise, a Fund would potentially decline to invest in opportunities in which other Funds have invested. There can be no assurance that the return on a Fund's investments will not be less than the returns obtained by other Funds participating in the investment.

*Management of the Funds.* Flexpoint manages a number of Funds that will, in certain cases, have investment objectives similar to each other and can, in the future attempt to establish one or more additional investment funds with investment objectives substantially similar to, or different from, those of the current Funds. Allocation of available investment opportunities between the Funds and any such investment fund could give rise to conflicts of interest. In addition, it is expected that Flexpoint employees responsible for managing a particular Fund will have responsibilities with respect to other Funds managed by Flexpoint, including Funds that will potentially be raised in the future. Conflicts of interest will potentially arise in allocating time, services or functions of these officers and employees.

*Advisory Board.* Each Fund's General Partner will appoint one or more investor representatives to the relevant advisory board which has the ability to review and waive compliance with certain provisions of the relevant Governing Documents, including resolving potential conflicts of interest situations, and whose approval is required or can be requested in certain circumstances, including certain approvals or consents required by the Advisers Act. All investors are bound by the determinations of the relevant advisory board, regardless of whether an investor is directly represented by a member of such advisory board. The Governing Documents provide that to the fullest extent permitted by applicable law, none of the advisory board members shall owe any fiduciary duties to the Funds or any other investor. In addition, representatives of the advisory board have various business and other relationships with the General Partners, the Firm and their respective partners, members, employees and affiliates. These relationships can influence their decisions as members of the advisory board. To the extent that an investor is not directly represented by a member of the advisory board, such investor



will have no influence over matters submitted to the advisory board for review or approval. On any issue involving actual conflicts of interest, Flexpoint will be guided by its good faith discretion.

In addition, members of one Fund's advisory board will in certain circumstances also be a member of another Fund's advisory board. In such instances, a conflict of interest exists because advisory boards would be requested to provide consent with respect to transactions which involve a conflict of interest between two or more Funds on which such advisory board members serve, and such members are unlikely to recuse themselves from any such vote.

*Portfolio Company Conflicts.* As a result of the Funds' expected controlling interests in a majority of portfolio companies, Flexpoint typically will have the right to appoint portfolio company board members to each Fund's portfolio companies, or to influence their appointment and to determine or influence a determination of their compensation. Portfolio company board members typically approve compensation and/or other amounts payable to Flexpoint. Such amounts will be in addition to any Management Fees or Carried Interest paid by the Funds.

Flexpoint will, in its discretion, recommend to a Fund or to a portfolio company (in response to a solicitation for a recommendation or otherwise) that it contract for services with (i) Flexpoint or a related person (including, but not limited to, a portfolio company of a Fund) or (ii) an entity with which Flexpoint or its affiliates or a member of their personnel has a relationship or from which Flexpoint or its affiliates or their personnel otherwise derives financial or other benefit. When making such a recommendation, Flexpoint would, because of its financial or other business interest, have an incentive to recommend the related or other person, even if another person is more qualified to provide the applicable services and/or can provide such services at a lesser cost.

Additionally, a portfolio company typically will pay or reimburse Flexpoint, Operations Consultants or service providers retained at Flexpoint's discretion for services or expenses (including, without limitation, travel expenses) incurred by Flexpoint or such service providers in connection with its performance of services for such portfolio company. When engaging a third party to provide such services, Flexpoint will select the third party it believes is the most appropriate for the situation and such selection will not necessarily be based on cost alone. This subjects Flexpoint and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these payments or reimbursements, and the amount of such payments or reimbursements could be substantial. Flexpoint determines the amount of these payments and/or reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices.

Certain members of a Main Fund's advisory board are, or in the future will be, officers or directors of, or otherwise affiliated with, investors in a Fund. The General Partner of a Fund has, from time to time, utilized the services of investors and their affiliates on an arm's-length basis, as it deemed appropriate.

On occasion, Flexpoint has purchased a defaulting investor's interest or otherwise provided liquidity to an investor by purchasing their interest.

*Certain Consultants; Certain Amounts Do Not Offset Management Fees.* Flexpoint, the Funds and their respective portfolio companies will from time to time retain other companies and individuals as consultants, special advisors or other service providers, which are sometimes affiliates of Flexpoint; employees of such affiliates; portfolio companies of the Funds; third party consultants (including individual consultants (including Operations Consultants) and those who otherwise have a relationship with Flexpoint) and external executives; “operating partners;” “strategic partners;” “executive partners;” “special advisors” or “senior advisors” (collectively, “Special Consultants”). The Special Consultants are generally engaged to provide services to, or in connection with, the Funds in relation to their activities or one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies.

Pursuant to the Governing Documents, amounts received by Flexpoint or other persons from a portfolio company (i) as reimbursement for expenses directly related to such portfolio company, (ii) as payment for services provided to any portfolio company in the ordinary course of such portfolio company’s business or (iii) as compensation for services (including through portfolio company options, warrants or other equity grants) provided by Flexpoint or other person as an employee or consultant of or in a similar capacity for, or by a Special Consultant to, such portfolio company, will not offset any Management Fees payable by the Funds to Flexpoint, and can be paid by the Funds. Such amounts for services will, at Flexpoint’s discretion taking into account the particular services, include a profits or equity interest in a portfolio company or other incentive-based compensation, which are typically determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the service provider, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Special Consultants will sometimes have a limited partnership or profit interest in the Funds or a portfolio company. Although Flexpoint intends to retain Special Consultants with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors can result in limited or no cost savings from such retention. In addition, Flexpoint intends to retain only such Special Consultants which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost. Flexpoint will determine or strongly influence the amount of such payments or compensation that it or its affiliates receive, and it will potentially be substantial. Such amounts received by Flexpoint and its affiliates will likely create a conflict with respect to the interests of the Fund if such fees are not sufficiently supported by benefits received by portfolio companies. Certain decisions made by the investment professionals will likely be influenced by this conflict of interest, including decisions with respect to the amount of such fees. In addressing such conflicts, Flexpoint seeks to act in a fair and equitable manner consistent with its fiduciary duties to the Funds.

In addition, Flexpoint also is expected, from time to time, to employ personnel with pre-existing ownership interests in or who were employed by portfolio companies owned by the Funds; conversely, former Flexpoint personnel or executives can sometimes serve in significant management roles at portfolio companies or service providers recommended by Flexpoint. Similarly, Flexpoint and/or its personnel maintain relationships with (or invest in) financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Flexpoint and/or the Funds. Flexpoint has a conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to the Funds or a portfolio company owned by the Funds if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more funds Flexpoint advises, will provide Flexpoint information about markets and industries in which it operates (or is contemplating operations) or will provide other services that are beneficial to Flexpoint. Flexpoint typically has a conflict of interest in making such recommendations, in that Flexpoint has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies for the Funds, while the products or services recommended would not necessarily be the best available to the portfolio companies held by the Funds.

*Diverse Membership.* The investors in the Funds are expected to include U.S. taxable and tax-exempt entities and institutions from jurisdictions outside of the United States. Such investors will potentially have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests among the investors relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments, and the timing of the disposition of investments. As a consequence, conflicts of interest will arise in connection with decisions made by Flexpoint or its affiliates, including with respect to the nature or structuring of investments that would potentially be more beneficial for one investor than for another investor, especially with respect to investor's individual tax situations. In selecting and structuring investments appropriate for a Fund, Flexpoint and its affiliates will consider the investment and tax objectives of the applicable Fund and the investors as a whole, not the investment, tax or other objectives of any investor individually.

*Expense Allocations.* Subject to any relevant restrictions or other limitations contained in the Governing Documents, Flexpoint will allocate fees and expenses in its sole discretion in a manner that it believes in good faith is fair and equitable to the applicable Fund(s) under the circumstances and considering such factors as it deems relevant. In exercising such discretion, Flexpoint can be faced with a variety of potential conflicts of interest. As a general matter, expenses incurred on behalf of multiple Funds will be allocated among such Fund(s). In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Flexpoint or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. Investors are typically allocated (or otherwise bear) their pro rata share of such fees and expenses, which will be calculated based on capital commitments, invested capital, available capital or other

metrics as determined by the General Partner in its sole discretion. The allocations of such expenses are not always proportional.

Flexpoint and its affiliates will from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the Funds. To the extent practicable, any fees, costs and expenses that are incurred in connection with a consummated investment will be charged to the applicable portfolio company. To the extent such fees, costs and expenses are not charged to a portfolio company, they will be paid by each Fund that participated or was expected to participate in such investment. To the extent a Co-Investment Fund was formed and such co-investors were contractually committed to participate in such co-investment, such co-investors will bear broken deal expenses incurred in connection with such Co-Investment Fund; to the extent there is no contractual commitment by co-investors, broken deal expenses will be borne by the relevant Fund. The Funds will typically bear a portion of any such fees, costs and expenses in proportion to the size of its actual or proposed investment, or in such other manner as Flexpoint considers, in good faith, to be fair and equitable.

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

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

A conflict of interest could arise in Flexpoint’s determination of whether certain costs or expenses that are incurred in connection with the operation of the Funds meet the definition of Fund operational expenses for which the Funds are responsible, or whether such expenses should be borne by Flexpoint or the manner in which Flexpoint allocates expenses among the Funds. The Funds will be reliant on the determinations of Flexpoint in this regard. From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures would be undertaken to correct such circumstance, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by Flexpoint to be the most appropriate corrective measure.

*Side Letter Agreements.* Flexpoint, without any further act, approval, or vote of any Fund or investor, is permitted to enter into certain side letter arrangements with certain investors in a Fund, providing such investors with different or preferential rights or terms, including, but not limited to, information rights, and liquidity or transfer rights. Flexpoint’s right to enter into such arrangements is disclosed to investors in a respective Fund’s Governing Documents.

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

*Conflicts Related to the Interpretation of Governing Documents and Other Legal Requirements.* The Governing Documents of each Fund and related documents are detailed agreements that establish complex arrangements among Flexpoint, the investors, the Fund, the General Partner and other entities and individuals. Questions arise under these agreements regarding the parties’ rights and obligations in certain situations, some of which will not have been contemplated at the time of the agreements’ drafting and execution. In these instances, the operative provisions of the agreements, if any, can be broad, general, ambiguous or conflicting, and permit more than one reasonable interpretation. At times there will not be a provision directly applicable to the situation. While Flexpoint will construe the relevant agreements in good faith and in a manner consistent with its legal obligations (and, when appropriate, in consultation with external legal counsel), the interpretations Flexpoint adopts will not necessarily be, and need not be, the interpretations that are the most favorable to the Funds or their investors.

*Cross Fund Transactions.* In infrequent circumstances, it is possible that Flexpoint will effect a cross transaction between Funds. Such cross fund transactions create conflicts of interest because by not exposing such buy and sell transactions to market forces, it is possible that a Fund will not receive the best price possible or that Flexpoint will have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees.

*Other Potential Conflicts.* The Governing Documents of certain Funds permit the General Partner of each such Fund to cause such Fund to distribute such General Partner’s share of securities resulting from an investment disposition by such Fund to such General Partner or its affiliates in kind, while disposing of investors’ share of such securities and distributing the net cash proceeds of such sale of securities to the investor. This ability creates conflicts of interest between the General Partners and the investors of the applicable Fund because the General Partner could have an incentive to cause such Fund to exit an investment at a time that results in investors receiving a lesser return on such investment than would be the case if the General Partner were prohibited from receiving its proceeds from investments in kind (or was otherwise required to receive its share of investment proceeds in the same form as investors).

Due in part to the fact that potential investors in a Fund (including a purchaser of an investor’s interests in a secondary transaction) can ask different questions and request different information, Flexpoint expects to provide certain information to one or more prospective investors that it does not provide to all of the prospective investors or investors.

## **Additional Potential Conflicts Relating to the Fund IV Overage Funds**

*Nature of Fund IV Overage Funds.* The Fund IV Overage Funds have been organized and formed as “overage” funds to invest alongside the Fund IV Main Funds in certain investments that require equity in excess of the appropriate allocation for the Fund IV Main Funds. Many of the actual and potential conflicts of interest described herein will potentially arise between the Fund IV Overage Funds and the Fund IV Main Funds. Flexpoint has discretion over how or when to allocate certain investments among the Fund IV Main Funds and the Fund IV Overage Funds, subject to certain limitations set forth in the Governing Documents for each of the Fund IV Main Funds and the Fund IV Overage Funds as well as certain factors described in its policies and procedures. Since the Fund IV Overage Funds do not have a right to participate in any particular transaction, there can be no assurances that the Fund IV Overage Funds will be allocated any portion of an investment made by the Fund IV Main Funds and certain conflicts of interest can arise in decisions relating to the allocation of such investment between the Fund IV Main Funds and the Fund IV Overage Funds. Furthermore, there could be an incentive for Flexpoint to allocate investments between the Fund IV Main Funds and the Fund IV Overage Funds in a manner that maximizes the Carried Interest that would be payable by the Fund IV Overage Funds to the General Partner or by the Fund IV Main Funds to the General Partner based on the investment performance of the Fund IV Main Funds and the Fund IV Overage Funds at such time.

Because the Fund IV Overage Funds generally will invest in parallel with the Fund IV Main Funds, the terms and conditions of the Governing Documents will govern each investment. Accordingly, the General Partner will have control over decisions such as the rate at which capital is invested, the size of each position relative to the other investments of the Fund IV Overage Funds or the types and geographic locations of portfolio companies, subject to the limitations set forth in the Governing Documents. In addition, certain conflicts of interest will arise between the Fund IV Overage Funds and the Fund IV Main Funds regarding the disposition of an investment held by the Fund IV Overage Funds and the Fund IV Main Funds, including the appropriate time, manner and terms on which to effect such disposition.

## **Item 9 – Disciplinary Information**

Like other registered investment advisers, Flexpoint is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor’s evaluation of Flexpoint or the integrity of Flexpoint’s management. No events have occurred at Flexpoint that are applicable to this Item.

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

Neither Flexpoint nor any of its management persons is registered or has an application pending to register as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor or a registered representative or associated person of the foregoing, and Flexpoint does not anticipate such affiliations in the future.

Except as discussed below, Flexpoint has no arrangements with a related person who is an investment company, other investment adviser or financial planner, commodity pool operator, commodity trading advisor or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer or an entity that creates or packages limited partnerships that are material to Flexpoint's advisory business, the Funds or their investors. Flexpoint has and will continue to maintain and develop relationships with professionals that provide services it does not provide, including legal, accounting, banking, investment banking, tax preparation, insurance brokerage and other services. Some of these professionals provide services to the principals, the Funds or their portfolio companies. Additionally, some of these professionals are investors in certain Funds, either personally or through their company.

The General Partner of Fund IV qualifies, and has filed for, an exemption from registration as a commodity pool operator with the National Futures Association and Commodity Futures Trading Commission ("CFTC") pursuant to CFTC Regulation 4.13(a)(3) (*de minimis* amount of commodity interest trading).

One of Flexpoint's portfolio companies, an agency-only execution and capital markets technology firm, includes an entity that is registered as both a FINRA broker-dealer and a CFTC introducing broker, Dash Prime LLC, and another entity that is also a registered FINRA broker-dealer, Dash Financial Technologies, LLC.

As described in Item 4, each of the General Partners are deemed registered with the SEC under the Advisers Act pursuant to Flexpoint's registration. These General Partner entities operate as a single advisory business together with Flexpoint and serve as General Partners of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants, Operations Consultants or persons occupying similar positions. The General Partners do not have employees of their own.

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

From time to time, Flexpoint receives training, information, promotional material, meals, gifts, entertainment or other prerequisites from vendors and others with whom it does business or to whom it makes referrals. At no time will Flexpoint accept any benefits, gifts, entertainment or other arrangements that are conditioned on directing individual Fund transactions to a specific security, product or provider. Similarly, Flexpoint employees have in the past, and expect to in the future, speak at and attend conferences and other industry events for potential investors interested in investing in private funds and other industry events that are sponsored by the Firm's service providers. Through such events, prospective investors have the opportunity to meet with Flexpoint. Neither Flexpoint nor any Fund compensates any third parties for organizing such events or for investments ultimately made by prospective investors attending such events.

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

### **Code of Ethics**

Flexpoint has adopted a written Code of Ethics which is designed to comply with Rule 204A-1 under Advisers Act, and establishes guidelines for professional conduct and employee personal trading procedures, including certain pre-clearance and reporting obligations. The Code of Ethics requires all supervised persons to place client interests ahead of the Firm's interests, to avoid taking advantage of his or her position and to maintain full compliance with the federal securities laws. Flexpoint employees are required to certify to their compliance with the Code of Ethics upon hire and on an annual basis. Flexpoint employees who violate the Code of Ethics are subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Employees are also required to promptly report any violation of the Code of Ethics of which they become aware.

A copy of the Code of Ethics is available to existing investors upon written request to: Flexpoint Ford, LLC; Attention: Chief Compliance Officer; 676 N. Michigan Avenue, Suite 3300; Chicago, IL 60611.

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

Certain employees and affiliates of Flexpoint and their family members have invested in and alongside the Funds through the General Partners and/or as direct investors.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, knowingly buys from or sells a security to an advisory client. This also applies to any affiliates or controlling persons of the adviser (*i.e.*, an owner, employee or affiliate of the adviser). Cross trades between funds can also be deemed to be principal transactions if the adviser (and/or its affiliates, owners or controlling persons) own, in the aggregate, 25% or more of either fund. In the context of Flexpoint's business, a principal transaction would most likely refer to the practice of warehousing an investment for the formation of a future fund or Flexpoint or a Fund General Partner purchasing the interest of an existing investor. Agency cross transactions occur when an adviser or an affiliate arranges a transaction (*i.e.*, acts as broker) between two or more different funds or accounts that are managed by that same adviser or an affiliate. Agency cross transactions can also arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. An adviser is not "acting as a broker" if the adviser receives no compensation (other than the advisory fee earned in the ordinary course of managing the assets) for effecting the transaction and therefore is not considered to be conducting an agency cross transaction under Section 206(3) of the Advisers Act. In the context of Flexpoint's business, an agency cross transaction would occur when selling a portfolio company, investment or other asset from one Fund to another.



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

## **Conflicts of Interest**

Flexpoint's Code of Ethics requires Firm employees to place the interests of the Funds first, and on an annual basis each employee must certify that he or she has read and understands the Code of Ethics and has complied with its provisions. If any matter arises that Flexpoint determines in its good faith constitutes an actual conflict of interest, Flexpoint will take such actions as it deems necessary or appropriate, within the context of any applicable Fund's Governing Documents, to address the conflict.

In the case of all conflicts of interest, Flexpoint's determination as to which factors are relevant, and the resolution of such conflicts, will be made using Flexpoint's best judgment, and also in its sole discretion. In resolving conflicts, Flexpoint will consider various factors, including the interests of the applicable Funds with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- A Fund will not make an investment unless Flexpoint believes that such investment is an appropriate investment, considered solely from the viewpoint of such Fund;
- Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the relevant Governing Documents for the Funds;
- Generally, the Funds, with the exception of the Alternative Investment Vehicles and Co-Investment Funds, have established an advisory board consisting of representatives of investors not affiliated with Flexpoint. Such advisory boards meet, as required, to consult with Flexpoint as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, Flexpoint will be guided by its good faith discretion; and
- Where Flexpoint deems appropriate, unaffiliated third parties can be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price.

## **Personal Trading**

The Code of Ethics, which is acknowledged as received and understood by each Flexpoint employee, establishes guidelines for personal trading requirements, insider trading and reporting of personal

securities transactions, including certain pre-clearance and reporting obligations. Flexpoint supervised persons purchase investments for their own accounts, subject to the terms of the Code of Ethics.

Flexpoint supervised persons will occasionally carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds and in connection therewith, can potentially give advice and recommend securities to vehicles which differs from advice given to or securities recommended or bought for or outside the investment mandate of the Funds even though their investment objectives can be the same or similar. Supervised persons are permitted to buy securities in transactions offered to but rejected by the Funds or that are outside the investment mandate of the Funds.

Flexpoint supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information or communicating material non-public information to others. The Firm maintains a restricted list regarding issuers about whom it has material non-public information. Pre-clearance is required by Flexpoint supervised persons for certain personal securities transactions, including trading in restricted list securities, initial public offerings, special purpose acquisition companies (SPACs) and limited offerings. In addition, supervised persons are required to file certain reports and link their brokerage accounts to the Firm compliance software to enable monitoring of personal trading by the Chief Compliance Officer or his designee.

## **Item 12 – Brokerage Practices**

### **Selection of Brokers and Dealers**

While Flexpoint focuses primarily on securities of private companies, the Funds periodically engage broker-dealers or investment bankers to perform various services for its Funds and portfolio companies, such as assisting in the purchase or sale of a private portfolio company, assisting in the purchase or sale of shares of securities of a public portfolio company or purchasing or selling publicly traded securities. For each of the Funds, Flexpoint has sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker-dealer, if any, to be used to effect transactions. In placing each transaction for a Fund involving a broker-dealer, Flexpoint will seek “best execution” of the transaction. “Best execution” is a qualitative assessment that takes into account the full range and quality of a broker-dealer’s services and is satisfied by obtaining the most advantageous overall terms for the Fund(s) when weighing all the factors relevant to the transaction. Best execution is therefore not necessarily determined by lowest possible commission rates.

In determining whether a particular broker-dealer is likely to provide best execution in a particular transaction, Flexpoint’s investment team takes into account all factors that it deems relevant to the broker-dealer’s execution capability, including, by way of illustration: (i) Flexpoint’s prior experience with the broker-dealer or investment banker; (ii) the broker-dealer or investment banker’s execution capability, financial responsibility, reputation and expertise within the industry; (iii) the broker-dealer or investment banker’s responsiveness to the Firm; (iv) the broker-dealer or investment banker’s expertise in dealing with investments that are restrictive or illiquid in nature; (v) the type and size of

the transaction involved; (vi) the value of any research services provided; and (vii) commission rates, among other factors the Firm deems relevant to the specific transaction. When purchasing or selling over-the-counter securities with market makers, Flexpoint generally seeks to select broker-dealers it believes to be actively and effectively trading the security being purchased or sold regardless of the most favorable commission rate.

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

Flexpoint does not receive “soft dollars” in connection with securities transactions for the Funds, does not receive referrals in connection with selecting or recommending broker-dealers for the Funds and does not engage in directed brokerage.

### **Aggregation of Trades**

In pursuing the Funds’ investment objectives, Flexpoint can cause one or more of the Funds to purchase and sell publicly traded securities through broker-dealers. If Flexpoint has determined to sell or purchase a publicly traded security for more than one Fund at the same time, the Firm will generally place combined orders for all such vehicles while assigning pre-order allocations. If an order for more than one Fund for a publicly traded security cannot be fully executed, Flexpoint will generally aggregate trade orders for publicly traded securities so that each participating Fund will receive the average price for each execution of a transaction on a pro rata basis.

## **Item 13 – Review of Accounts**

### **Oversight and Monitoring**

The investment portfolios of the Funds are generally private, illiquid and long-term in nature, and accordingly, Flexpoint’s review of them is not directed toward a short-term decision to dispose of securities. A team of Flexpoint investment professionals closely monitors Fund portfolios as well as individual portfolio companies of the Funds and maintains an ongoing oversight position in such portfolio companies. Decisions as to when to purchase or sell a portfolio company are made by the investment committee. It is not uncommon for the relevant investment professionals for an investment to be in regular, as often as weekly, contact with the portfolio company’s senior management team. A Fund’s portfolio is reviewed by a team of investment professionals on an ongoing basis which includes those investment professionals assigned to individual portfolio companies. Moreover, partners of Flexpoint monitor portfolio company performance through regular management meetings, as well as detailed reviews of specific portfolio companies that occur as needed.

## Reporting

Investors in the Funds typically receive, among other items, (i) a copy of audited financial statements of the relevant Fund prepared in accordance with GAAP, accompanied by a report of its independent certified public accountants, within 90 days after the end of each fiscal year, (ii) a semi-annual copy of unaudited financial statements of the relevant Fund prepared in accordance with GAAP, within 60 days after the first semi-annual period of each fiscal year and (iii) annual tax information necessary for the completion of tax returns (K-1). Flexpoint and the applicable General Partner also semi-annually distribute to underlying Fund investors a valuation report for each Fund and a capital account statement. All reports are sent to investors in writing and are delivered electronically.

In the course of conducting due diligence or otherwise, investors periodically request information pertaining to Flexpoint's investments. Flexpoint responds to these requests, and in answering such requests provides information that is not generally made available to other investors who have not requested such information. While Flexpoint does not have an obligation to update any such information provided, the Firm endeavors to provide the information requested in the most current form available. Additionally, as it pertains to existing investors, upon request or pursuant to contractual obligations, certain investors receive additional information and reporting that other investors do not receive. The fact that Flexpoint provides such information upon request to one or more investors does not obligate Flexpoint to affirmatively provide such information to all investors. As a result, certain investors will have more information about a Fund than other investors, and Flexpoint has no duty to, and does not intend to, ensure all investors seek, obtain or possess the same information regarding a Fund and its investments and/or portfolio companies.

## Item 14 – Client Referrals and Other Compensation

As described in Item 5 above, in connection with investments made by the Funds, Flexpoint can receive certain supplemental fees from portfolio companies in which one or more of the Funds invest or propose to invest. Subject to the terms of the Governing Documents and as described above, any such fees received by Flexpoint are generally offset 100% against the Management Fees of the relevant Fund. To date, no transaction fees have been taken by Flexpoint on behalf of the Funds (but for the avoidance of doubt, as mentioned above, such transaction fees have been assessed on the Co-Investment Funds).

These types of fee arrangements present potential conflicts of interest, as discussed in Item 11 above, and provide Flexpoint with an incentive to recommend investments based on compensation received rather than the best interests of a Fund. To help mitigate this potential conflict of interest, an allocable portion of such benefits received by Flexpoint or its employees in connection with services rendered to portfolio companies or transactions of a Fund are offset 100% against Management Fees payable by the relevant Fund, to the extent provided in and subject to certain exceptions described in each Fund's Governing Documents.

When raising capital for a new Fund, Flexpoint on occasion will engage the services of a registered broker-dealer to serve as a placement agent for Fund units.

### **Item 15 – Custody**

Flexpoint is deemed to have custody over its Funds' assets because of its affiliation with each Fund's General Partner and each General Partner's ability to deduct fees from Fund accounts. In order to comply with Advisers Act Rule 206(4)-2 (the "Custody Rule"), Flexpoint has elected to undergo a GAAP financial statement audit by an independent public accountant registered with, and subject to inspection by, the Public Company Accounting Oversight Board ("PCAOB") for each of the Funds over which it is deemed to have custody, copies of which are delivered to the Funds and their investors within 90 days of the fiscal year end. In addition, upon the final liquidation of a Fund, Flexpoint will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all underlying investors promptly upon completion of the audit. Investors in the Funds should carefully review such financial statements.

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

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

Flexpoint generally receives and exercises complete discretionary authority to manage investments on behalf of the Funds as per the Governing Documents of each Fund. Investment advice is provided directly to the Funds, subject to the direction and control of the General Partner, and not individually to the investors in the Funds. The terms upon which Flexpoint serves as an investment manager are established at the time each vehicle is established and services are provided in accordance with the Governing Documents of the applicable vehicle.

To become an investor in a Fund, an investor must execute certain Governing Documents, including a subscription agreement which includes a power of attorney applicable to the execution of a limited partnership agreement with such Fund. Once an investor executes these Governing Documents, with limited exceptions discussed elsewhere in this Brochure, Flexpoint is not required to contact such investor prior to transacting business in a Fund. Fund investors can seek to impose limitations on Flexpoint's authority through a side letter agreement and Flexpoint can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon Flexpoint's investment authority with respect to an investor's investment must be presented to Flexpoint in writing and agreed to by Flexpoint and such investor. Other investors are often provided with notification of such side letter agreements but are not provided with consent rights.

## **Item 17 – Voting Client Securities**

By virtue of each Fund's Governing Documents, Flexpoint has the authority to vote client proxy statements on behalf of its Funds. The majority of "proxies" received by Flexpoint, however, will be written shareholder consents or similar instruments for private companies. Flexpoint has established written policies and procedures pursuant to Advisers Act Rule 206(4)-6 setting forth the principles and procedures by which it votes or gives consent with respect to securities owned by the Funds. The guiding principle by which Flexpoint votes is to do so in the best interests of each Fund by maximizing the economic value of the relevant Fund's holdings, taking into account the relevant vehicle's investment horizon, the contractual obligations under the relevant Governing Documents and all other relevant facts and circumstances at the time of the vote. Flexpoint does not permit voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is Flexpoint's general policy to vote or give consent on all matters presented to security holders in any vote. However, the Firm reserves the right to abstain on any particular vote or otherwise withhold its vote or consent on any matter if, in the judgment of its Chief Compliance Officer or the relevant investment professional, the costs associated with voting such vote outweigh the benefits to the relevant Funds or if the circumstances make such an abstention or withholding otherwise advisable and is in the best interests of the relevant Funds.

Flexpoint will generally vote in accordance with management's recommendations, unless the Firm determines that voting in such a manner is in conflict with the best interests of its investors. In these cases, Flexpoint will evaluate and vote the proxies on a case-by-case basis. The Firm can decide to take a proxy voting conflict to its advisory board for assistance with the resolution. In general, investors cannot request that Flexpoint vote in a particular way on any specific proposal. Flexpoint does not consider service on portfolio company boards by Flexpoint personnel or its receipt of nominal board fees to create a conflict of interest in voting proxies with respect to such companies.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Fund and copies of proxy voting policies are available to existing investors upon written request to: Flexpoint Ford, LLC; Attention: Chief Compliance Officer; 676 N. Michigan Avenue, Suite 3300; Chicago, IL 60611.

## **Item 18 – Financial Information**

Flexpoint does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance, and thus is not required to provide a copy of a balance sheet for the most recent fiscal year. Additionally, Flexpoint has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy petition.