



**Form ADV Part 2A: FIRM BROCHURE**

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This brochure (“Brochure”) provides information about the qualifications and business practices of Keystone Capital Management, LP (“Keystone” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at (312) 219-7900 or [info@keystonecapital.com](mailto:info@keystonecapital.com). 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.

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

## **Item 2 – Material Changes**

As this is the initial filing of Keystone’s Brochure, there are no material changes to report.

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## Item 4 – Advisory Business

### Firm Description

Founded as predecessor entity Keystone Capital Inc. in 1994, Keystone Capital Management, LP is a Chicago-based private equity firm which invests in lower middle market companies with a primary focus on partnering with privately held businesses with between approximately \$2 million and \$15 million in EBITDA and operating in markets that Keystone believes offer compelling organic and inorganic growth and diversification potential.

Keystone Capital Management, LP (the registrant) was formed in 2020 to act as the investment adviser for the following private funds: Keystone Capital Fund II, LP and Keystone Capital Fund II-A, LP (together, “Fund II”). Keystone also acts as the investment manager to several pre-fund investments (the “Pre-Fund Investments”) which are comprised primarily of proprietary capital and are not clients of Keystone (and not generally included in this Brochure unless specifically noted).

Each Fund is affiliated with the general partner (“General Partner”) with authority to make investment decisions on behalf of the Funds. The General Partner is deemed registered under the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder (“Advisers Act”), pursuant to Keystone’s registration in accordance with SEC guidance. While the General Partner maintains ultimate authority over the Funds, Keystone has been designated the role of investment adviser. For more information about the Funds and General Partner, please see Keystone’s Form ADV Part 1, Schedule D, Section 7.A. and Section 7.B.(1)

Keystone provides investment advisory services as a private equity fund manager to its Funds. The Funds invest through privately negotiated transactions in operating companies, generally referred to as “portfolio companies”, in the target sectors (as described in more detail in Item 8, below). Each portfolio company has its own independent management team responsible for managing its day-to-day operations, although (i) members of Keystone or representatives appointed by the Firm are expected to serve on the boards of such portfolio companies and will therefore have a significant impact on the long-term direction of the company, including the selection of management team members and (ii) in some cases, Keystone will more directly influence the day-to-day management of a portfolio company by recruiting and installing certain individuals in various leadership roles, such as chief executive officer, chief operating officer, chief financial officer or in other roles. Keystone’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions of such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted in certain instances.

Keystone’s investment advice and authority for each Fund is tailored to the investment objectives of that Fund; Keystone does not tailor its advisory services to the individual needs of limited partners in its Funds. The Fund investment objectives are described, as applicable, in the private placement

memorandum, limited partnership agreement, subscription agreements, investment advisory agreements, side letter agreements and other governing documents of the relevant Fund (collectively, “Governing Documents”). The Firm does not seek or require limited partner approval regarding each investment decision.

Fund limited partners generally cannot impose restrictions on investing in certain securities or types of securities, other than through side letter agreements. Limited partners in the 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 applicable Governing Documents. Keystone has entered into side letters or other similar agreements with certain limited partners including those who make substantial commitments of capital or were early-stage limited partners in the Funds, or for other reasons in the sole discretion of Keystone in each case that have the effect of establishing rights under, or altering or supplementing, a Fund’s Governing Documents. Examples of side letter and other similar agreements entered into include co-investment preferences, certain fee arrangements, notification provisions, reporting requirements and “most favored nations” provisions, among others. These rights, benefits or privileges are not always made available to all limited partners nor in some cases are they required to be disclosed to all limited partners. Side letters are negotiated at the time of the relevant limited partner’s capital commitment, and once invested in a Fund, limited partners generally cannot impose additional investment guidelines or restrictions on such Fund.

Keystone does not participate in wrap fee programs.

### **Principal Owners**

Keystone is ultimately owned by Kent Dauten and Scott Gwilliam. For more information about the owners and executive officers of Keystone, please see Keystone’s Form ADV Part 1, Schedules A and B.

### **Regulatory Assets Under Management**

As of the May 26, 2020, Keystone managed approximately \$420,000,000 in regulatory assets under management, all managed on a discretionary basis.

### **Item 5 – Fees and Compensation**

Keystone and its affiliated General Partner receive fees and compensation in exchange for advisory services provided to the Funds, including management fees, carried interest, additional compensation in connection with management services performed for the portfolio companies of the Funds and reimbursements from portfolio companies for certain expenses advanced on their behalf. Differences exist from Fund to Fund, and certain Funds do not charge certain fees, compensation or expenses that other Funds charge or charge them in different amounts. The following is a general description of fees, compensation and expenses of the Funds. Limited partners should refer to the Governing Documents of the applicable Fund for a complete understanding of how Keystone is compensated

for its advisory services; the information contained herein is a summary only and is qualified in its entirety by such documents.

## **Management Fees**

Keystone charges each Fund a management fee (the “Management Fee”), generally 2% per annum of non-affiliated limited partner commitments. Management Fees are initially charged at 2% of each non-affiliated limited partner’s committed capital for the period of time during which a Fund is making investments; thereafter, the Management Fee is equal to 2% of each non-affiliated limited partner’s invested capital with respect to investments that have not been disposed of or completely written off. Assessed quarterly in advance, the Management Fee charged to each Fund is described in full detail in the relevant Fund’s Governing Documents and more briefly below. All Management Fees were negotiated with the Fund’s limited partners during the fundraising period of the applicable Fund and are not subject to negotiation thereafter.

The General Partner is permitted, in its sole discretion, to reduce or waive all or a portion of the Management Fee. Fees are generally waived for Keystone employees, affiliates and their respective families investing in a Fund and for Keystone employees investing through the General Partner (although these limited partners generally pay their pro rata share of certain Fund expenses).

In addition, as per the provisions of the Governing Documents, Keystone is permitted to waive, defer, or reduce all or a portion of the Management Fee payable by a Fund in full or partial satisfaction of any obligation of Keystone and certain employees and affiliates of Keystone to invest in and alongside such Fund, which could result in acceleration of limited partner capital contributions. Waived, deferred, or reduced Management Fees are not typically subject to the various offsets or reductions as described herein. Due to waived, deferred, or reduced Management Fees and/or the timing of receipt of fees subject to offsets, Fund limited partners could receive less than the full benefit of reductions or offsets.

Management Fees will generally be reduced by, as applicable: (i) the amount of fees paid by such Fund to entities or persons acting as a placement agent in connection with the offer and sale of interests in such Fund; (ii) costs incurred by Keystone in connection with the organization of such Fund that exceeds the limit as specified in such Fund’s Governing Documents; and (iii) certain supplemental fees and compensation with respect to portfolio investments, 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 (“supplemental fees”) (whether in the form of cash, securities or otherwise). Management Fees are offset by 80% of the non-affiliated limited partners’ percentage of any supplemental fees received net of any expenses incurred in connection with such portfolio investment (whether consummated or unconsummated) and any Management Fee waivers (described above). To the extent that any other fund or other entity formed by Keystone or its affiliates invests (or commits to invest) alongside a Fund in any portfolio company investment, any supplemental fees will be allocated among the Fund and such other funds and/or entities in proportion to the cost of the investment or potential

investment in such portfolio company held (or proposed to be held) by each. Accordingly, any reduction of a Fund's Management Fee is limited to the extent of the Fund's proportionate ownership in such portfolio company relative to such other funds' or entities' ownership. In addition, the following fees do not offset Management Fees, in each case as applicable: any fees received by Special Consultants (as defined in Item 8); reimbursements from a portfolio company; fees or expenses borne by a Fund; broken deal expenses; or any portfolio company directors' or board fees paid by a former portfolio company to a Keystone employee who remains on the company's board of directors following the Fund's disposition of its investment in the company.

To the extent that such an offset credit would reduce a Fund's Management Fee for a given quarter 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 limited partners that have not elected to waive such amount for tax or other reasons.

### **Portfolio Company Remuneration**

On occasion, in certain circumstances (such as a portfolio company's liquidity needs or otherwise) Keystone determines in its discretion to waive, defer or renegotiate, in whole or in part, the amount of supplemental fees received from a portfolio company. Keystone endeavors to require the payment of such fees only to the extent permitted by the earnings or cash position of the applicable portfolio company, and Keystone will defer or forego the payment of such fees if too burdensome for the portfolio company or at such time a senior credit agreement prohibits the payment of such fees. Keystone 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.

### **Carried Interest**

The General Partner is entitled to be allocated carried interest ("Carried Interest") with respect to the Funds, which is generally equal to 20% of all realized profits net of all expenses in excess of an 8% compounded preferred return and catch-up provisions. The Carried Interest calculation is further described in full detail in the relevant Fund's Governing Documents and more briefly in Item 6, below.

### **Fund Expenses**

The Funds will bear all fees, costs, expenses, liabilities and obligations relating to the Fund and/or its activities, business, portfolio companies or actual or potential investments, including with respect to any entity formed to effect the acquisition and/or holding of a portfolio company (to the extent not borne or reimbursed by a portfolio company or potential portfolio company), including all fees, costs, expenses, liabilities and obligations (referred to collectively in this definition as "costs") relating or attributable to: (i) activities with respect to the origination, identification and sourcing of investment opportunities for the Funds, including attending and sponsoring industry conferences and events, meeting with consultants, finders, broker-dealers, investment banks and other sources of investments and developing and maintaining an investment pipeline; (ii) activities with respect to the pursuing,

structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to any periodicals, databases and/or research services), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving or otherwise disposing of, as applicable, 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 costs payable to attorneys, accountants, tax professionals, investment bankers, lenders, expert networks, third-party diligence, software and service providers, consultants and similar professionals in connection therewith); (iii) indebtedness of, or guarantees made by, the Funds, Keystone, the General Partner or any affiliated partner on behalf of the Funds (including any credit facility, letter of credit or similar credit support), including interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iv) financing, commitment, origination and similar activities; (v) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement, sales, investment banker, finder and similar services; (vi) brokerage, sale, custodial, depository, local paying agent, trustee, record keeping, account, registered office and similar services (including any depository appointed pursuant to the AIFMD and any Swiss representative or paying agent appointed pursuant to the Swiss Collective Investment Schemes Act (as amended), including any law, rule or regulation relating to the implementation thereof); (vii) reporting, filings and other ongoing compliance requirements contemplated by the AIFMD or any similar law, rule or regulation (excluding, for the avoidance of doubt, the initial and/or preliminary registrations, filings and compliance obligations related thereto), including secondary legislation, regulations, rules and/or associated guidance, and any related requirements; (viii) developing, structuring, maintaining, operating and winding up administrative structures in Luxembourg, other European countries and other jurisdictions that are put in place to establish required residence and/or operate the investment activities of the Funds (including the salary and benefits of any personnel reasonably necessary for the maintenance of such structures, other overhead, rent and similar costs in connection therewith and a Fund's share of any such costs of any such structure involving other persons managed by, or affiliated with, Keystone, the General Partner or any of their respective affiliates); (ix) legal, accounting, research, auditing, technology, administration (including costs associated with any third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, fairness opinions, appraisals or pricing services), consulting (including consulting and retainer fees, salary and other compensation paid to, and benefits or personnel costs provided to or on behalf of, the operations group or any of its members, consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies and other consultants), tax and other professional services (including costs related to the establishment or maintenance of any such activities or services); (x) reverse breakup, termination and other similar arrangements; (xi) insurance, including directors and officers liability, fidelity bond, cybersecurity, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance (including costs related to any retention or deductibles and broker costs and commissions) and any consultants or other advisors utilized in the procurement, review, maintenance and analysis of insurance; (xii) filing, title, transfer, survey,



registration and other similar activities; (xiii) printing, communications, mailing, courier, marketing and publicity; (xiv) the preparation, distribution or filing of financial statements or other reports, tax returns, tax estimates, Schedule K-1s or similar forms or other communications with limited partners, any other administrative, compliance or regulatory filings or reports (including Form PF and Bureau of Economic Analysis Reports) or other information, including costs of any third-party service providers and professionals related to the foregoing; (xv) compliance with any tax or financial account reporting regime, including FATCA, the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard and any similar laws, rules and regulations, including any costs of any third-party service providers and professionals related to the foregoing; (xvi) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software (including accounting, limited partner reporting, ledger systems, financial management and cybersecurity) or other administrative or reporting tools (including subscription-based services); (xvii) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information (including any costs incurred in connection with the EU Data Protection Law or FOIA); (xviii) to the extent provided in the Governing Documents or otherwise approved by Keystone in its sole discretion, activities or proceedings of the advisory board (including any reasonable out-of-pocket costs incurred by representatives of the General Partner, the advisory board members, permitted observers and other persons in attending or otherwise participating in meetings of the advisory board); (xix) indemnification (including legal and any other costs incurred in connection with indemnifying any partner or other person pursuant to the Governing Documents or otherwise and advancing costs incurred by any such person in defense or settlement of any claim that is subject to a right of indemnification pursuant to the Governing Documents), except as otherwise set forth in the Governing Documents; (xx) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs of discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (xxi) any annual, periodic or special meeting of the partners, any other conference, meeting or webcast or other video conference with any partner(s) and any periodic executive forum, industry conference or roundtable of portfolio company management and other persons (in each case, including any costs associated with venue, set-up, room and board, dining, entertainment, gifts and mementos, honorarium, events or speakers and other meeting or conference-related costs), in each case to the extent incurred by the Funds, the General Partner or any other affiliate of the General Partner; (xxii) the Management Fee; (xxiii) except as otherwise determined by Keystone in its sole discretion, any cost 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, any costs 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 limited partners investing in such entities and any other costs related to any structuring or restructuring of any Fund entity; (xxiv) the termination, liquidation, winding up or dissolution of a Fund and any persons owned directly or indirectly by a Fund (including portfolio companies) and related entities; (xxv) defaults by

limited partners in the payment of any capital contributions; (xxvi) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Funds, the parallel Fund, the General Partner, the parallel Fund general partner, the ultimate general partner, Keystone, any entities owned directly or indirectly by a Fund (including portfolio companies) and any alternative investment vehicle of a Fund or parallel Fund, including the preparation, distribution and implementation thereof, provided that, with respect to amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the General Partner, the parallel Fund general partner, the ultimate general partner and Keystone, such amendments, waivers, consents or approvals relate to the affairs of a Fund, a parallel Fund or any alternative investment vehicle thereof; (xxvii) (A) compliance with any law, rule, regulation, policy, directive or special measure (including in relation to privacy, data protection, know-your-customer, anti-money laundering, sanctions or anti-terrorism considerations), including any legal, administrator, consulting or other third-party service provider costs related thereto, any regulatory costs of the General Partner or any of its affiliates incurred in connection with the operation of the Funds and any costs related to compliance with any environmental, social or governance or other investment considerations and policies applicable to the Funds, the General Partner and/or any of their respective affiliates and/or (B) the validation or other confirmation of any payments made to a Fund or the General Partner (including as a result of any anti-money laundering laws, rules or regulations); (xxviii) any litigation or governmental inquiry, investigation or proceeding, including any costs of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such costs or amounts have been determined to be excluded from the indemnification provided for in the Governing Documents; (xxix) any consultants, experts or advisors engaged, including independent appraisers engaged in connection with the Funds considering, making, holding or disposing of, directly or indirectly, an investment in the same entity as one or more investment vehicles (other than the Funds) managed or controlled by the General Partner or any of its affiliates; (xxx) unreimbursed costs incurred in connection with any transfer or proposed transfer contemplated by the Governing Documents or any limited partner's name change, internal restructuring or change in trust, registered agent or custodian; (xxxi) any taxes, fees and other governmental charges levied against a Fund and all costs incurred in connection with any tax audit, inquiry, investigation settlement or review of a Fund (except to the extent that a Fund is reimbursed therefor by a reimbursing partner) and any costs of or related to the tax representative; (xxxii) distributions to the limited partners and other costs associated with the acquisition, holding and disposition of investments, including extraordinary expenses; (xxxiii) unreimbursed and unpaid costs of the operations group or its members, employees or other persons engaged by the operations group; (xxxiv) compliance or regulatory matters, except as otherwise set forth in the Governing Documents, including compliance with the partnership agreement and/or any side letter or similar agreement; (xxxv) attendance of any member, manager, shareholder, partner, director, officer, employee or affiliate of the General Partner, Keystone or any of their respective affiliates at any trade conference, including any applicable registration costs and exhibition, sponsorship or other presentation costs; (xxxvi) any travel (including, where appropriate as determined by Keystone, the cost of using private aircraft or other private air travel at a cost not to exceed the cost of first class commercial airfare, other air travel, car or ride sharing services, other modes of transportation, meals, lodging and

entertainment) and other meals and entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxvii) any of the items listed in clauses (i) - (xxxvi) above relating to any investment, restructuring, taking public or private, disposition, transaction, project or other opportunity not consummated or otherwise not successful and/or that have been offered to co-limited partners (including co-investors' proportionate share of any expenses related to an investment or other opportunity not consummated); (xxxviii) any organizational expenses; (xxxix) any placement fees; and (xl) any other costs approved by the advisory board.

Out-of-pocket expenses associated with completed transactions are expected to be billed directly to a Fund, reimbursed by portfolio companies or capitalized as part of the acquisition price of a consummated transaction. Out-of-pocket expenses associated with unconsummated transactions ("broken deal expenses") will be paid by the relevant Fund(s) selected as proposed investors in such transaction.

### **Expense Reimbursement**

Certain expenses related to Keystone's oversight of portfolio companies which are incurred on behalf of the Funds are reimbursed by a portfolio company pursuant to a management services agreement or other agreement with the specific portfolio company; these fees and expenses are often paid by Keystone when incurred and invoiced in arrears or are paid directly by a portfolio company. Such expenses can 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 and (b) 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) premium meals (including outside normal business hours); (iv) expenses relating to hiring portfolio company personnel (including background checks, recruiting and relocation expenses); (v) indemnification expenses; (vi) insurance; (vii) corporate filings; (viii) certain legal expenses; (ix) similar out-of-pocket expenses; (x) consulting fees; and (xi) other consideration and expenses. In addition, to the extent a Fund or Keystone 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, Keystone will generally, subject to its ultimate discretion, cause such other Fund or portfolio company to reimburse the initial Fund or Keystone for such fees or expenses. Reimbursement by a portfolio company of out-of-pocket expenses incurred by Keystone, the General Partner or their respective affiliates will not be offset against the Management Fee payable by the Funds.

## **Offering and Organizational Expenses**

Each limited partner will bear its pro rata share of a Fund's organizational expenses, including legal, accounting, filing, capital raising, travel and other organizational expenses ("Organizational Expenses"). The amount of Organizational Expenses is further detailed in the relevant Governing Documents. Any amounts in excess of such permitted limit are offset dollar for dollar against Management Fees.

## **Fee Receipt Allocation**

From time to time, Keystone, a Fund or a portfolio company is entitled to pay a supplemental fee, portion of the Management Fee, Carried Interest, equity grant or other fee to a third party, such as a Special Consultant, advisor, operating partner, operations group member, finder, placement agent, broker and/or investment banker. Similarly, on occasion certain members of a portfolio company management team are entitled to receive additional compensation, including bonus payments or incentive equity payments based on the applicable portfolio company meeting certain success hurdles. Such compensation indirectly reduces the proceeds available for distribution to portfolio company investors 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, Keystone 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, Keystone 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 Keystone.

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

A Carried Interest allocation represents an adviser's compensation based on a percentage of net profits of the funds it manages. As described above in Item 5, the General Partner receives a Carried Interest allocation on certain realized profits in the Funds equal to 20% of all realized profits subject to an 8% annually compounded preferred return (or hurdle) and subject to reimbursement of all relevant Fund expenses, including Management Fees. Calculated based on cumulative realized gains and income only, Carried Interest is allocated to the General Partner as portfolio holdings are liquidated or otherwise monetized and is subject to a potential giveback if the General Partner has received excess

cumulative distributions. Each Fund's Carried Interest calculation, as well as the clawback provisions of each Fund, is further described in the Governing Documents.

These performance fee arrangements have been structured subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner is permitted to waive or reduce the amount of Carried Interest for certain Fund limited partners in its sole discretion. Specifically, if principals and employees and their respective family members are limited partners, they will generally pay reduced Carried Interest or none at all.

The fact that the General Partner's Carried Interest allocations are based on the performance of each Fund can create an incentive for Keystone to make investments that are more speculative than would be the case in the absence of such distributions. The Firm believes this incentive is sufficiently mitigated, however, due to the fact that: (i) the applicable Governing Documents create limitations on the ability of Keystone 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) any losses the Funds sustain will reduce the General Partner's Carried Interest distribution; (iv) Carried Interest is generally calculated only after limited partners have received as distribution 100% of their capital contributions plus a preferred return; (v) the General Partner often makes a substantial commitment to a Fund to invest its own capital alongside the limited partners; and (vi) Keystone's ability to attract future limited partners is tied to the performance of its investments.

Keystone manages the Funds and Pre-Fund Investments 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 Keystone's allocation of investment opportunities, expenses, time and attention of advisory personnel and consideration for certain transactions. Although Keystone 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 vehicles in which Keystone or an affiliate has a greater financial interest. To help minimize such conflicts of interest, Keystone allocates investment opportunities which satisfy the investment parameters of more than one Fund in accordance with Keystone's policies and procedures regarding investment allocation and the applicable Governing Documents and taking into consideration certain factors, as determined in the Firm's sole discretion, which 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 Keystone. Keystone's procedures are designed to ensure that all investment decisions are made in accordance with Keystone's fiduciary duties to its Funds and without consideration of Keystone's (or its affiliates' or employees') pecuniary interest. Keystone will not allocate investment opportunities based in whole

or in part on the relative fee structure or amount of fees paid by any or the profitability of any Fund. Keystone's policies for the allocation of investments are determined by the investment committee.

## **Item 7 – Types of Clients**

Keystone provides investment advice to its Funds which are exempt from registration under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder ("Investment Company Act"). The Funds limit their respective limited partners to: (i) "accredited investors" as defined in the Securities Act of 1933, and (ii) "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act, or (iii) if applicable, "qualified clients," as defined in the Advisers Act. Limited partners in the Funds must also meet certain other suitability qualifications prior to making an investment in the Funds. The Funds are not registered or required to be registered under the Investment Company Act, are not made available to the general public, their securities are not registered or required to be registered under the Securities Act of 1933 and Fund interests 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 Keystone and/or the Funds. The Funds typically require capital commitments from each limited partner of at least \$1 million, although the General Partner has, in its sole discretion, accepted lesser amounts.

The limited partners participating in the Funds include high net worth individuals, other investment entities, university endowments, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations, corporations, limited partnerships, limited liability companies or other business entities, or other service providers retained by Keystone, and typically include, directly or indirectly, principals or other employees of Keystone and its affiliates and members of their families.

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

### **Strategy**

*Market Segment Focus:* Keystone believes the lower middle market ("LLM"), defined herein as businesses generating below \$15 million of EBITDA, provides attractive opportunities for an acquisition-oriented and operationally active investment strategy.

Keystone has more than 25 years of experience (i) acquiring privately held, family or entrepreneur led LMM businesses, (ii) transitioning them to institutional ownership with deeper leadership teams and more sophisticated operations and (iii) executing a long-term value creation plan combining both inorganic growth and strategic organic growth initiatives.

Within the LMM segment, and consistent with its Pre-Fund Investment activities, Keystone balances opportunistic investing, as compelling situations frequently arise through its deep network of

intermediaries, with a sector-focused investment strategy in: (i) engineering and technical services, (ii) technology-enabled services, (iii) commercial services and engineered products, (iv) food and beverage and (v) high tech manufacturing. The Firm seeks to leverage its collective experience and industry relationships (including executive partners, business owners and intermediaries, among others) while applying the same value creation “playbook” that has been successful over its history.

*Sourcing:* Keystone has developed a diverse network of intermediaries (including investment bankers, buy-side brokers, industry experts, and executives), through its more than 26-year track-record investing in the lower middle market. Keystone takes great pride in its reputation as an acquirer of choice which has been developed and codified through its actions. Keystone believes it differentiates itself with intermediaries by being nimble, transparent, and partnership-oriented with the intermediaries themselves.

*Platform Deal Screening Methodology:* Keystone’s platform deal screening methodology measures a core set of fundamental investment attributes, or success factors, the Firm seeks in a new platform. The success factors seek to balance an investment’s fundamental business characteristics with attributes required to execute a successful buy and build investment strategy, Keystone’s predominate investment approach.

*Transaction Structuring:* Keystone’s deal structures and capitalization are typically simple, traditional majority recapitalizations financed with bank debt and Keystone equity, with a few exceptions. While Keystone has had success acquiring sponsor-owned platforms, the Firm is more often the first institutional capital investor in its platforms. As a result, Keystone typically expects key owners to reinvest a meaningful portion of their proceeds to align interests and provide comfort regarding management’s buy-in for the future.

*Operational Engagement:* Keystone takes an active, collaborative approach to working with portfolio company management teams to assist in the development of the business. The Firm strives to balance a structured approach to portfolio management, typically with quarterly board meetings and monthly financial packages, and an entrepreneurial attitude towards “meeting portfolio companies where they are” - meaning the cadence of engagement and structure of board and other materials are targeted to each company.

Since Keystone is usually the first institutional investor, platform investments are frequently under-invested in and operating with unsophisticated management processes. Keystone’s combination of management and operations experience and dedicated finance and operations resources, combined with the Funds’ longer-term duration, enable the Firm to act as a value-added partner helping guide its portfolio companies’ development. Additionally, Keystone believes its longer investment hold period allows the potential for equity value growth in successful buy and build investments to compound over longer time periods than would be available with a traditional fund duration.

## **Risk Factors**

An investment in the Funds involve significant risks and other considerations and, therefore, should be undertaken only by prospective limited partners capable of evaluating and bearing such risks. Fund returns can be unpredictable and, accordingly, a Fund's investment program is not suitable as the sole investment vehicle for a limited partner. A prospective limited partner should only invest in a Fund as part of a broader overall investment strategy, and only if the prospective limited partner is able to withstand both extended periods of illiquidity and a total loss of its investment. Prospective limited partners should carefully consider, among other factors, the matters described below, each of which could have an adverse effect on the value of the interests. There can be no assurance that a Fund will meet its investment objectives or otherwise be able to successfully carry out their investment program. The following list is not a complete list of all risks and other considerations involved in connection with an investment in a Fund. Prospective limited partners should make their own inquiries and investigation of the investment, and should consult their own advisors, regarding the offering of limited partner interests in the Funds, including the merits and risks involved and the legality and tax consequences of an investment in a Fund.

*Investments in Private Companies.* The Funds' investment portfolio are expected to consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

While not likely, certain investments by the Funds can be in securities that become publicly traded (but there can be no assurances that such securities will ever be listed on a securities exchange). Such investments have the potential to involve economic, political, interest rate and other risks, any of which can result in an adverse change in the market price. In addition, in some cases it is possible a Fund will be prohibited by contract or other limitations from selling such securities for a period of time, in which case the Fund would likely be unable to take advantage of favorable market prices.

*Concentration of Investments; Lack of Diversification.* The Funds will participate in a limited number of investments and are authorized to make several investments in one industry or one industry segment or within a short period of time. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry can substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund is authorized to invest in fewer portfolio companies and thus be less diversified. As a result of the foregoing, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings or of a particular industry, or the timing of a Fund's investments, has the potential to substantially affect a Fund's aggregate return. In addition to the foregoing, because it is possible that a Fund will only make a limited number of investments and such investments generally will involve a high degree of risk, poor performance by even a single investment could severely affect total returns. If certain investments perform unfavorably, then in order for a Fund to achieve above-



average returns, one or a few of its investments must perform very well, and there can be no assurances that this will be the case.

The Funds are authorized to provide bridge financing to facilitate portfolio company investments. It is possible that all or a portion of a bridge financing will not be recouped within the time period specified in the Governing Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, such Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund's investment limitations, certain of which exclude bridge financing investments.

*Unspecified Investments.* Limited partners will be relying on the ability of Keystone to locate and evaluate the investments to be made by the Funds using the proceeds of the Fund offerings. The activity of identifying, structuring, completing and realizing private equity investments involves a high degree of uncertainty and is subject in some cases to the prevailing capital market, regulatory or political environment. There can be no assurance that Keystone will be able to identify, or that a Fund will be able to complete, portfolio company investments that satisfy a Fund's rate of return objectives or, if completed, realize such investments for fair or attractive values or that the Fund will be able fully to invest its committed capital.

*Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. The Funds encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors, including hedge funds, investing directly or through affiliates, and other private equity funds. Over the past several years, an ever-increasing number of investment funds have been or are being formed, and many fund sponsors have increased the size of successor funds as compared to their corresponding prior funds. Other investment funds with similar investment objectives to the Funds likely will be formed in the future by other unrelated parties. Some of these competitors are expected to have more relevant experience, greater financial resources, a greater willingness to take on risk, and/or more personnel than Keystone.

Keystone expects that competition for appropriate investment opportunities can increase, which may also require a Fund to participate in auctions, the outcome of which cannot be guaranteed, thus reducing the number of investment opportunities available to a Fund and/or adversely affecting the terms upon which portfolio investments can be made.

To the extent that the Funds encounter significant competition for investments, returns to limited partners may decrease. In addition, it is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified or consummated. Regardless of the extent to which the commitments of the limited partners are invested (or drawn down to be invested), the limited partners will be required to bear Management Fees through a Fund during the investment

period based on the entire amount of the limited partners' commitments and other expenses as set forth in the Governing Documents.

*Dynamic Investment Strategy.* While Keystone generally intends to seek attractive returns for the Funds primarily through making private equity investments as described herein, the Firm is authorized to pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. Keystone is also authorized to pursue investments outside of the industries and sectors in which the principals have previously made investments or have internal operational experience, or opportunistically to concentrate a Fund's investments in fewer than all of the industries and sectors described in this Brochure.

*Growth Equity Transactions.* The Funds' strategy includes targeting growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments often involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies can operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies can face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Impact of Government Regulation, Reimbursement and Reform.* Certain industry segments in which the Funds are authorized to invest are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally and (ii) subject to frequent regulatory change. Certain segments are expected to be highly dependent upon various government (or private) reimbursement programs. While the Funds intend to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries are complex, can be ambiguous or lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, can have a material adverse effect on the operations and/or financial performance of the companies in which the Funds invest.

*Illiquidity; Lack of Current Distributions.* An investment in the Funds should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. It is possible that losses on unsuccessful investments will be realized before gains on successful investments are realized. A Fund's ability to dispose of investments can be limited for several reasons. Illiquidity can result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by a Fund. Dispositions of investments can be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In

addition, the ability to exit an investment through the public markets will depend upon favorable market conditions, including receptiveness to initial or secondary public offerings for the companies in which a Fund invests and an active mergers and acquisitions (or recapitalizations and reorganizations) market. Public offering, merger and acquisition and recapitalization and reorganization opportunities can be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In view of these limitations on liquidity, a Fund generally will not be able to return capital or realize gains, if any, on an investment in a privately-held entity until the partial or complete disposition of such entity. While such 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, it is possible there will be no current return on the investment. Furthermore, the expenses of operating the Funds (including the Management Fee payable to the General Partner or its designated affiliate) can exceed its income, thereby requiring that the difference be paid from a Fund's capital, including unfunded commitments.

*Leveraged Investments; Borrowing.* The Funds make use of leverage by incurring or having a portfolio company incur debt to finance a portion of their investment in a given portfolio company, including in respect of companies not rated by credit agencies. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment, and the magnification of the risk of loss can be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which can be impacted by regulatory restrictions and guidelines and which are difficult to accurately forecast, and at times it can 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 can impose restrictive financial and operating covenants on a portfolio company, in addition to the burden of debt service, and can impair its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a portfolio 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 in a down market. In the event a portfolio company cannot generate adequate cash flow to meet its debt service, a Fund would be expected to suffer a partial or total loss of capital invested in the portfolio company, which in turn would be expected to adversely affect the returns of the Fund. Additionally, lenders typically have a claim that has priority over any claim by a Fund to the assets of such portfolio company in an insolvency event or proceeding. 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, it is possible the Fund will not achieve an exit multiple or enterprise valuation consistent with its forecasts. If a portfolio company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal amount of financial leverage, the Fund will likely hold a larger than expected equity investment in such portfolio company

and realize lower than expected returns from the portfolio company that would adversely affect the Fund's ability to generate attractive returns for the Fund as a whole. Any failure by lenders to provide previously committed financing can also expose a Fund to potential claims by sellers of businesses which the Fund may have been contracted to purchase. Moreover, the companies in which the Funds invest are not typically rated by a credit rating agency.

The Funds are expected to also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt, a letter of credit or other forms of promise to provide funding) or otherwise be liable therefor, and in such situations, it is not expected that a Fund will be compensated for providing such guarantee or exposure to such liability. Any use of leverage by a Fund generally results in interest expense and other costs to the Fund that, while not likely, can exceed, or otherwise not be covered by, distributions made to a Fund or appreciation of its investments. The Funds are authorized to incur leverage on a joint and several basis other entities managed by or otherwise affiliated with Keystone or any of its affiliates and, in connection with incurring such indebtedness, Keystone is permitted, in its sole discretion, to cause a Fund to enter into one or more agreements to obtain a right of contribution, subrogation or reimbursement from or against such entities. However, it is possible that, if and when a Fund were to seek to enforce any such right, any such entity could default on its obligation and/or such right would otherwise be unenforceable. In addition, to the extent a Fund incurs leverage (or provides any guaranty), Keystone is authorized to secure such amounts by the commitments or other Fund assets. The inability of a Fund to repay any leverage secured by the commitments could enable a lender to issue a capital call on behalf of the General Partner of a Fund.

In addition, the Funds use borrowed funds in advance or in lieu of capital contributions (as described below) or a portfolio company borrows funds directly through a Fund facility, which will generally result in the limited partners making correspondingly later capital contributions. As a result, a Fund's or portfolio company's use of borrowed funds will impact the calculation of net performance metrics (to the extent that they measure limited partner cash flows) and generally make net internal rate of return calculations higher than they otherwise would be without fund-level borrowing, as these calculations generally depend on the amount and timing of capital contributions. While the Funds will ultimately bear the expense of borrowed funds, such borrowings can also increase the Carried Interest received by the General Partner and Keystone by decreasing the amount of distributions from a Fund that are required to be made to limited partners in satisfaction of any preferred return. The General Partner and Keystone therefore have a conflict of interest in deciding whether to borrow funds because the General Partner and Keystone have the potential to receive disproportionate benefits from such borrowings.

*Use of Credit Facility.* The Funds are permitted to borrow funds pursuant to a revolving credit facility or other debt facility, including a facility based on the aggregate commitments available to be called. A Fund's use of such facilities will be determined by Keystone in its sole discretion, and the performance of a Fund can be impacted by how Keystone causes a Fund to utilize such facilities.

Although the use of such a facility can increase a Fund's ability to swiftly invest capital, it also will cause the Fund to incur interest expense and other costs.

Fund-level borrowing can result in incremental expenses that will be borne by limited partners. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of a Fund's limited partners and the terms of the Governing Document, it is possible that the interest rate will be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than a Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Fund-level borrowing typically delays the need for limited partners to make certain contributions to a Fund, which in certain circumstances enhances the Fund's internal rate of return calculations and as a result can be deemed to benefit the marketing efforts of Keystone and its affiliates. Conflicts of interest also have the potential to arise to the extent that a revolving credit facility or other debt facility is used to make an investment that is later sold in part to co-investors, as to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the facility and neither a Fund nor limited partners generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

A credit agreement can contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line can impose restrictions on Keystone's ability to consent to the transfer of a limited partner's interest. In addition, in order to secure a subscription line, it is possible that Keystone will be required to request certain financial information and other documentation from limited partners to share with lenders. Keystone will have significant discretion in negotiating the terms of any subscription line and can agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows Keystone to fund investments and pay Fund expenses without calling capital, potentially for extended periods of time. To the extent provided in the Governing Documents, any such borrowing will remain outstanding for such time as Keystone deems appropriate, potentially including through disposition of such investment, and the interest expense and other costs of any such borrowings will be Fund expenses that decrease net returns of a Fund. Calling a large amount of capital at once to repay the then current amount outstanding under a subscription line can cause short-term liquidity concerns for limited partners that would not arise had Keystone called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other private equity funds that employ similar borrowing

strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time.

If an investment appreciates in value and is disposed of prior to repayment of the borrowing, the disposition proceeds would be applied to repay the borrowing (and related interest and expenses), and the net proceeds would be distributed to the limited partners. Accordingly, borrowings by a Fund or portfolio companies can support the distribution of proceeds to limited partners and increase the potential Carried Interest for the General Partner; however, the interest incurred due to such borrowing would reduce the Carried Interest received by the General Partner. Subject to the limitations in the Governing Documents, if any, this conflict of interest can incentivize Keystone to permanently fund the acquisition and ongoing capital needs of investments of the Funds and related expenses with the proceeds of such borrowings in lieu of drawing down capital contributions on an as-needed basis, and, accordingly, capital contributions to repay such borrowings can be required only at the time of the disposition of an investment (or never if principal and interest on such borrowings are repaid out of disposition proceeds).

*No Market for Interests; Restrictions on Transfer; No Right of Withdrawal.* Interests are generally not permitted to be transferred, sold, assigned, pledged or otherwise encumbered without the prior written consent of Keystone, which can be withheld pursuant to the Governing Documents, and the volume of transfers permitted in any calendar year can be restricted to comply with certain safe harbors under the tax regulations promulgated under the Internal Revenue Code. Voluntary withdrawals from a Fund will not be permitted except in very limited circumstances generally involving situations where retaining an interest would violate certain laws or regulations or otherwise have a detrimental effect on a Fund or any of its partners. In addition, interests are not redeemable. There will be no public market for the interests, and none is expected to develop. The interests have not been registered under the Securities Act, the securities laws of any U.S. state or the securities laws of any non-U.S. jurisdiction and therefore cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws, or unless an exemption from registration is available. It is not contemplated that registration of the interests will ever be effected. Limited partners will not be able to liquidate their investments prior to the end of a Fund's term and must be prepared to bear the risks of an investment in the Funds for an indefinite period of time.

*Investments Longer than Term.* It is possible the Funds will make investments that will not be advantageously disposed of prior to the date a Fund is dissolved, either by expiration of the Fund's term or otherwise, or the Fund's term can be extended to facilitate the wind-down of the Fund. Although Keystone generally expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, Keystone has a limited ability to extend the term of the Funds, and it is possible a Fund will have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. To the extent that such investments are held in trust, the trust can incur operating and formation expenses. In addition, there can be no assurances with

respect to the timeframe in which the winding-up and the final distribution of proceeds to the limited partners will occur.

*Reliance on the General Partner and Portfolio Company Management.* Control over the operation of the Funds, including decisions with respect to structuring, negotiating, purchasing, financing and eventually divesting investments on behalf of the Funds, will be vested with Keystone. Consequently, the Funds' future profitability and investment performance will depend largely upon the business and investment acumen of the principals. The loss or reduction of service of one or more of the principals could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, the principals currently, and are expected in the future, to manage or advise other investments and/or investment funds besides and, under those circumstances, the principals are expected to devote substantial amounts of their time to the investment activities of such other investments and/or Funds, which could pose conflicts of interest in the allocation of the time of the principals. Limited partners generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend on the actions of Keystone. In addition, certain changes in Keystone or circumstances relating to Keystone can have an adverse effect on the Funds or one or more of their portfolio companies, including potential acceleration of debt facilities. Furthermore, there can be no assurance that the Funds' investments will achieve results similar to those attained by previous investments of the principals. In addition, the Funds' investments are expected to differ from previous investments made by the principals in a number of respects, including target return levels, level of risk associated with a particular investment, amount invested in a particular portfolio company, types of companies within a particular industry sector, amount of leverage used, structure and holding period.

The success of many of the Funds' portfolio companies is heavily dependent on the management of such companies. Each portfolio company's day-to-day operations will be the responsibility of such portfolio company's management team. Additionally, Keystone will generally establish the capital structure of companies in which the Funds invest on the basis of financial projections for such companies, which will contain significant judgment and input from the portfolio company management team. Although Keystone will be responsible for monitoring the performance of each portfolio company investment and 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 existing management team, or any successor management team, will be able or willing to successfully operate a portfolio company in accordance with a Fund's objectives. Portfolio companies are expected to need to attract, retain and develop executives and members of their management teams. The market for executive talent can be extremely competitive. There can be no assurance that the management team of a portfolio company on the date an investment is made will remain the same or continue to be affiliated with the portfolio company throughout the period the investment is held by a Fund. There can also be no assurance that a portfolio company will be able to attract, develop,

integrate and retain suitable members of its management team and it is possible the Funds will be adversely affected as a result.

*Projections.* Projected operating results of a portfolio company in which the Funds invest normally will be based primarily on financial projections prepared by such portfolio company's management, with adjustments to such projections made by Keystone in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the portfolio company and third parties and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results 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.

*Changes in Investment Focus.* The Funds are not restricted in terms of the percentage of their capital that can be invested in a particular industry. Many factors can contribute to changes in emphasis in the construction of a Fund's portfolio, including changes in market or economic conditions or regulation as they affect various industries and changes in the political or social situations in particular countries.

*Risks in Effecting Operating Improvements.* In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of the Fund to effect improvements in the operations of a portfolio company. The activity of identifying and implementing operating improvements at portfolio companies entails a high degree of uncertainty. In addition, executing operational improvements can divert the attention of key personnel and disrupt normal business. There can be no assurance that the Funds will be able to successfully identify and implement such improvements or that any such successfully implemented improvements will result in a return on invested capital with respect to such portfolio company.

*Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.* Before making investments, Keystone will conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence entails evaluation of important and complex business, financial, tax, accounting, technical, environmental, regulatory and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties are expected to be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and Keystone is expected to rely on the advice received from such third parties. Investment analyses and decisions by Keystone will often be undertaken on an expedited basis for a Fund to take advantage of investment opportunities and/or consummate investments. In such cases, the information available to Keystone at the time of an investment decision can be limited, and Keystone will not necessarily have access to the detailed information necessary for a full evaluation of the investment opportunity. The due diligence investigation carried out with respect to any investment opportunity will not necessarily reveal or highlight all relevant facts necessary or helpful in evaluating such investment opportunity. Moreover,



such an investigation will not necessarily result in an investment being successful or even ensure a return on invested capital.

*Possibility of Fraud or Other Misconduct of Employees and Service Providers.* Misconduct by (i) Keystone's employees, (ii) portfolio company directors, officers or employees, and (iii) service providers to the foregoing and/or their respective affiliates could undermine the due diligence efforts of the Funds and/or the General Partner and cause significant losses to the Funds. Misconduct could include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Fund, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting a Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations (and the concealing of any of the foregoing). Such activities have the potential to result in reputational damage, litigation, business disruption, market or industry segment volatility and/or financial losses to the Funds. Keystone has controls and procedures through which it seeks to minimize the risk of such misconduct occurring; however, no assurances can be given that such misconduct will be able to be identified or prevented.

*Tax Liability Considerations.* It is possible a Fund will take positions with respect to certain tax issues that depend on legal and other interpretive conclusions. Should any such positions be successfully challenged by a taxing authority, a limited partner might be found to have a different tax liability for that year than that reported on its tax returns. In addition, a taxing authority's review of a Fund can result in a review of the returns of some or all of the limited partners, which examination could result in adjustments to the tax consequences initially reported by a Fund and affect items not related to a limited partner's investment in such Fund. If such adjustments result in an increase in tax liability for any year, a Fund or one or more of the limited partners can also be liable for interest and penalties with respect to the amount due. The legal and accounting costs incurred in connection with any taxing authority's review of a Fund's tax returns will be borne by such Fund. The cost of any review of a limited partner's tax return will be borne solely by such limited partner. The taxation of partnerships and partners is complex. Prospective limited partners are strongly urged to review the disclosure included in the relevant Governing Documents and to consult their own tax advisors.

*Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on the Funds' activities, including the ability of the Funds to effectively and timely address such regulations, implement operating improvements or otherwise execute their investment strategy or achieve their investment objectives.

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the

2007-2008 downturn in the U.S. and global financial markets, can complicate or prevent the Funds' efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, it is possible the Funds will invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than they otherwise would have.

*Privacy, Data Protection and Information Security Compliance Risk.* Applicable laws and regulations related to privacy, data protection and information security could increase costs for the Funds and/or their portfolio companies, and a failure to comply with such laws and regulations could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations of the Funds and/or their portfolio companies.

Portfolio companies are generally subject to laws and regulations related to privacy, data protection and information security in the jurisdictions in which they do business. As privacy, data protection and information security laws and regulations are implemented, interpreted and applied, compliance costs will likely increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

Compliance with current and future privacy, data protection and information security laws and regulations can significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of the Funds' current or planned business activities. A failure to comply with such laws and regulations could result in fines, sanctions or other penalties, which could materially and adversely affect results of operations and the overall business of the Funds and/or their portfolio companies, as well as have an impact on reputation.

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

*Over-Commitment.* In order to facilitate the acquisition of a portfolio company, a Fund is permitted to make (or commit to make) an investment in such company with a view to selling a portion of such investment to co-investors or other persons prior to or within a brief period after the closing of the acquisition. In such event, the Fund will bear the risk that any or all of the excess portion of such investment will not be sold or will only be sold on unattractive terms and that, as a consequence, the

Fund will bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment, hold a larger than expected investment in such portfolio company or realize lower than expected returns from such investment.

*Non-U.S. Investments.* The Funds are authorized to invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the U.S., its territories, and possessions. Investments in non-U.S. securities or instruments involve certain factors not typically associated with investing in U.S. securities and instruments, including risks relating to: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a Fund's non-U.S. investments are denominated (including risks associated with potentially rapid inflation), and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which a Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (v) the absence of uniform accounting, auditing, and financial reporting standards, practices and disclosure requirements, and less or more government supervision and regulation; (vi) certain economic, social and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, the risks of political, economic, governmental or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation; (vii) the possible imposition of non-U.S. taxes on income, gains and gross sales or other proceeds recognized with respect to such securities or instruments; (viii) the application of complex U.S. and non-U.S. tax rules to cross-border investments; (ix) possible non-U.S. tax return filing requirements for a Fund and/or the partners; (x) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (xi) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (xii) political hostility to investments by foreign or private equity investors; and (xiii) less publicly available information.

*Significant Adverse Consequences for Default.* The Governing Documents provide for significant adverse consequences in the event a limited partner defaults on its commitment or any other payment obligation. In addition to losing its right to potential distributions from a Fund, while unlikely, a defaulting limited partner could be forced to transfer its interest for an amount that is less than the fair market value of such interest paid over a period of up to ten years, without interest. Whether and how to exercise Keystone's remedies against a defaulting limited partner will be in the sole discretion of Keystone, and the Firm can require the non-defaulting limited partners to contribute capital to make up for the shortfall created by such defaulting limited partner.

In addition, if a limited partner fails to pay when due installments of its commitment to a Fund, and the contributions made by non-defaulting limited partners and borrowings by the Fund are inadequate to cover the defaulted amount, the Fund will likely be unable to pay its obligations when due. As a

result, a Fund would in such circumstance be subjected to significant penalties that could materially adversely affect the returns to the limited partners (including non-defaulting limited partners).

*Impacts of Excuse or Exclusion.* A limited partner's participation in a Fund's investments can be limited by virtue of Keystone's right to exclude a limited partner from, or a limited partner's right to be excused from, participating in certain of the Fund's investments as set forth in the Governing Documents, thereby increasing the participation of other limited partners. As a consequence of one or more limited partners being excused or excluded or other factors limiting their participation in investments, the aggregate returns realized by the participating limited partners could be adversely affected in a material manner by the unfavorable performance of even one investment by a Fund. Conversely, the aggregate returns by an excused or excluded limited partner has the potential to be adversely affected in a material manner by the favorable performance of an investment from which such limited partner was excused or excluded, or by the fact that the capital contributions made by such excused or excluded limited partner in the aggregate are proportionately less than the capital contributions made by limited partners that participated in all Fund investments.

*Recycling; Reinvestment.* Keystone generally has the right to recall certain capital returned or distributed to the partners. Accordingly, during the term of a Fund, it is possible a partner will be required to make capital contributions in excess of its commitment (with certain limitations as provided in the Governing Documents), and to the extent such recalled or retained amounts are reinvested in investments, a partner will remain subject to investment and other risks associated with such investments.

*Fees and Expenses.* The Funds will pay and bear all expenses related to their operations, including Management Fees and the costs of holding, monitoring, maintaining and disposing of investments in portfolio companies, including investment banking fees and consulting fees, whether or not a Fund makes any profits. While it is difficult to predict the future expenses of the Funds, such expenses can be substantial and while not likely, could surpass a Fund's operating income. The amount of these Fund expenses will reduce the actual returns realized by limited partners on their investment in the Funds (and in certain circumstances reduce the amount of capital available to be deployed by a Fund for investments). Fund expenses include recurring and regular items, as well as extraordinary expenses for which it can be hard to budget or forecast. As a result, the amount of Fund expenses ultimately called or called at any one time can exceed expectations.

*Control Person Liability.* The Funds are expected to have controlling interests in a number of their portfolio companies. The exercise of control over a portfolio company can impose additional risks of liability for environmental damage, product defects, pension and other fringe benefits, failure to supervise management, violation of laws and governmental regulations (including securities laws and regulations) and other types of liability, for which the limited liability generally afforded to investors can be ignored. In particular, if determined to be a direct owner or operator of any of the portfolio company's facilities or operations, a Fund could face strict, joint and several liability under environmental laws for hazardous substance or contamination-related liabilities. If any such liabilities

were to arise, a Fund would likely suffer significant losses. While Keystone intends to manage the Funds in a manner that will minimize the exposure of these risks, the possibility of successful claims against a Fund and/or their affiliates cannot be precluded.

*Non Controlling Investments.* The Funds are permitted to hold meaningful minority stakes in privately held companies and in some cases can have limited minority protection rights in connection with such minority holdings. In addition, during the process of exiting investments, a Fund at times may 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, such minority stakes that a Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

To the extent a Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, or makes a minority investment, it is possible that the relevant portfolio companies will be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of the Funds or their limited partners. It is possible such third parties will be in a position to take action contrary to a Fund's business, tax or other interests, and the Fund may not be in a position to limit such contrary actions or otherwise protect the value of its investment. Where a Fund holds a minority stake, Keystone expects that it will be more difficult for the Fund to liquidate its interests than it would be had the Fund owned a controlling interest in such portfolio company. Even if a Fund has contractual rights to seek liquidity of the Fund's minority interests in such portfolio companies, it can be very difficult to sell such interests or seek a sale of such portfolio company upon terms acceptable to the Fund, especially in cases where the other investors in such company have different business and investment objectives and goals. The Funds generally will seek to negotiate certain negative controls and veto rights on major decisions, but there can be no assurance that a Fund will be able to control the timing or occurrence of an exit strategy for such portfolio companies in a manner that maximizes or protects value.

*Director Liability.* Keystone expects that the Funds 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 they invest (each, a "Board Representative"). In those instances where a Fund is not the sole shareholder of the applicable portfolio company, it is possible a Board Representative will have duties to persons other than a Fund. Serving on the board of directors (or similar governing body) of a portfolio company exposes the Board Representative, and ultimately the Fund, to potential liability. It is possible that not all portfolio companies will be able to obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain can be insufficient to adequately protect officers and directors from such liability. In addition, involvement in litigation can be time consuming for such persons and can divert the attention of such persons from a Fund's investment activities.

*Limitation of Recourse and Indemnification.* The Governing Documents limit the circumstances under which the General Partner and its affiliates will be held liable to the Funds. As a result, limited partners

generally have a more limited right of action in certain cases than they would have in the absence of such provision. In addition, the Governing Documents provide that the Funds will indemnify the General Partner and its affiliates for certain claims, losses, damages and expenses arising out of their activities on behalf of the Funds. Such indemnification obligations can materially impact the returns to limited partners.

*Litigation.* The transactional nature of the business of the Funds exposes the Funds, the General Partner and their respective affiliates generally to the risk of third-party litigation. In the ordinary course of its business, a Fund can be subject to litigation from time to time. Additional regulation could also increase the risks of third-party litigation. The outcome of such proceedings can materially adversely affect the value of the Funds and continue without resolution for long periods of time. Any litigation can consume substantial amounts of Keystone employees' time and attention, and that time and the devotion of these resources to litigation can, at times, be disproportionate to the amounts at stake in the litigation.

*Tax and Distributions; Phantom Income.* Due to possible difference between the allocation of gain or income for any tax purposes and distribution of cash relating to gain or income (including possible timing differences), there can be no assurance that limited partners who are subject to tax on the allocated gain or income will receive distributions sufficient to satisfy their tax liabilities fully. Further, there can be no assurance that a Fund will have sufficient cash flow to enable it to make distributions in the amount necessary for payment of all tax liability resulting from that limited partner's ownership of an interest.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence can be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence can lead to or extend a localized or global economic downturn. A climate of uncertainty can 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 can have an adverse effect on the economy generally and on the ability of the Funds and their portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This can slow the rate of future investments by a Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn can have an adverse effect upon the Funds' portfolio companies.

*Public Health Emergencies; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and the current outbreak of COVID-19, have and are resulting in market volatility and disruption, and future

such emergencies have the potential to materially and adversely impact economic production and activity in ways that are impossible to predict, all of which can result in significant losses to the Funds.

Currently, there is an ongoing outbreak of COVID-19, which has caused a worldwide public health emergency, straining healthcare resources and resulting in extensive and growing numbers of infections, hospitalizations and deaths. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including “stay-at-home” and similar orders) and ordering the closure of large numbers of offices, businesses, schools and other public venues. As a result, COVID-19 has significantly diminished global economic production and activity of all kinds and has contributed to both volatility and a severe decline in all financial markets. Among other things, these unprecedented developments have resulted in material reductions in demand across most categories of consumers and businesses, dislocation (or in some cases a complete halt) in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, steep increases in unemployment levels in the United States and several other countries and strain and uncertainty for businesses and households, with a particularly acute impact on industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment.

The ultimate impact of COVID-19 — and the resulting precipitous decline in economic and commercial activity across nearly all of the world’s largest economies — on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, although ongoing and potential additional materially adverse effects, including a further global or regional economic downturn (including a recession) of indeterminate duration and severity, are possible. The extent of COVID-19’s impact will depend on many factors, including the ultimate duration and scope of the public health emergency and the restrictive countermeasures being undertaken, as well as the effectiveness of other governmental, legislative and financial and monetary policy interventions designed to mitigate the crisis and address its negative externalities, all of which are evolving rapidly and can have unpredictable results. Even if and as the spread of the COVID-19 virus itself is substantially contained and economies are able to “re-open,” it will be difficult to assess what the longer-term impacts of an extended period of unprecedented economic dislocation and disruption will be on future macro- and micro-economic developments, the health of certain industries and businesses, and commercial and consumer behavior.

The ongoing COVID-19 crisis and any other public health emergency could have a significant adverse impact and result in significant losses to the Funds. The extent of the impact on the Funds and their portfolio companies’ operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact can include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors can limit the ability of the Funds to source, diligence and execute new investments and to manage, finance and exit investments in the future, and

governmental mitigation actions can constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Funds intend to pursue, all of which can adversely affect the Funds' ability to fulfill their investment objectives. They may also impair the ability of portfolio companies or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their portfolio companies and Keystone can be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other factors related to a public health emergency, including the potential adverse impact on the health of any such entity's personnel. These measures can also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Force Majeure Risk.* Certain force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including acts of God, fire, flood, earthquakes, war, terrorism and labor strikes) can adversely affect the ability of Keystone, its affiliates, the Funds, their portfolio companies, counterparties of the foregoing or other persons or entities to perform their respective obligations. The cost of repairing or replacing assets damaged by a force majeure event can be considerable. In addition, repeated or prolonged service interruptions resulting from a force majeure event can result in a permanent loss of customers, substantial litigation or significant penalties for regulatory or contractual non-compliance (though in some cases, agreements may be terminable if a force majeure event is so catastrophic as to render it incapable of remedy within a reasonable, pre-agreed time period). The occurrence of a force majeure event can, directly or indirectly, have a material adverse effect on a Fund and/or any of its portfolio investments.

*General Economic and Market Conditions.* The state of the private equity industry generally, and the success of the Funds' investment activities specifically, will be affected by general economic and market conditions, as well as by changes in laws, currency exchange controls, and national and international political and socioeconomic circumstances. Such factors are unpredictable and cannot be controlled by Keystone. Conditions such as financial market volatility, illiquidity and/or decline, a generally unstable economic environment (including as a result of a slowdown in economic growth and/or changes in interest rates or foreign exchange rates) and/or a deterioration in the capital markets can negatively impact the availability of attractive investment opportunities for the Funds and can affect a Fund's ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) can also increase the risks inherent in the Funds' investments and can have a negative impact on the performance and/or valuation of the Funds' portfolio companies. The Funds' performance can be affected by deterioration in the capital markets and by market events, including events similar to the credit crisis in 2007-2008 or the downgrading of the credit rating of the U.S. 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 the Funds' performance. In addition, volatility and illiquidity in the financial sector can have an adverse effect on the ability of a Fund to sell and/or partially dispose of certain of its portfolio company investments. Such adverse effects can include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event a Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that Keystone believes reflect the fair value of such investments. The impact of market and other economic events can also affect a Fund's ability to raise funding to support its investment objective.

*Deterioration of Credit Markets Can Affect Ability to Finance and Consummate Investments.* In the event that the global credit markets deteriorate and it becomes more difficult for investment funds such as the Funds to obtain favorable financing for investments, a Fund's ability to generate attractive investment returns can be adversely affected. Moreover, to the extent that such deterioration is not temporary and continues, it can have an adverse impact on the availability of credit to businesses generally and can lead to an overall weakening of the U.S. and global economies. Such deterioration also can restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

*Adequacy and Availability of Insurance.* While the Funds are authorized to seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible. Moreover, it will not be possible to insure against all such risks, and such insurance proceeds derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation. Certain losses of a catastrophic nature, such as those caused by wars, earthquakes, terrorist attacks or other similar events, can be either uninsurable or insurable at such high rates as to adversely impact a Fund's profitability.

*Limited Access to Information.* Limited partners' rights to information regarding the Funds, the General Partner or Keystone generally will be specified, and in many cases strictly limited, by the Governing Documents. In particular, it is anticipated that Keystone and its affiliates will obtain certain types of material information from or relating to the Funds' investments that will not be disclosed to limited partners because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of Keystone's control. Decisions by Keystone or its affiliates to withhold information can have adverse consequences for limited partners in a variety of circumstances. For example, a limited partner that seeks to transfer its interest in a Fund can have difficulty in determining an appropriate price for such interest. Decisions to withhold information can also make it difficult for a limited partner to monitor a Fund and its performance. Additionally, it is anticipated that limited partners that designate representatives to participate on an advisory board generally are expected, by virtue of such participation, to have more or earlier information about a Fund and its investments in

certain circumstances than other limited partners. Limited partners generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the Fund succeeds in asserting confidentiality for requested documents and other materials, and Keystone reserves the right to withhold certain information from limited partners subject to such laws for reasons relating to Keystone's public reputation, business strategy or other reasons.

*Contingent Liabilities Upon Disposition.* In connection with the disposition of an investment, a Fund and/or the General Partner is expected to be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties, *e.g.*, about the business and financial affairs of the applicable portfolio company, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar businesses, and can be responsible for the content of disclosure documents under applicable securities laws. The Funds and/or the General Partner can also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate. These arrangements can result in contingent liabilities, which would be borne by the Funds and, ultimately, their limited partners. In such a situation, limited partners can be required to return distributions received by them to pay such indemnification obligations, subject to certain limitations provided in the Governing Documents. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each limited partner that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Fund.

*Cybersecurity Risks and Identity Theft.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. The Funds and their portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquake. Although Keystone intends to implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Keystone, the Funds and/or a portfolio company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason can cause significant interruptions in Keystone's, the Funds' and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to limited partners (and the beneficial owners of limited partners). Such a failure could harm Keystone's, the Funds' and/or a portfolio company's reputation, subject any such entity and its respective affiliates to legal claims and/or regulatory actions or otherwise affect their business and financial performance. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii)

portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks can be the subject of civil litigation or regulatory or other action. Any of such circumstances can 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 Keystone or one of its affiliates or service providers holding its financial or limited partner data, Keystone, its affiliates or a Fund can also be at risk of loss.

*Agreements with Certain Limited Partners.* The Funds and/or the General Partner are permitted to enter into a side letter or other similar agreement with a particular limited partner in connection with its admission to a Fund without the approval of any other limited partner, which would have the effect of establishing rights under, altering or supplementing the terms of (including economic terms), or confirming the interpretation of the applicable Governing Documents with respect to such limited partner in a manner more favorable to such limited partner than to other limited partners, and such rights can be significant. In addition, except where required by the Governing Documents, other limited partners will not receive copies of side letters or other similar agreements or related provisions, and as a general matter, the other limited partners have no recourse against a Fund, the General Partner or any of their affiliates in the event that certain limited partners have received additional and/or different rights and/or terms as a result of such side letters or other similar agreements. As a consequence of one or more limited partners being excused or excluded, or from regulatory or other factors limiting their participation in investments, the aggregate returns realized by participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments.

*Disclosure of Confidential Fund and Limited Partner Information.* The limited partners include entities that are subject to public disclosure requirements, including state public records or similar freedom of information laws which can in certain circumstances compel public disclosure of confidential information regarding a Fund, its investments and its limited partners. There has been a recent increase in the number of requests under such laws for contracts (including partnership agreements, subscription agreements and side letters) that limited partners in private equity funds that are subject to such laws have in place with private equity funds. The Funds will potentially incur expenses in connection with responding to any such disclosure requests, even if a Fund ultimately succeeds in asserting confidentiality for any requested documentation. Moreover, notwithstanding the obligation that the limited partners will have pursuant to the Governing Documents to maintain the confidentiality of Fund information, there can be no assurance that such information will not be disclosed either publicly or to regulators, law enforcement or otherwise. Keystone can also in certain circumstances, in an effort to protect any such potential disclosure, withhold all or any part of the information otherwise to be provided to such a limited partner, as more fully described in the Governing Documents. There can be no assurance that such information will not be disclosed by a Fund, Keystone, their affiliates and personnel, portfolio companies or services providers to any of them including, without limitation, to comply with laws, regulations or policies to which they are or become subject. In addition, under the U.S. Dodd-Frank Wall Street Reform and Consumer

Protection Act, the SEC has the authority to require private equity fund advisers, such as Keystone, to file additional reports with the SEC regarding their funds and investment activities. Any public disclosure of Fund information can have an adverse effect on a Fund and its limited partners, for example, by affecting a Fund's competitive advantage in finding attractive investment opportunities.

### **Potential Conflicts of Interest**

Prospective limited partners should be aware that various actual and potential conflicts are expected to arise from the overall investment activities of the Funds, the General Partner, Keystone and their respective affiliates. The following discussion identifies certain potential conflicts of interest that should be carefully considered before making an investment in a Fund. In addition, prospective limited partners should be aware that Keystone, its personnel and their respective affiliates intend in the future to engage in further activities that are expected to result in additional conflicts of interest not addressed below. There can be no assurance that Keystone 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 (or any particular Keystone Fund).

If any matter arises that Keystone determines in its good faith judgment constitutes an actual or potential conflict of interest, Keystone reserves the right to take such actions as it believes are necessary or appropriate to ameliorate such potential conflict (and upon taking such actions, Keystone will be relieved of any responsibility for, and liability related to, such potential conflict to the fullest extent not prohibited by applicable law and shall be deemed to have satisfied its fiduciary duties related thereto to the fullest extent not prohibited by applicable law, as modified by the Governing Documents). These actions include, by way of example: (i) disposing of the security giving rise to the potential conflict of interest; (ii) appointing an independent fiduciary to act with respect to the matter giving rise to the potential conflict of interest; or (iii) consulting with an advisory board regarding the potential conflict of interest and either obtaining a waiver from the advisory board or applicable limited partners of the potential conflict of interest or acting in a manner, or pursuant to standards or procedures, approved by the advisory board or applicable limited partners with respect to such potential conflict of interest.

In addition, prospective limited partners should note that the Governing Documents contain provisions that, subject to applicable law, (i) reduce, modify or eliminate the duties, including certain fiduciary duties under applicable state law, that Keystone would otherwise owe to the Funds and the limited partners; (ii) waive duties or consent to conduct of the General Partner that might not otherwise be permitted pursuant to such duties; and (iii) limit the remedies of a limited partner with respect to breaches of such duties. Additionally, the Governing Documents contain exculpation and indemnification provisions that, subject to the specific exceptions identified therein, provide that the General Partner, Keystone and their respective partners, members, officers, employees and affiliates will be, to the maximum extent not prohibited by applicable law, held harmless and indemnified,

respectively, for matters relating to the operation of the Funds, including matters that involve one or more potential or actual conflicts of interest.

*Other Keystone Funds and Products; Allocation of Investment Opportunities.* Keystone currently manages a series of Pre-Fund Investments in addition to the Funds. In the future, Keystone may expand its investment management services beyond the Keystone Funds, potentially including through some or all of the following: credit funds, single investor funds, managed accounts, overage funds, funds with different operational strategies, target investment sizes, target investment securities (including debt instruments), geographic focuses or expected hold periods, special purpose acquisition companies (“SPACs”) and/or other specialized investment vehicles (collectively, “Other Products”). In some cases, these Other Products are expected to have overlapping investment strategies with one or more other Keystone Funds. No Other Products have been established as of the date hereof. There can be no assurance that all investment opportunities identified by Keystone and its affiliates will be made available to a specific fund. Additionally, Keystone reserves the right to allocate a portion of any investment opportunity to co-investors.

At such time as Keystone is permitted to raise a successor investment fund, the principals will continue to manage the Funds’ investments, but also likely will focus investment activities on other opportunities and areas unrelated to the Funds’ investments. Certain investments will be allocated between the Fund and any successor fund in a manner as set forth in the relevant Governing Documents.

Until such time as Keystone is permitted under the Governing Documents to raise a successor investment fund, the principals generally will pursue substantially all appropriate investment opportunities that meet the investment criteria of the most recently raised Fund for the benefit of such Fund (which includes any parallel Funds), subject to certain exceptions set forth in the Governing Documents. Over time, it is possible that certain investment opportunities suitable for one Fund will be suitable for other investment funds sponsored by Keystone. In determining which investment funds should participate in such investment opportunities, subject to the relevant Governing Documents, Keystone is subject to potential conflicts of interest among the limited partners in the current Funds, the Pre-Fund Investment and future investment funds sponsored by Keystone. To determine which fund will participate in a relevant investment opportunity, Keystone will assess whether an investment opportunity is appropriate for each relevant fund based on the terms of such fund’s governing documents, as well as factors including: each fund’s investment restrictions and objectives (including those set forth in the relevant fund’s governing documents, where applicable), strategy, capital structure, risk profile, time horizon, investment size, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. The Funds are permitted to invest together with other funds advised by an affiliated adviser of Keystone in the manner set forth in the relevant Governing Documents. Keystone will determine the allocation of investment opportunities among funds in a manner that it believes is fair, equitable, and consistent with Keystone’s obligations and will take into consideration factors such as those set forth above. In the event that the available amount of an investment opportunity in which a fund will

invest exceeds an amount appropriate for such fund, such excess may also be offered to one or more potential limited partners (see below, “Potential Conflicts of Interest – Co-Investments”).

Keystone’s allocation of investment opportunities among the Funds and any of the other investment funds sponsored by Keystone or an affiliate thereof often will not be proportional. Therefore, it is possible such allocations will be more advantageous to one fund relative to other funds. While Keystone will allocate investment opportunities in a way that it believes in good faith is fair and equitable to each Fund, there can be no assurance that a Fund’s actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as it would be if the conflicts of interest to which Keystone is subject did not exist.

Additionally, conflicts of interest can arise if a Fund makes an investment in a portfolio company in conjunction with an investment made by another investment fund or investment sponsored by Keystone or an affiliate. For instance, a Fund may not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as such other investment fund. This can result in differences in price, investment terms, leverage and associated costs between funds. There can be no assurance that the fund(s) or investment will exit the investment at the same time or on the same terms, and there can be no assurance that a fund’s return on such an investment will be the same as the returns achieved by any other investment fund or investment participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to all Funds.

*Transactions and Cross-Transactions Among Keystone Funds.* To the extent permitted under the Governing Documents, a Fund reserves the right to acquire its interests in a portfolio company at the same time or at separate times and on similar or different terms than another Fund or investment. Examples of such transactions include (i) a Fund making an investment in or buying a security from a pre-existing portfolio company of another Fund and/or selling a security to the account of one or more Funds, (ii) one or more Funds later investing in portfolio companies in which a Fund has invested and/or (iii) parallel Funds buy or sell a security from the account of one another in connection with a rebalancing, as provided for in their Governing Documents (each, a “cross-transaction”). As part of any or all of these cross-transactions, Keystone reserves the right to (a) use an unaffiliated broker-dealer or custodian to execute such cross-transaction and pay such broker-dealer or custodian in connection therewith, if applicable, or (b) execute such cross-transaction directly without the use of a broker-dealer or custodian, in which case Keystone will not receive compensation to effect such transaction. Any compensation expenses or other transaction costs associated with a cross transaction are expected to be allocated among the Funds participating in such cross-transaction pro rata based upon the expenses that relate to each, unless Keystone determines that a different allocation would be more fair or equitable. In certain circumstances, a cross-transaction will be considered to be a “principal transaction” (*i.e.*, a transaction in which Keystone acts as principal for its own account and knowingly transacts with a Fund) under the Advisers Act. To the extent that a cross-transaction is

viewed as a principal transaction, Keystone will conduct such cross-transaction in accordance with the provisions of Section 206(3) of the Advisers Act.

In each case, the foregoing transactions would be expected to have an effect (either positive or negative) on the market value of a Fund's investment. In connection with any investment in which more than one Fund participates, Keystone reserves the right to make independent decisions regarding recommendations of when each participating Fund should purchase and sell investments. As a result, there is the potential that one Fund will purchase an investment at a time when another Fund is selling the same or a similar investment, or vice versa. There can be no assurance that the return on a Fund's investments will not be less than the returns obtained by another Funds participating in the investment.

If a Fund enters into any indebtedness or guaranty with another Fund on a joint and several basis, Keystone is expected to cause the participating Funds to enter into one or more agreements that provide each Fund with a right of contribution, subrogation or reimbursement. In administering or seeking to reinforce these agreements, Keystone expects to be subject to potential conflicts of interest between the Funds. Keystone intends to mitigate any potential conflicts by structuring such agreements in a manner intended to cause each of the Fund to bear its proportionate share of the applicable indebtedness.

Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to a Fund.

*Fees and Expenses; Payments and Reimbursements.* Keystone expects to be faced with a variety of potential conflicts of interest when it determines allocations of various fees and expenses to the Funds. Keystone, in its sole discretion, will allocate fees and expenses in accordance with the Governing Documents and in a manner that it believes in good faith is fair and equitable to the Funds under the circumstances over time and considering such factors as it deems relevant.

Keystone expect from time to time to 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 incurred for the account or for the benefit of multiple Funds, each Fund will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of the investment made or proposed to be made by each in respect of the entity to which the expense relates or in such other manner as Keystone considers fair and equitable. Although Keystone will endeavor to allocate such fees, costs and expenses on a fair and equitable basis, there can be no assurance that such fees, costs and expenses will in all cases be allocated appropriately. Any such determinations are expected to involve inherent matters of discretion and potential conflicts of interest. Notwithstanding the foregoing, Keystone

reserves the right in the future to change or develop policies and procedures to address the allocation of expenses that differ from its current practice.

The Funds intend to make controlling investments in portfolio companies. As a result of these significant investments, the Funds are expected to have the right to appoint portfolio company board members (including current or former Keystone personnel or persons serving at their request), or to influence their appointment, and to determine or influence the determination of their compensation. Additionally, from time to time, portfolio company board members approve compensation and other amounts payable to Keystone in connection with services provided by Keystone to such portfolio company, and, except to the extent such amounts are subject to the Governing Document's offset provision, are in addition to the Management Fee or Carried Interest discussed herein. Keystone's authority to appoint or influence the appointment of portfolio company board members who are involved in approving compensation payable to Keystone subjects Keystone and any such portfolio company board appointees to potential conflicts of interest.

Additionally, a portfolio company typically will reimburse Keystone or service providers retained at Keystone's discretion for expenses (including, without limitation, travel expenses) incurred by Keystone or such service providers in connection with the performance of services for such portfolio company. This subjects Keystone to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Subject to the Governing Documents and its internal reimbursement policies and practices, Keystone determines the amount of these reimbursements for such services in its own discretion.

*Service Providers.* Keystone is permitted to employ personnel with pre-existing ownership interests in, current employees of, or who were employed by portfolio companies owned by the Funds or the Pre-Fund Investments; conversely, former personnel or executives of Keystone are permitted from time to time to serve in significant management roles at portfolio companies or service providers recommended by Keystone. Similarly, Keystone and/or its personnel maintain relationships with (or invest in) financial institutions, service providers and other market participants, and their respective affiliates and personnel, including managers of private funds, investment bankers, professional advisors (such as attorneys and accountants), banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, institutional investors, family offices, lenders, current and former employees and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with a limited partner) in, engage in transactions with and/or provide services (including services at reduced rates) to, Keystone and the Funds. Keystone expects to be subject to a potential conflict of interest with the Funds in recommending the retention or continuation of a third-party service provider to a Fund or a portfolio company owned by a Fund 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, will provide Keystone information about markets and industries in which Keystone operates (or is contemplating operations) or will provide other services



that are beneficial to Keystone or one or more Funds. Keystone expects to be subject to a potential conflict of interest in making such recommendations, in that Keystone has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies, while the products or services recommended will not always necessarily be the best available to the Funds or the portfolio companies held by the Funds.

Over the life of a Fund, Keystone generally expects to exercise its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with various service providers, potentially including, among others: (i) Keystone (or an affiliate, which can include other Keystone portfolio companies) and at rates determined or substantively influenced by Keystone; (ii) an entity with which Keystone or its affiliates or current or former members of their personnel has a relationship or from which such person derive a financial or other benefit; or (iii) a limited partner (or a limited partner of another fund) or its affiliates. This subjects Keystone to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance portfolio company performance, Keystone has a potential incentive to recommend the related or other person because of its financial or business interest. Additionally, there is a possibility that Keystone, because of such incentive or for other reasons (including whether the use of such persons could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to Keystone, a Fund or other investment funds sponsored by Keystone or its affiliates), would favor such retention or continuation even if a better price and/or quality of service provider could be obtained from another person. Whether or not Keystone has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

*Consultants, Operations Group and Senior Advisors.* Keystone expects to retain, on behalf of a Fund and/or a portfolio company, as applicable, operating partners and other consultants (“Special Consultants”), which can be affiliates of the General Partner, employees of such affiliates, portfolio companies of other funds managed by the General Partner or its affiliates, third-party consultants (including individual operations group members, consultants and external executives), “strategic partners,” “executive partners,” “Operations Group members,” or “Senior Advisors.” When engaged, the Special Consultants will provide services to, or in connection with, the Funds in relation to their activities, or to one or more portfolio companies in relation to the identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies (“Services”).

Pursuant to the Governing Documents, compensation, fees and certain expenses associated with the Services (collectively, “Consulting Fees and Expenses”) are expected to be paid and/or reimbursed by applicable portfolio companies and/or a Fund, and Consulting Fees and Expenses are not included as supplemental fees and do not offset the Management Fee. Consulting Fees and Expenses are expected to include cash fees, profits or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company, benefits and other indicia of employment, retainer fees, consulting

fees, and/or other incentive based compensation to the Special Consultant. Additionally, portfolio companies are expected to provide opportunities for Special Consultants to invest in one or more portfolio companies and reimburse costs and expenses incurred by Special Consultants. Special Consultants also are expected to receive remuneration from Keystone and/or the Fund or affiliates and/or be entitled to other forms of compensation, including equity grants in portfolio companies. Such investment opportunities, reimbursements and other compensation paid to a Special Consultant will not offset the Management Fee. Some Special Consultants are expected to have a limited partnership or profit interest in a Fund or the General Partner. Although Keystone 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, Keystone 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 would provide such services at lesser cost.

In addition, portfolio companies of a Fund are expected to pay Special Consultants to perform Services that, directly or indirectly, benefit Keystone, its affiliates and/or the Pre-Fund Investments. Consequently, under those circumstances Keystone, its affiliates and/or Pre-Fund Investments will receive Services without being charged or at rates that are lower than the rates borne by a Fund or its portfolio companies. Conversely, portfolio companies of the Funds are expected to benefit from Services that are paid for by Keystone, its affiliates and/or Pre-Fund Investments. Likewise, certain Pre-Fund Investments may pay Special Consultants (including individual Special Consultant members) to perform Services that, directly or indirectly, benefit Keystone, its affiliates, a Fund and/or portfolio companies of the Fund. There can be no assurance that a Fund or its portfolio companies will receive benefits paid for by Pre-Fund Investments that are commensurate to the benefits received by such Pre-Fund Investments that are paid for by a Fund or its portfolio companies.

*Time and Attention of the Principals.* The principals expect to spend a portion of their business time and attention pursuing investment opportunities on investments that do not fall within the principal objectives, strategy, scope, investment criteria and guidelines of the Funds. The principals and Keystone's investment personnel are also expected to manage and monitor investments by the Pre-Fund Investment and other future funds. Keystone believes that the investment of the principals in the Funds, as well as the principals' interest in the Carried Interest, operate to align, to some extent, the interest of the principals with the interest of the limited partners, although the principals are also expected to have economic interests in other funds and investments (including the Pre-Fund Investments), including interests in management fees and/or carried interests. At such time as Keystone is permitted to operate a successor investment fund to the most current Fund, the principals will continue to manage such Fund's investments, but also likely will focus investment activities on other opportunities and areas unrelated to the most current Fund's investments. At such time as Keystone is permitted to operate a successor investment fund, Keystone employees will continue to

manage the Funds' investments, but also likely will focus investment activities on other opportunities and areas unrelated to the current Funds' investments.

*Products or Services Received by Keystone From Portfolio Companies.* From time to time, certain portfolio companies provide Keystone and its affiliates with products or services that such portfolio companies regularly produce or provide as part of their business operations at reduced rates or without charge.

*Co-Investments.* Keystone reserves the right, in its sole discretion, to provide or commit to provide co-investment opportunities to one or more limited partners and/or other persons (including Special Consultants, Keystone employees and affiliates), in each case on terms to be determined by Keystone in its sole discretion. Potential conflicts of interest are expected to 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 Keystone in its sole discretion, will not necessarily always be in the best interests of a Fund or any individual limited partner. In exercising its sole discretion in connection with such co-investment opportunities, including with respect to allocating a particular investment to and among potential co-investors and determining the terms thereof, Keystone will consider some or all of a wide range of factors (some or all of which can benefit Keystone or its affiliates), including, but not limited to: (i) the ability of a potential co-investor to react promptly to a co-investment opportunity; (ii) any strategic advantages that result from a potential co-investor's participation in a co-investment opportunity; (iii) a potential co-investor's commitment to a current Fund and/or a future fund; (iv) the likelihood that a potential co-investor will invest in a current Fund and/or a future fund; (v) the potential co-investor's investable assets relative to the size of the co-investment opportunity; (vi) tax, regulatory and/or securities law considerations (*e.g.*, qualified purchaser or qualified institutional buyer status); (vii) confidentiality concerns that may arise in connection with providing the potential co-investor with specific information relating to the co-investment opportunity; (viii) whether the potential co-investor's participation in an investment opportunity will subject a Fund to legal, regulatory, reporting or other burdens or could impair the ability of either the General Partner or Keystone to execute the relevant transaction in the desired time or on desired terms; (ix) the size of the investment allocation and practicality of dividing it among multiple potential co-investors; (x) lender requirements; and/or (xi) whether the General Partner or Keystone believe that allocating investment opportunities to the potential co-investor will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to a current Fund or a future fund.

Furthermore, Keystone reserves the right to make decisions regarding whether and to whom to offer co-investment opportunities in consultation with other participants in the relevant transactions, such as a co-sponsor. Additionally, from time to time, certain service providers (*e.g.*, lenders) seek to negotiate co-investment rights as a component of their compensation or in exchange for granting better terms to Keystone, a Fund or portfolio company in connection with the services provided. Co-investment opportunities typically will be offered to some and not to other limited partners. Keystone's allocation of co-investment opportunities generally will not result in allocations that are proportional to the amounts committed, if any, by the relevant potential co-investors to a Fund or

any other co-investment vehicle, and such allocations can be more or less advantageous to some persons or entities than to others.

Additionally, conflicts of interest are expected to arise in the allocation of co-investment opportunities to the extent that such allocation benefits the General Partner or Keystone instead of, or more than, a Fund or is not in the best interests of a Fund or any individual limited partner.

Co-investments with third parties through partnerships, joint ventures or other entities or arrangements are expected to involve risks and potential conflicts of interests not present in investments where a third-party is not involved, including the possibility that a third party co-investor can at any time have economic or business interests or goals that are inconsistent with those of a Fund, have financial difficulties (which can increase the possibility of default), or be in a position to take or block action in a manner that is contrary to a Fund's investment objectives. In addition, a Fund can in certain circumstances be liable for the actions of a third party co-investor. In those cases in which co-investments with third parties involve a management group, third party co-investors are expected to receive compensation arrangements relating to such co-investments, including incentive compensation arrangements. There can be no assurance that a Fund's return from a transaction involving a co-investment will be equal to and not less than the return of any co-investor in such transaction.

Keystone reserves the right, in its sole discretion, to charge a Management Fee and/or obtain a Carried Interest in respect of any co-investment. As a result of the fact that co-investments alongside a Fund will not be made through such Fund, any fees or other co-investor related compensation (including fees of the type included as supplemental fees) received in connection with co-investments will not arise out of the investment activities of a Fund or actions taken directly or indirectly by Keystone on behalf of a Fund and, therefore, none of such fees or other co-investor-related compensation will be applied to reduce the Management Fee. Keystone and/or any of its affiliates reserve the right to retain any such fees.

To the extent that one Fund co-invests or commits to co-invest alongside another Fund, any fees of the type included in the definition of supplemental fees with respect to such co-investment or potential co-investment will be allocated among the Funds pro rata (based on the cost of such co-investment or potential co-investment held or proposed to be held by each), or in such other manner as Keystone and the relevant participating partners mutually agree.

In the event that a transaction in which a co-investment was to be sought ultimately is not consummated, all obligations, liabilities and out-of-pocket fees (including any break-up fees), costs and expenses relating to such unconsummated transaction are expected to be borne by the Fund expected to participate in the investment, and not by any potential or expected co-investors, subject to any restrictions set forth in the Governing Documents.

To the extent that any other fund or any other entity or individual co-invests alongside the participating Fund in any portfolio company investment, supplemental fees will be allocated to such

co-investors and/or retained by the General Partner and/or any of its affiliates. Accordingly, the participating Fund will, in most cases, only benefit from the Management Fee reduction described in Item 5 above with respect to its allocable portion of any such supplemental fee and not the portion of any fee allocable to any co-investor in a portfolio company.

*Use of Credit Facilities.* The Funds are permitted to borrow funds pursuant to a revolving credit facility or other debt facility, including a facility based on the aggregate commitments available to be called. A Fund's use of such facilities will be determined by Keystone, and the performance of a Fund can be impacted by how Keystone causes a Fund to utilize such facilities. Although the use of such a facility has the potential to increase a Fund's ability to swiftly invest capital, it also will cause the Fund to incur interest expense and other costs. Potential conflicts of interest are expected to arise in that the use of such facilities likely would delay the need for partners to make certain contributions to the Fund, which has the potential to enhance the Fund's performance figures and thereby benefit Keystone.

In borrowing on behalf of a Fund, Keystone is subject to potential conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund's preferred return, Keystone is expected to have incentives to cause the Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when a Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had Keystone called capital, and thus could result in Keystone receiving carried interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner would pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

*Industry Relationships.* As with other private equity fund sponsors, as part of Keystone's business, Keystone and its employees have developed many relationships with third parties which have the potential to raise conflicts of interest. Such third parties include investment bankers, lenders, consultants, professional advisors (such as attorneys and accountants), co-investors, current and former directors, officers and employees of current and former portfolio companies and former employees and members of Keystone. Certain of these third parties are expected to: (i) introduce investment opportunities to Keystone; (ii) arrange for, or facilitate the financing of, the purchase or recapitalization of current and potential portfolio companies; (iii) introduce portfolio companies to

potential acquisition or merger candidates; (iv) facilitate the disposition of portfolio companies; or (v) provide investment banking, consulting, legal or advisory services to Keystone, the Funds or Fund portfolio companies. Such third parties are expected on occasion to also provide goods or services to or have business, personal, political, financial or other relationships with the founding principals. In addition, some of such third parties have invested in one or more Funds; co-invested in one or more portfolio companies; or provided other significant business or investment services to Keystone, the Funds and/or their portfolio companies. These relationships have the potential to influence Keystone in deciding whether to select or recommend any such third-party to perform services for a Fund or a portfolio company. The cost of any services provided by such third parties will generally be borne directly or indirectly by the Funds or their portfolio companies, as applicable.

*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, the General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values 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 ultimately are sold. The exercise of discretion in valuation by the General Partner has the potential to give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of Carried Interest.

*Material Non-Public Information.* As a result of the operations of Keystone and its affiliates, as well as in connection with officerships or directorships of related personnel, the Firm may come into possession of confidential or material, non-public information. Therefore, it is possible Keystone and its affiliates will have access to material, non-public information that is relevant to an investment decision to be made by a Fund. Consequently, a Fund can be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, was undertaken on account of applicable securities laws or Keystone's internal policies. Due to these restrictions, it is possible a Fund will be restricted from making an investment that it would otherwise have made or sell an investment that it otherwise might have sold.

*Advisory Board.* The General Partner will appoint one or more limited partner representatives to a Fund advisory board, which has the ability to review and waive compliance with certain provisions of the Governing Documents, including resolving potential conflicts of interest situations, and whose approval is required or requested in certain circumstances under the Governing Documents, including certain approvals or consents required by the Advisers Act. The Governing Documents provide that to the fullest extent not prohibited by applicable law, none of the advisory board members shall owe any fiduciary duties to the Funds or any other partner. An advisory board member reserves the right to consider the interests of the limited partner it represents over the interests of the limited partners as a whole when voting or consenting to any matter submitted to the advisory board. Members of the advisory board are expected to have potential conflicts of interest that do not disqualify such members from voting or consenting to matters submitted to the advisory board for consideration or

review. In addition, representatives of the advisory board on occasion have various business and other relationships with Keystone and its partners, officers, directors, employees and affiliates. These relationships have the potential to influence their decisions as members of the advisory board. To the extent that a limited partner is not represented by a member of the advisory board, such limited partner will have no influence over matters submitted to the advisory board for review or approval.

In addition, it is possible that members of the advisory board will also be members of the advisory board of a successor Keystone fund. A conflict of interest could arise in the event the advisory board or the advisory board of another Keystone fund on which such members serve is requested to provide consent with respect a transaction involving a conflict of interest between two or more Keystone Funds. Advisory board members are not required nor are they likely to recuse themselves from any such vote.

*Conflicting Interests Among Limited Partners.* Limited partners are expected to have conflicting investment, tax, and other interests with respect to their investments in the Funds, including conflicting interests that relate to the structuring and timing of investment acquisitions and dispositions. As a consequence, conflicts are expected to arise in connection with decisions made by Keystone regarding investments that are more beneficial to certain limited partners than to others, especially with respect to tax matters. In structuring, acquiring and disposing of investments, Keystone generally will consider the investment, tax and other relevant objectives of each Fund and the partners as a whole, rather than the investment, tax or other objectives of any individual limited partner.

*Secondary Transfers of Fund Interests.* To the extent that the General Partner has discretion to consent to a transfer of a limited partner interest in a Fund pursuant to the Governing Documents, and subject to any restrictions therein, the General Partner reserves the right to identify one or more persons (including limited partners in one or more Funds or persons that are not limited partners but in the future invest in a fund) to potentially acquire such interest, and will take into consideration a variety of factors as it deems necessary in exercising its discretion with respect to such a transfer.

*Research Costs for Investments.* Keystone expects that there will be circumstances when it considers a portfolio investment on behalf of a Fund and determines not to make such portfolio investment; however, Keystone could eventually cause a successor fund to make such investment. In these circumstances, Keystone or such fund are expected to benefit from research undertaken by the original investment team and/or from costs borne by the Fund in pursuing the potential investment, but such fund will not be required to reimburse a Fund for expenses incurred in connection with such research.

*Employee Limited Partners.* It is expected that certain of Keystone's employees and personnel will invest in a Fund as part of the General Partner's commitment to such Fund. Subject to applicable law, the terms of an investment by an employee differ from, and are more favorable than, those of an investment by an external Fund limited partner. For example, employee limited partners generally will not be subject to a Management Fee and/or Carried Interest with respect to their investment, will

generally receive information regarding investments at different times than other limited partners and can benefit from different credit facility arrangements than the Fund.

### **Item 9 – Disciplinary Information**

Like other registered investment advisers, Keystone is required to disclose all material facts regarding any legal or disciplinary events that would materially impact a limited partner's evaluation of Keystone or the integrity of Keystone's management. Keystone and its management persons have not been subject to any material legal or disciplinary events that are applicable to this Item.

On occasion, in the ordinary course of its business, Keystone, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) are named as defendants in a legal action. Although there can be no assurance of the outcome of such legal actions, Keystone does not believe that any current legal proceedings or claims to which Keystone, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) are a party, if any, would individually or in the aggregate materially affect a limited partner's or prospective limited partner's evaluation of the Firm or the integrity of the Firm's management.

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

Neither Keystone nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading adviser, or an associated person of the foregoing. Keystone does not have arrangements with a related person who is a broker-dealer, municipal securities dealer, government securities dealer or broker, investment company, other investment adviser or financial planner, futures commission merchant, commodity pool operator, commodity trading adviser, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, or sponsor or syndicator of limited partnerships that are material to its advisory business or to its Funds or its limited partners. Keystone has and will continue to develop relationships with professionals who 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 limited partners in Keystone Funds, either personally or through their company.

As described above in Item 4, Keystone is affiliated with the Funds' General Partner which is deemed registered with the SEC under the Advisers Act pursuant to Keystone's registration. The General Partner and Keystone operate as a single advisory business and serve as the General Partner, affiliate or managing members of private investment funds and other investment vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions. The General Partner does not have employees of its own.



From time to time, Keystone receives training, information, promotional materials, meals, entertainment, gifts or other perquisites from vendors and others with whom it does business or to whom it makes referrals. However, at no time will Keystone accept any benefits, gifts, entertainment or other arrangements that are conditioned on directing individual Fund transactions to a specific investment, product or provider. Similarly, Keystone employees have in the past, and expect in the future, to speak at and attend conferences and programs for potential limited partners interested in investing in private funds and other industry events that are sponsored by various investment bankers, broker-dealers or others. Through such capital introduction and other events, prospective limited partners have the opportunity to meet with Keystone. Neither Keystone nor any Fund compensates these investment bankers, broker-dealers or others for investments ultimately made by prospective limited partners attending such events other than registration, sponsorship, membership or other similar fees paid to attend such events.

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

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

### **Code of Ethics and Personal Trading**

Pursuant to Rule 204A-1 of the Advisers Act, Keystone has adopted a written code of ethics (“Code of Ethics”) that sets forth standards of conduct expected of supervised persons and addresses personal trading and reporting of personal securities transactions, gifts and entertainment and outside business activities, among other topics. The Code of Ethics requires all supervised persons to place Fund interests ahead of the Firm’s interests and to maintain full compliance with the federal securities laws.

Supervised persons are required to certify their compliance with the Code of Ethics upon hire and on an annual basis. Supervised persons who violate the Code of Ethics will be subject to remedial actions, including, but not limited to, censure, suspension or dismissal. Supervised persons are also required to promptly report any violations of the Code of Ethics of which they become aware.

The personal trading policy for Keystone supervised persons is set forth in Keystone’s Code of Ethics and is acknowledged as received and understood by each supervised person. Keystone’s personal trading policies are designed to ensure that no Fund is disadvantaged by the transactions executed by a supervised person and that supervised persons do not misappropriate any benefit properly belonging to a Fund.

Keystone’s supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding publicly traded securities or communicating material non-public information about such securities to others. The Code of Ethics establishes guidelines for personal trading requirements, insider trading and reporting of personal securities transactions, including certain pre-clearance and reporting obligations. Keystone maintains a restricted list of issuers about which it has or may have material non-public information.

Pre-clearance is required by supervised persons for certain personal securities transactions, including trading in restricted list securities, initial public offerings and limited offerings. In addition, supervised persons are required to file certain reports and submit their brokerage account statements to the Chief Compliance Officer for review.

The principals and employees of Keystone will occasionally carry on investment activities for their own account and for family members or others who do not invest in the Funds, and in connection therewith, can potentially give advice and recommend securities which differs from advice given to, or securities recommended or bought for, the Funds. In addition, principals and employees are permitted to buy securities in transactions offered to, but rejected by, the Funds or that are outside the investment mandate of the Funds.

Limited partners can request a copy of the Firm's Code of Ethics by contacting its Chief Compliance Officer, Chief Compliance Officer, Brian Chung, at (312) 219-7900 or [info@keystonecapital.com](mailto:info@keystonecapital.com).

### **Participation in Client Transactions**

Certain Keystone employees and their family members have invested in the Funds through the General Partner and/or as Fund limited partners. As mentioned in Item 5 above, Keystone generally reduces the Management Fee and Carried Interest related to investments held by such persons.

Keystone will only enter into a principal or agency cross transaction with the appropriate disclosure and consent. 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 Keystone's business, a principal transaction would most likely refer to the practice of warehousing an investment for the formation of a future fund or Keystone or a Fund General Partner purchasing the interest of an existing limited partner. Agency cross transactions occur when an adviser or an affiliate arranges a transaction (*i.e.*, acts as broker) between two or more 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 Keystone'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 Keystone 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 participating clients; (ii) the transaction is permitted by the relevant Governing Documents; (iii) proper disclosure is given to the General Partner, advisory board or limited partners, as appropriate; (iv) consent is

obtained from the appropriate parties; and (v) the Firm ensures that best execution is achieved for the transaction.

In connection with the closing of Fund II, the Fund offering included the sale of two Pre-Fund Investments to Fund II. As part of the transaction, Keystone (i) determined that the transactions were in the best interest of the Fund II limited partners and the investors participating in the two Pre-Fund Investments, (ii) reviewed the Governing Documents to confirm the transaction was permitted, (iii) made proper disclosure in the Fund II Governing Documents, which sought to ensure that limited partners had full access to information regarding the transactions, and (iv) obtained consent from all limited partners in the form of their execution of the subscription documents.

### **Conflicts of Interest**

The Governing Documents of each Fund include a description of what Keystone believes to be the most significant conflicts of interest associated with an investment in that Fund. Some of these conflicts are summarized in Item 8 above.

### **Item 12 – Brokerage Practices**

Generally, Keystone focuses on securities transactions of private companies and purchases and sells such companies through privately negotiated transactions. In such privately negotiated transactions, best execution is met by the consummation of the deal with the best possible terms for the Fund. In pursuing privately negotiated transactions, Keystone will, on occasion, engage the services of a broker-dealer or investment banker in connection with the purchase and sale of a portfolio company. Whether for private or public securities transactions, Keystone selects a broker-dealer or investment banker based on Keystone's judgment regarding a variety of factors, which will not be limited solely to ultimate deal price, including but not limited to: Keystone's prior experience in working with the broker-dealer or investment banker; the broker-dealer or investment banker's execution capability, financial responsibility, reputation and expertise within the industry; the broker-dealer or investment banker's responsiveness to the Firm; the broker-dealer or investment banker's expertise in dealing with investments that are restrictive or illiquid in nature; the type and size of the transaction involved; the value of any research services providers; and the commission rates, among other factors.

Although Keystone 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.

Keystone does not receive research or other soft dollar benefits in connection with securities transactions for the Funds, does not receive limited partner referrals in connection with selecting or recommending broker-dealers for the Funds and does not engage in directed brokerage. In the event

Keystone were to aggregate the purchase or sale of securities for client accounts, it would do so on a pro rata basis.

### **Item 13 – Review of Accounts**

The investment portfolios of each Fund are generally private, illiquid and long-term in nature and accordingly Keystone's review of them is not directed toward a short-term decision to dispose of securities. Decisions as to when to purchase or sell a portfolio company are made by the investment committee. Keystone holds board seats for most of the investments it makes. Investment professionals closely monitor the portfolio companies of its Funds and maintains an ongoing oversight position in such portfolio companies. Moreover, partners of Keystone monitor portfolio company performance through regular management meetings, as well as detailed reviews of specific portfolio companies that occur as needed.

Keystone provides to limited partners on behalf of its Funds the following written reports: (i) annual audited financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") as promulgated by the Financial Accounting Standards Board ("FASB"), accompanied by the report of the independent certified public accountant within 120 days of fiscal year end (or earlier as agreed to in the relevant Fund Governing Documents); (ii) unaudited financial statements for the first three quarters of each fiscal year; and (iii) annual tax information necessary for the completion of tax returns (K-1). The Firm also has contact with limited partners (*e.g.*, personal visits, video conference, telephone and email) throughout the year as requested and as conditions warrant.

In the course of conducting due diligence, limited partners periodically request information pertaining to Keystone's investments. Keystone responds to these requests, and in answering such requests, provides information that is not always made available to other limited partners who have not requested such information. Additionally, as it pertains to existing limited partners, upon request or pursuant to contractual obligations, certain limited partners receive additional information and reporting that other limited partners do not receive. The fact that Keystone provides such information upon request to one or more limited partners does not obligate Keystone to affirmatively provide such information to all limited partners. As a result, certain limited partners will have more information about a Fund than other limited partners, and Keystone has no duty, and does not intend, to ensure that all limited partners 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, Keystone is entitled to receive certain supplemental fees and reimbursements from the portfolio companies held by the Funds. These fees are paid pursuant to separate agreements entered into with the portfolio companies to provide certain consulting services that Keystone believes will ultimately enhance the value of the companies and benefit the Funds and their limited partners.

These types of fee arrangements present potential conflicts of interest and provide Keystone with an incentive to recommend investments based on compensation received rather than the best interests of the Funds. To help mitigate this potential conflict of interest, an allocable portion of such benefits received by Keystone or its employees (but not Special Consultants) in connection with services rendered to portfolio companies or transactions of the Funds are offset against Management Fees payable by the Funds, to the extent described above in Item 5 and as detailed in each Fund's Governing Documents.

As of the date hereof, Keystone has not directly or indirectly compensated any person who is not a supervised person for client referrals and does not use placement agents to assist in its fundraising efforts.

### **Item 15 – Custody**

Keystone is deemed to have custody of the Funds' assets because of its affiliation with each Fund's General Partner and the General Partner's ability to deduct fees from Fund accounts. To comply with Advisers Act Rule 206(4)-2 (the "Custody Rule"), Keystone has elected to undergo an annual GAAP financial statement audit by an independent public accountant registered with and subject to examination by the Public Company Accounting Oversight Board for each of the Funds over which it is deemed to have custody, copies of which are (or will be, for newly closed Funds) delivered to the Funds and their respective limited partners within 120 days of fiscal year end (or earlier as agreed to in the relevant Fund Governing Documents). Limited partners are encouraged to carefully review such financial statements.

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

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

Keystone 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 discretion and control of the General Partner, and not to limited partners in the Funds individually. To become a limited partner in a Fund, a limited partner must execute, among other documents, a subscription agreement and a limited partnership agreement (or similar agreement) with such Fund. Such documents generally contain a power of attorney that grants Keystone or the Fund's General Partner certain powers related to the orderly administration of the affairs of the Funds. Once a limited partner executes these documents, with limited exceptions discussed elsewhere in this Brochure, Keystone is not required to contact such limited partner prior to transacting business in a Fund.

Generally, Keystone's only restrictions with respect to managing a Fund, such as, but not limited to, the type of securities in which a Fund invests, will be contained in the relevant Fund's Governing Documents. However, a limited partner can seek to impose limitations on Keystone's authority through a side letter agreement, and Keystone and/or the General Partner can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon Keystone's investment authority with respect to a limited partner's investment must be presented to Keystone and the relevant Fund's General Partner in writing and agreed to by all applicable parties. There can be no assurance that the side letter rights granted to one or more limited partners will not in certain cases disadvantage others. Other limited partners meeting certain commitment thresholds are often provided with notification provisions regarding such side letter agreements but are not provided with consent rights over such agreements.

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

By virtue of the applicable Governing Documents, Keystone has the authority to vote proxy statements on behalf of the Funds. The majority of "proxies" received by Keystone, however, are written shareholder consents or similar instruments for private companies owned by the Funds. As such, Keystone has adopted proxy voting policies and procedures pursuant to Advisers Act Rule 206(4)-6. Keystone's proxy voting policy seeks to ensure that it votes proxies in the best interest of the Funds, including where there are material conflicts of interest in voting proxies. Keystone generally believe its interests are aligned with those of the Funds' limited partners through the principals' beneficial ownership interests in the Funds. However, in the event that there is a conflict of interest in voting proxies, Keystone's proxy voting policy provides that the Firm can address the conflict using several alternatives, including by seeking the approval or concurrence of an advisory board on the proposed proxy vote, or through other alternatives as set forth in Keystone's proxy voting policy. Limited partners in the Funds cannot direct how Keystone votes proxies or shareholder consents, nor is Keystone required to seek limited partner approval or direction from limited partners when voting proxies or when giving consent on any matter requiring the consent of shareholders.

Firm principals and affiliated or unaffiliated third parties appointed by Keystone sit on the boards of portfolio companies to which Keystone provides operational, management and consulting services and, as such, exercise authority with respect to various issues faced by the portfolio companies. Keystone does not consider service on portfolio company boards by the aforementioned persons or their receipt of nominal board fees, if any, to create a material conflict of interest in voting proxies with respect to such companies.

Keystone will provide a copy of its proxy voting policy to any existing or prospective limited partner by contacting its Chief Compliance Officer, Brian Chung, at (312) 219-7900 or [info@keystonecapital.com](mailto:info@keystonecapital.com). Limited partners can also obtain information from the Firm, free of charge, about how Keystone voted previous public proxies, if any.

## **Item 18 – Financial Information**

Keystone does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance, has no financial condition reasonably likely to impair its ability to meet contractual commitments to the Funds or limited partners and has not been the subject of a bankruptcy petition.