

**INVESTMENT ADVISER BROCHURE**

**VERSA CAPITAL MANAGEMENT, L.P.**

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**March 31, 2023**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Versa Capital Management, L.P. (“VCM, L.P.”). If you have any questions about the contents of this Brochure, please contact us at (215) 609-3400. 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 authority.**

VCM, L.P. is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding VCM, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **MATERIAL CHANGES**

VCM, L.P. filed its most recent Form ADV Part 2 on May 18, 2022. This annual amendment reflects the addition of two relying advisers and updates the description of the business practices of VCM, L.P. and its affiliates.

## ADVISORY BUSINESS

VCM, L.P. is a Delaware limited partnership and the principal registered investment adviser of Versa Capital, a private investment management firm that commenced operations in December 2004. VCM, L.P. wholly owns 1801 Admin, LLC, a Delaware limited liability company and the prior principal registered investment adviser of Versa Capital (“**1801 Admin**”). 1801 Admin is separately registered as an investment adviser with the SEC. VCM, L.P. has filed an umbrella registration pursuant to which VCM Fund Management, LP, a Delaware limited partnership (“**VCMFM**”), and VCM Fund Advisors, LLC, a Delaware limited liability company (“**VCMFA**”), have registered as investment advisers pursuant to VCM, L.P.’s registration. VCM, L.P., VCMFM and VCMFA operate as a single advisory business together and provide investment advisory services to private investment funds.

The following are certain of the affiliated advisers of VCM, L.P. (each, a “**General Partner**,” and collectively, together with any future affiliated general partner entities, the “**General Partners**,” and together with VCM, L.P., VCMFM and VCMFA, “**Versa Capital**”):

- Versa FGP-II, L.P. (“**Versa II GP**”); and
- Versa FGP-III, L.P. (“**Versa III GP**”).

Each General Partner is deemed registered under the Advisers Act pursuant to VCM, L.P.’s registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with Versa Capital.

Versa Capital’s clients include the following private investment funds (each a “**Versa Fund**” and collectively, the “**Versa Funds**”):

- Versa Capital Fund II, L.P.;
- Versa Capital Fund II-A, L.P. (together with Versa Capital Fund II, L.P., the “**Versa II Funds**”);
- Versa Capital Fund III, L.P.;
- Versa Capital Fund III-A, L.P.;
- Versa Capital Fund III-B, L.P. (together with Versa Capital Fund III, L.P. and Versa Capital Fund III-A, L.P., the “**Versa III Funds**”);
- Versa AIV Investments III, L.P.; and
- Versa AIV Ancillary Investments III, L.P. (together with Versa AIV Investments III, L.P., the “**Versa AIV Funds**”).

The General Partners listed above each serve as general partner to one or more Versa Funds and have the authority to make the investment decisions for the Versa Funds to which they provide advisory services. Additionally, references herein to advisory services provided by the General

Partners should be construed, where applicable, to include such services (whether on a discretionary or non-discretionary, advisory or sub-advisory basis) provided by VCM, L.P., 1801 Admin, VCMFM, VCMFA and/or their respective personnel, which are described herein.

The Versa Funds are private equity funds and invest through negotiated transactions in operating entities. The General Partners' investment advisory services to the Versa Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of Versa Capital or its affiliates may serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Versa Funds.

The General Partners' advisory services for the Versa Funds are detailed in the applicable private placement memorandum and limited partnership agreements of the Versa Funds (each, a "**Partnership Agreement**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Limited partners in the Versa Funds participate in the overall investment program for the applicable Versa Fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Versa Funds or the General Partners have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights (including economic or other terms) under or altering or supplementing the terms of the Partnership Agreements with respect to such investors.

Additionally, from time to time, the Advisers may provide (or agree to provide) co-investment opportunities to certain investors or other persons, including the opportunity to participate in co-invest vehicles that will invest in certain portfolio companies alongside a Versa Fund. Such co-investment opportunities typically involve investment and disposal of an investment in the applicable portfolio company at the same time and on the same terms as the Versa Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from a Versa Fund, which generally would occur shortly after the Versa Fund's completion of the investment to avoid any changes in valuation of the investment, and in such instances the co-investor co-invest vehicle may be charged interest on the purchase to compensate the relevant Versa Fund for the holding period.

As of December 31, 2022, Versa Capital managed approximately \$330,140,833 in client assets on a discretionary basis. VCM, L.P. is controlled by Gregory L. Segall.

#### **FEES AND COMPENSATION**

In general, each General Partner receives carried interest (*i.e.*, a performance-based partnership allocation) and a Management Fee (as defined below) in connection with advisory services. The General Partners have designated Versa Capital to receive the Management Fee as the Management Company under their limited partnership agreements. The General Partners or other Versa Capital entities or affiliates expect to receive additional compensation in connection with management and other services performed for portfolio companies of the Versa Funds and

certain such additional compensation will offset in whole or in part the Management Fees otherwise payable to Versa Capital. Investors in the Versa Funds also bear certain fund expenses.

## **Management Fees**

Each Versa Fund pays Versa Capital, quarterly in advance, a management fee (the “**Management Fee**”) generally equal to 2.0% on an annual basis of each such Versa Fund’s aggregate investor capital commitments (“**Commitments**”). Investors participating in a closing after a specified date bear the applicable Management Fee retroactive to such date, plus, in the case of Versa III Fund investors, an amount equal to 8% of such Management Fees and in the case of Versa II Fund investors, an amount equal to 10% of such Management Fees, payable to the relevant General Partner.

Upon the earlier to occur of (i) the date when all Commitments have been invested or otherwise used to pay expenses of the relevant Versa Fund or (ii) a date specified in the relevant Partnership Agreement (the “**Stepdown Date**”), the Management Fee will be reduced and generally will equal 2.0% of such Versa Fund’s net invested capital, as more fully described in the relevant Partnership Agreement. The Management Fee for the Versa II Funds and the Versa III Funds has been so reduced. The Management Fee will be payable until all portfolio investments are distributed or until a General Partner’s relationship with the relevant Versa Fund is terminated for other reasons (as described in the relevant Partnership Agreement). Installments of the Management Fee payable for any period other than a full quarterly period are adjusted on *pro rata* basis according to the actual number of days in such period.

The Partnership Agreements set forth the full list of terms under which Management Fees will be reduced, offset or otherwise be limited, and consequently investors should expect to bear the full specified Management Fee rate in the Partnership Agreements until they are reduced in the circumstances and on the date(s) specified therein.

In addition, the Management Fee will be reduced by all or a portion of the relevant Versa Fund’s share of (i) any directors’ fees, financial consulting fees or advisory fees paid by portfolio companies to partners or employees of Versa Capital; (ii) any transaction fees paid to a General Partner with respect to any Versa Fund investment; and (iii) any break-up fees with respect to Versa Fund transactions not completed that are paid to the relevant General Partner. The Management Fee will be further reduced in the circumstances and by the amounts described in the relevant Partnership Agreement. The remaining amount of such fees received by a General Partner without offset against the Management Fee are hereinafter referred to as “**Supplemental Fees.**”

As permitted under the relevant Partnership Agreement, each General Partner may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital such General Partner would otherwise be required to contribute to the relevant Versa Fund. The limited partners of the relevant Versa Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of such General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions.

## **Carried Interest**

Each General Partner will receive a carried interest allocation with respect to the relevant Versa Fund equal to 20% of all realized profits in excess of, in the case of Versa II Fund investors, a 10% annually compounded preferred return, and, in the case of Versa III Fund investors, an 8% annually compounded preferred return, as more fully described in the relevant Partnership Agreement. The carried interest distributed to a General Partner is subject to a potential clawback or giveback at the end of life of the relevant Versa Fund if such General Partner has received excess cumulative distributions.

## **Other Information**

The Versa Funds invest on a long-term basis. Accordingly, Management Fees and other fees are expected to be paid, except as otherwise described in the relevant Partnership Agreement, over the term of the Versa Funds and investors generally are not permitted to withdraw or redeem interests in the relevant Versa Fund.

Principals or other employees of Versa Capital are expected to receive a portion of the Management Fee, carried interest or other compensation received by a General Partner or its affiliates.

In addition to the Management Fee and carried interest payable to a General Partner, each Versa Fund bears certain expenses. As set forth in the relevant Partnership Agreement, each Versa Fund bears all expenses to the extent not paid by portfolio companies, including: (i) up to a stated amount of the relevant Versa Fund's organizational and startup expenses, including, without limitation, legal, travel, accounting, filing, printing, capital raising and other organizational expenses, some of which may be for services provided by third parties; and (ii) other costs and expenses of the relevant Versa Fund that are not reimbursed by portfolio companies, including legal, auditing, consulting, financing, accounting and custodian fees and expenses; expenses associated with the relevant Versa Fund's financial statements, tax returns, Schedule K-1s and other reporting; out-of-pocket expenses incurred in connection with transactions not consummated; expenses of the relevant Versa Fund's advisory committee and meetings of the limited partners; insurance; other expenses associated with the acquisition, holding and disposition of the relevant Versa Fund's investments, including extraordinary expenses (such as litigation expenses, if any); and any taxes, fees or other governmental charges levied against the relevant Versa Fund. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

Versa Capital and/or its affiliates generally have discretion over whether to charge transaction fees, monitoring fees or other compensation to a portfolio company and, if so, the rate, timing and/or amount of such compensation. The receipt of such compensation may give rise to conflicts of interest between the Versa Funds, on the one hand, and Versa Capital and/or its affiliates on the other hand.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," each General Partner receives a carried interest allocation on certain realized profits in the relevant Versa Funds. Neither General Partner

advises any private investment fund (each, a “**Private Investment Fund**”) not subject to a carried interest.

The existence of performance-based compensation has the potential to create an incentive for a General Partner to make more speculative investments on behalf of a Private Investment Fund than it would otherwise make in the absence of such arrangement, although Versa Capital generally considers performance-based compensation to better align its interests with those of its investors, particularly in instances where the Partnership Agreements include terms requiring clawback or giveback of performance-based compensation amounts at the end of the relevant Private Investment Fund’s life or at certain interim intervals.

## **TYPES OF CLIENTS**

Versa Capital provides investment advice to Private Investment Funds, including the Versa Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in such Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Versa Capital and its affiliates.

The Versa Funds generally have a minimum investment amount of \$5-10 million for third-party institutional investors and \$1 million for third-party individual investors. Such minimum investment amount may be waived by the relevant General Partner. Versa Capital Fund II, L.P. and Versa Capital Fund III, L.P. interests are offered and sold solely to qualified purchasers, and Versa Capital Fund II-A, L.P., Versa Capital Fund III-A, L.P. and Versa Capital Fund III-B, L.P. interests are offered and sold solely to qualified clients.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Versa Capital is a private investment firm dedicated to investments in distressed leveraged buyouts and other “special situation” investment opportunities principally involving middle-market companies throughout North America. The General Partners’ investment advisory services consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for investments. Investments are predominantly of non-public companies, although investments in public companies are permitted.

The General Partners’ investment strategy for the Versa Funds focuses on investments involving companies anticipating or experiencing financial distress or undergoing a turnaround by, among other things, investing new capital in such companies in exchange for new debt or equity securities or structured contractual payments, purchasing the assets of such companies and/or funding the payment of the expenses of administration and/or dividends to creditors under a Chapter 11 plan of reorganization. The General Partners will seek on behalf of the Versa Funds both current income and capital appreciation from making investments in the outstanding equity or debt securities or other indebtedness of companies in financial distress, which are anticipating



a turnaround, or other “special situations” and will typically seek, alone or with others, to obtain control of or significant influence over the underlying assets or businesses in question.

There can be no assurance that a General Partner will achieve the investment objectives of the relevant Versa Fund, and a loss of investment is possible.

## **Investment and Operating Strategy**

Versa Capital’s team of investment and portfolio operations professionals is dedicated to supporting portfolio company investments (together, the “**Versa Capital Team**”). The Versa Capital Team’s expertise covers key aspects of restructurings, including: (i) operational and strategic turnarounds; (ii) financial and legal navigation of Chapter 11 reorganizations and out-of-court restructurings; (iii) asset and portfolio acquisitions and liquidations; and (iv) investment of new capital for recapitalization or acquisition.

*Staging of Distressed Opportunities.* The Versa Capital Team targets companies that have gone through a process of transition into decline, which eventually produces distress. The distress can advance to the point of crisis which can lead to the possibility of liquidation. Through a directed intervention, however, certain of these businesses can reverse the trend and make a turnaround to recovery that sets the company back on a path of renewal and regrowth.

The Versa Funds generally will focus on targets that have already passed the early stage of decline in which stakeholders are often unwilling or unable to recognize and address problems and on targets that are in the early stages of the recovery cycle. The Versa Funds generally will seek to avoid investing in companies that are too late in the restructuring process, when the business is stabilized again and a target for mainstream leveraged buyout (“**LBO**”) investment. At that point, the companies are too expensive for the relevant General Partner’s underwriting standards and beyond the need for the value-added ownership the Versa Capital Team can provide.

Accordingly, the targets of the Versa Funds generally will fall between the middle to later stages of decline and the early to middle parts of recovery where there is the greatest potential for value-added ownership. In this critical stage, the turnaround solution will not yet have been implemented and may be unknown. Execution risk and process complexity will characterize the situation. In the opinion of the Versa Capital Team, these characteristics reduce competition for deals, creating opportunities for investment at more compelling valuations.

*LBO/Control Investment Strategy.* LBO/control investments in target portfolio companies falling in the lower portions of the range of decline and recovery are the primary portfolio strategy of the Versa Funds. Control can take various forms, from affirmatively participating in directing a portfolio company’s operations and management to exercising the right as a material stakeholder to block certain actions to be taken with respect to a portfolio company.

Targets for LBO/control investments will typically be: (i) middle-market companies with a history of \$50 million to \$1 billion in annual revenue and a viable product, service or business model; (ii) experiencing some form of distress, such as a liquidity crisis, revenue retrenchment or regulatory challenges; and (iii) calling for an investment of \$5 million to \$75 million in a single transaction.

The Versa Capital Team typically advises and supports senior management of its LBO/control portfolio investments in operational planning and execution as needed, including through service on the board of directors of portfolio companies, especially with respect to: (i) operational restructuring/rationalization and cost reduction programs; (ii) financial controls and risk management; (iii) working capital management; (iv) marketing and strategic planning; and (v) industry and competitive analysis.

At appropriate times, the Versa Capital Team may lead or co-lead the Versa Funds' portfolio companies' capital markets-related activities, such as acquisitions and divestitures, refinancings and recapitalizations and dispositions and other liquidity events.

*Other Investment Strategies.* In the course of pursuing LBO/control investment strategy and independent of it, the Versa Capital Team pursues other investment strategies including, but not limited to: debt acquisition and disposition, "Asset Backed Equity," and opportunistic special situations investments. Targets for debt acquisition and disposition, Asset-Backed Equity and other opportunistic special situations investments may have different revenues, investment amounts, management requirements, needs and other attributes than typical LBO/control investments. While these types of non-LBO/control investments are not expected to be the primary focus of the Versa Funds, such investments will be considered if they can be structured to provide attractive expected returns on a risk-adjusted basis.

The Versa Funds will originate or acquire debt, usually distressed, stressed and/or non-performing loans but also bonds and performing debt. These positions may be held for income, sold for gain or used as a leverage point for executing an LBO/control investment.

Asset-Backed Equity investments represent a secondary portfolio strategy of the Versa Funds. This strategy targets the securities of asset-rich entities suffering from liquidity or other constraints – however arising. In the extreme case, the enterprise value of a business, depressed by bad news and the financial markets' exaggerated fear of the reorganization process, may fall below the value of its assets. The goal is to provide the business with essential liquidity by acquiring or taking control of otherwise marketable assets such as real estate, trademarks, inventory, equipment or financial assets. Usually the company requires the assets for continuing operations, so these will be made available through a loan, lease-back or joint venture structure subject to the continuing viability of the business.

Lastly, the Versa Capital Team's expertise and activities produce opportunities to enter into opportunistic transactions in special situations with attractive risk/return characteristics as Versa Fund investments.

*Investment Structure.* The General Partners will implement their strategies on behalf of the Versa Funds using a wide variety of creative, flexible and opportunistic investment structures tailored to the idiosyncrasies of each particular special situation. The General Partners will seek to invest on behalf of the Versa Funds in a variety of special situations, including out-of-court restructurings and investments made prior to the commencement of, or during the course of, a Chapter 11 bankruptcy case.

These investments, which can be made at various times during the restructuring process, can take on a wide variety of forms including: (i) investing in new debt or equity instruments of the target company; (ii) acquisition of existing debt or other securities (whether secured or unsecured, public or private), often at a discount to the face amount; (iii) acquisition of existing equity, in conjunction with or anticipation of the restructuring of senior elements of the capital structure; (iv) acquisition of assets, either all of the assets of operating businesses or discrete attractive assets, in or out of the context of various forms of judicial proceedings; (v) initiation of new highly structured transactions combining elements of debt, equity, sale-leaseback, and operating agreements; (vi) providing debtor-in-possession financing during the course of a Chapter 11 case; or (vii) sponsoring and funding a plan of reorganization to take a business out of Chapter 11.

*Investment Process.* The General Partners' investment process includes a variety of sources of potential transactions that will be worked through the General Partners' detailed due diligence and transaction execution process.

(a) *Proprietary Deal Flow*

Through its network of contacts and information sources and its proactive process of opportunity identification, the Versa Capital Team screens a wide variety of investment prospects. The Versa Capital Team's history of working together in the special situations arena for over a decade yields a web of relationships with the attorneys, consultants, advisors, bankers and accountants specializing in that field. These professionals often see special situation transactions before the principals involved understand the difficulties they are facing and frequently initiate contact with members of the Versa Capital Team first in seeking solutions. Numerous principal stakeholders, such as growth and real estate private equity funds, as well as banks and other lenders, have had successful experiences with, and continue to seek solutions from, the Versa Capital Team.

By tracking companies with issues such as weak valuations or earnings, delayed public filings, maturing debt facilities or governance conflicts, the Versa Capital Team seeks to identify distress situations early in their development. By tracking the impact of legislative and regulatory trends and specific industries' relevant features such as over-exposure, cyclical risk or untenable leverage, the Versa Capital Team identifies special situations where it believes value-added investing has a place. Once these situations are identified, the General Partners' extensive network of key relationships can provide the introductions necessary to develop transactions.

(b) *Due Diligence and Execution*

The Versa Capital Team uses a rigorous due diligence analysis and hands-on transaction execution capabilities. Identification of an opportunity as a potential transaction typically triggers a multi-pronged due diligence process that may include, as appropriate: (i) independent market research and exploration of public documents; (ii) repeated interviews with management and other stakeholders; (iii) detailed review and testing of financial projections, records, controls and reports; (iv) legal review of capital structure, key agreements, regulation, and litigation exposures; and (v) deployment of independent experts, including industry consultants, investigators, etc.

The results of these investigations provide the basis for a strategic analysis of the business and opportunity, and a structured analysis of the assets, liabilities and risks. If the opportunity still appears attractive, the investment decision-making process typically proceeds in an iterative manner with exploration of the appropriate investment structure. The next steps will require involvement of the decision-making professionals in the execution and closing of the transaction.

The network of professionals utilized by the Versa Capital Team in these efforts has been developed over many years and is comprised of leading legal, financial and accountancy firms. In addition, the General Partners have an extensive network of relationships with industry and function-specific management professionals who can be drawn on to support execution on the turnaround or restructuring needs and objectives of a portfolio company.

(c) *Post-Acquisition Role for LBO/Control Investments*

As control-oriented investors, the General Partners plan to deploy on behalf of the Versa Funds the operational, leadership and transactional expertise of their professionals to each LBO/control portfolio investment. The Versa Capital Team generally expects to retain (together with any co-investors) strategic decision-making influence or control while delegating operating responsibility to portfolio company management.

The Versa Capital Team typically expects to advise and support senior management of its LBO/control portfolio investments in operational planning and execution as needed, including through service on the board of directors of portfolio companies, but especially with respect to: (i) operational restructuring/rationalization and cost reduction programs; (ii) financial controls and risk management; (iii) working capital management; (iv) marketing and strategic planning; and (v) industry and competitive analysis.

Where appropriate, the General Partners will seek to partner on behalf of the Versa Funds with operating management (and/or co-investors) experienced with execution in the applicable industry or circumstances, but will change, replace or supplement management teams as needed. Periodically, certain Versa Capital professionals may fill key management roles (such as CEO, CFO or COO) on an interim basis while replacement management is being recruited, in addition to serving on portfolio company boards of directors and key board committees with respect to LBO/control investments.

Further, the Versa Capital Team generally anticipates leading or co-leading (through the board of directors or otherwise) capital markets-related activities, such as acquisitions and divestitures, refinancings and recapitalizations, and dispositions and other liquidity events. In this

role, the Versa Capital Team typically will also provide strategic oversight for the implementation of turnaround plans.

*Borrowing.* From time to time, the General Partners may cause the Versa Funds to borrow funds in connection with funding investments. Interest in connection with such borrowing is borne by the relevant Versa Fund as a Versa Fund expense, consistent with the relevant Partnership Agreement (or other governing document) and the expense policy described under “Fees and Compensation.”

## **Risks of Investment**

The Versa Funds and their investors bear the risk of loss that the General Partners’ investment strategy entails. The risks involved with the General Partners’ investment strategy and an investment in the Versa Funds include, but are not limited to:

*Business Risks.* The Versa Funds’ investment portfolio will consist primarily of securities issued by non-public troubled companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk which can result in substantial losses. Indeed, investments in troubled companies involve a higher degree of risk than other investments.

*Future and Past Performance.* The performance of the prior investments of Versa Capital, the General Partners, the Versa Capital Team or their affiliates is not necessarily indicative of the Versa Funds’ future results. While the General Partners intend for the Versa Funds to make investments that, in the General Partners’ judgment, have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible and, even if any investments are successful, there can be no assurances that the limited partners of the Versa Funds will receive distributions from the Versa Funds in an amount equal to the their respective funded Commitments. Such limited partners may lose their respective funded Commitments in their entirety.

*Investment in Distressed Companies.* The Versa Funds may make direct loans and may originate performing debt investments. In addition to the risks of borrower default, the collateral securing such investments may be mismanaged or otherwise decline in value during the periods in which the Versa Funds are seeking to obtain control of the underlying property and/or assets. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to such enforcement actions. If any of the above occurred, the Versa Funds’ ability to make distributions to their partners could be delayed or otherwise adversely affected. Moreover, because the Versa Funds will attempt to obtain contractual rights to participate in or substantially influence the management of such borrowers, the likelihood is increased that a borrower may claim that a Versa Fund interfered with the borrower’s business, acted in bad faith in exercising its management rights or otherwise acted in a manner giving rise to a claim for lender liability. As a lender, a Versa Fund may also be subject to penalties for violations of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest.

In addition, the Versa Funds may make investments in troubled assets. Investments in assets operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities which may exceed the value of the Versa Funds' original investment. For example, under certain circumstances, lenders or investors who have inappropriately exercised control of the management and policies of a debtor (including, in the case of an investment made by the Versa Funds through the acquisition of securities or interests originated by other parties, liability for the conduct of such predecessors in interest) may have their claims subordinated or disallowed or counterclaims may be filed and lenders or investors may be found liable for damages suffered by various parties as a result of such actions. In addition, under certain circumstances, payments to the Versa Funds and distributions by the Versa Funds to their partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Bankruptcy laws in the U.S. or elsewhere may delay the ability of the Versa Funds to realize on collateral for loan positions held by it or may adversely affect the priority of such loans through doctrines such as equitable subordination or may result in a restructure of the debt through principles such as the "cramdown" provisions of the bankruptcy laws.

Versa Fund investments may also have a high degree of risk since the securities in which they are made may be unrated, or, if rated, likely will be below investment grade or in default. The Versa Funds may purchase loans or participations in loans of companies. The Versa Funds may also purchase trade, litigation or other claims, generally representing money owed to a supplier of goods or services. Loans or claims purchased by the Versa Funds may have any maturity, may be in default and may be secured or unsecured. As with other types of debt instruments, loans or claims involve risk of loss in case of default or insolvency of the obligor, particularly if the obligation is unsecured. Trade claims may be subject to other defenses, such as warranty claims or failure to provide the product or services. When purchasing loan participations, the Versa Funds may also assume the credit risk associated with the bank or other financial institution servicing principal and interest payments to the Versa Funds. The Versa Funds may also invest in equities of troubled companies, which often involve a high risk of loss.

The Versa Funds may invest in companies that are financially leveraged or troubled or potentially troubled and may be or have recently been involved in restructurings, bankruptcy, reorganization or liquidation. Securities of such companies are likely to be particularly risky investments, although they may offer the potential for correspondingly high returns. As a result, the Versa Funds may lose all or substantially all of their investment in any particular instance. In addition, there is no minimum credit standard that is a prerequisite to the Versa Funds' investment in any security. Securities in which the Versa Funds may invest may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. Moreover, the Versa Funds may invest in securities that are not protected by financial covenants or limitations on additional indebtedness or may become subordinated.

The Versa Funds may invest in companies that are parties, or are threatened to be made parties, to any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative. In connection with such actions, suits or proceedings, these companies may incur losses, damages, litigation costs, attorneys' fees and expenses, and fines and penalties, civil or criminal, or be subject to injunctive, contractual, extra-contractual, declaratory

or any other relief. As a result, the Versa Funds may lose all or substantially all of their investment in any particular instance. Furthermore, depending on the Versa Funds' degree of involvement in such companies, third parties may seek to hold the Versa Funds liable for more than their investment.

*Concentration of Investments.* The Versa Funds will participate in a limited number of investments (and may seek to make several investments in one industry or one industry segment). As a result, the Versa Funds' investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return.

*Lack of Sufficient Investment Opportunities.* It is possible that the Versa Funds will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, the limited partners will be required to pay management fees during the investment period based on the aggregate amount of their commitments.

*Illiquidity; Lack of Current Distributions.* An investment in a Versa Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Versa Fund (including the management fee payable to Versa Capital) may exceed its income, thereby requiring that the difference be paid from the Versa Fund's capital.

*Leveraged Investments.* The Versa Funds may make use of leverage by incurring or having a portfolio company or intermediate entity incur debt to finance a portion of their investment. In addition, the Versa Funds may guarantee debt incurred by portfolio companies, their subsidiaries or otherwise in connection with the Versa Funds' investments. Leverage generally magnifies both the Versa Funds' opportunities for gain and their risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit market, which state is difficult to accurately forecast. During times when credit markets are tight it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage will also result in interest expense and other costs to the Versa Funds that may not be covered by distributions made to the Versa Funds or appreciation of their investments. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and will constrain its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Versa Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Versa Funds' investments in the leveraged portfolio companies in a down market. These risks generally are expected to increase as interest rates rise, including in circumstances where a portfolio company's creditworthiness is such that it must borrow at higher interest rates than are available to the relevant Versa Fund. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Versa Funds may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of

the Versa Funds. Furthermore, should the credit markets be tight at the time that a General Partner determines that it is desirable to sell all or part of a portfolio company, the relevant Versa Funds may not achieve an exit multiple or enterprise valuation consistent with any forecasts. Moreover, the companies in which the Versa Funds will invest generally will not be rated by a credit rating agency. Except where otherwise required by the relevant Partnership Agreement, a Versa Fund will not be obligated to borrow on behalf of a portfolio company, even in circumstances where the Versa Fund's creditworthiness would permit borrowing at a lower rate than is available to the portfolio company.

*Limited Transferability of Versa Fund Interests; No Withdrawal or Redemption Rights.* There will be no public market for the partnership interests in the Versa Funds, and none is expected to develop. There are substantial restrictions upon the transferability of partnership interests under the Partnership Agreements and applicable securities laws. In general, withdrawals of partnership interests are not permitted, and partnership interests in the Versa Funds are not redeemable.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Versa Funds' investments and hence, most of the Versa Funds' investments will be difficult to value. Certain investments may be distributed in kind to the partners of the Versa Funds.

*Reliance on the General Partners and Portfolio Company Management.* Each Versa Fund will be entirely dependent on the relevant General Partner. Control over the operation of each Versa Fund will be vested entirely with the relevant General Partner, and the Versa Funds' future profitability will depend largely upon the business and investment acumen of the Versa Capital Team. The loss of service of one or more of the Versa Capital Team could have an adverse effect on the Versa Funds' ability to realize their investment objectives. Furthermore, there can be no assurance that the Versa Funds' investments will achieve results similar to those attained by previous investments of Versa Capital, the General Partners, the Versa Capital Team or their affiliates. In addition, the Versa Funds' investments may differ from previous investments made by the Versa Capital Team in a number of respects. Limited partners in the Versa Funds generally have no right or power to take part in the management of the Versa Funds nor to receive the financial information prepared by companies in which the Versa Funds invest that is available to the General Partners, and as a result, the investment performance of the Versa Funds will depend entirely on the actions of the General Partners. Accordingly, no person should invest in a Versa Fund unless such person is willing to entrust all aspects of the management of the Versa Fund to the relevant General Partner. Although the relevant General Partner will monitor the performance of each Versa Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis.

*Projections.* Projected operating results of a company in which a Versa Fund invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.



*Conflicting Investor Interests.* Limited partners in the Versa Funds may have conflicting investment, tax, and other interests with respect to their investments in the Versa Funds, including conflicts relating to the structuring of investment acquisitions and dispositions. Conflicts may arise in connection with decisions made by a General Partner regarding an investment that may be more beneficial to one such limited partner than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, each General Partner will consider the investment and tax objectives of the relevant Versa Fund and its partners as a whole, not the investment, tax, or other objectives of any limited partner individually.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, the relevant General Partner may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the relevant Versa Fund will make follow-on investments or that the Versa Fund will have sufficient funds to make all or any of such investments. Any decision by the relevant Versa Fund not to make follow-on investments or their inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment, may result in a lost opportunity for the relevant Versa Fund to increase their participation in a successful operation or the dilution of the relevant Versa Fund's ownership in a portfolio company if a third party or co-investor is permitted to invest.

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

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Significant Adverse Consequences for Default.* The Partnership Agreements provide for significant penalties and other adverse consequences in the event a Versa Fund limited partner defaults on its Commitment or other payment obligations. In addition to losing its right to potential distributions from the relevant Versa Fund, a defaulting limited partner may be forced to transfer its interest in the Versa Fund for an amount that is less than the fair market value of such interest or to forfeit a significant percentage of its interest in the Versa Fund without payment or other consideration therefor.

*Dilution.* Limited partners admitted to a Versa Fund at subsequent closings will participate in then-existing investments of such Versa Fund, thereby diluting the interest of existing limited partners in such investments. Although any such new limited partner will be required to contribute

its *pro rata* share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of the Versa Fund's existing investments at the time of such contributions.

*General Partner's Carried Interest.* The fact that each General Partner's carried interest is based on a percentage of net profits, may create an incentive for a General Partner to cause the relevant Versa Fund to make riskier or more-speculative investments than would otherwise be the case.

*Public Company Holdings.* The Versa Funds' investment portfolio may contain securities issued by publicly held companies. Such investments may subject the Versa Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Versa Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, including the Versa Capital Team, and increased costs associated with each of the aforementioned risks.

*Non-controlling Investments.* The Versa Funds may hold meaningful minority stakes in privately held companies. In addition, during the process of exiting investments, the Versa Fund at times may hold minority stakes of any size such as might occur if portfolio holdings are taken public. As is the case with minority holdings in general, such minority stakes that the relevant Versa Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes.

*Director and Officer Liability.* The Versa Funds will often obtain the right to appoint one or more representatives to the board of directors (or similar governing body) of the companies in which it invests. Versa Fund representatives may also serve from time to time as officers or employees of, or in a similar capacity for, a portfolio company. In certain cases, such roles may continue for a period of time after the relevant Versa Fund has exited the applicable portfolio company investment. Serving on the board of directors (or similar governing body) of a portfolio company, or as an officer or employee of, or in a similar capacity for, a portfolio company exposes the Versa Funds' representatives, and ultimately the relevant Versa Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect directors and officers from such liability.

*Uninsured Losses.* The Versa Funds may elect to maintain insurance coverage against certain potential liabilities to third parties. However, there can be no assurances that insurance will be available or sufficient to cover any such risks. Insurance against certain risks may be unavailable on attractive terms, available in amounts that are less than the full market value or replacement cost of underlying properties or assets or subject to a large deductible. In addition, there can be no assurances that the particular risks that are currently insurable will continue to be insurable on an economically affordable basis. Because the Versa Funds are pooled investment funds, all of the Versa Funds' assets may be at risk in the event of an uninsured liability to third parties.

The Versa Funds may also invest in companies for which insurance is not available or sufficient to cover the risk of liability to third parties. In addition, insurance against certain risks or business losses may not be economically attractive or affordable for these companies. As a result, the Versa Funds may lose all or substantially all of its investment in any particular instance.

*Bankruptcy Issues.* The Versa Funds intend to invest in the assets, debt and securities of issuers that are in a financial difficulty and may be candidates for, contemplating, already in or emerging from bankruptcy proceedings. Bankruptcy or other insolvency proceedings are highly complex and may result in unpredictable outcomes. The bankruptcy courts have extensive power and, under certain circumstances, may alter contractual obligations. The stockholders, creditors, and other interested parties are all entitled to participate in the restructuring proceedings and each will attempt to influence the outcome for their own benefit. A General Partner may be an active participant in bankruptcy proceedings involving portfolio investments, and may take positions that are in conflict with other creditors or equity holders. There can be no assurance that the Versa Funds will succeed in obtaining the most favorable results or that the Versa Funds will make a profit or even recover their original investment, although the Versa Funds may incur significant legal fees and other expenses in attempting to do so. If a General Partner participates on creditors' committees on behalf of the relevant Versa Fund, it may be deemed to have duties to other creditors, which could expose such Versa Fund to liability, including indemnity obligations to the General Partner, if it breaches such duties.

*Risk of Litigation.* Investing in distressed securities can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. The Versa Funds' investment activities may include activities that are hostile in nature and will subject it to the risks of becoming involved in litigation with third parties. The risk may be greater where the Versa Funds exercise control or significant influence over a company's direction. The expense of defending claims against the Versa Funds by third parties and paying any amounts pursuant to settlements or judgments would be the obligation of the Versa Funds, would reduce net assets and could require a Versa Fund's limited partners to return distributed capital and profits to such Versa Fund. The relevant General Partner will be indemnified by the Versa Fund in connection with such litigation, subject to certain conditions.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Versa Funds and their portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which the Versa Funds make investments.

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

*Investments in Partnerships and Other Entities.* The Versa Funds may make investments through partnerships, joint ventures or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that a co-venturer or partner of the Versa Funds might become bankrupt, or may at any time have economic or business interest or goals which are inconsistent with those of the Versa Funds, or that any such co-venturer or partner may be in a position to take action contrary to the Versa Funds' objectives. Furthermore, if such co-venturer or partner defaults on its funding obligations, it may be difficult for the Versa Funds to make up the shortfall from other sources. The Versa Funds may be required to make additional contributions to replace such shortfall, thereby reducing the diversification and/or profitability of its investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the Versa Funds, their assets and the interests of their respective limited partners. In addition, the Versa Funds may be liable for the actions of their co-venturers or partners. While the General Partners will attempt to limit the liability of the Versa Funds by reviewing the qualifications of and previous experience of co-venturers or partners, it does not expect to obtain financial information from, or to undertake private investigations with respect to, prospective co-venturers or partners.

*Expedited Transactions.* Investment analyses and decisions by the General Partners may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the General Partners at the time of an investment decision will be limited, and the General Partners may not have access to detailed information regarding the investment opportunity. There can be no assurance that the General Partners will have knowledge of all circumstances that may adversely affect an investment. In addition, the General Partners may rely upon third party consultants and advisers in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants and advisers will accurately evaluate such investments, and the Versa Funds may incur liability as a result of such consultants' and advisers' actions.

*Market Conditions; Force Majeure.* Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the portfolio companies. The Versa Funds' performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis in the summer of 2007, the failure of Lehman Brothers in 2008 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio companies and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio companies and the Versa Funds' performance. The value of publicly traded and privately held securities may be volatile. Volatile publicly traded securities may be difficult to sell as a block, even following a realization through listing. The Versa Funds' performance may also be affected by natural disasters or other large-scale events such as war or terrorist acts, as such events may cause direct losses, disrupt customer and supply relationships or weaken demand. Insurance relating to one or more such events may be unavailable or prohibitively expensive. The impact of any such market, economic

and other events may also affect the Versa Funds' ability to raise funding to support its investment objective, and also the level of profitability achieved on realizations of investments.

*Euro Crisis.* The continued participation of various European countries in the common euro currency and the relative strength and continued existence of that currency have become subject to recent speculation. Such speculation, the occurrence of any such events and/or weakness or volatility in the euro's relative valuation could have a substantial negative impact on the Versa Funds and their investments, including by triggering other adverse financial, economic and political events in Europe, the United States or elsewhere, making it more difficult to acquire, manage and sell portfolio companies with substantial euro exposure, causing unexpected volatility in euro denominated obligations, and creating uncertainty that may reduce consumer demand, adversely affect lenders' willingness to lend money or cooperate in restructuring existing obligations, or otherwise adversely affect the ability of the Versa Funds to execute on their investment strategies.

*Financial Institution Risk; Distress Events.* An investment in a Versa Fund is subject to the risk that one of the banks, brokers, counterparties, clearinghouses, exchanges, lenders or other custodians (each, a "**Financial Institution**") of some or all of the Versa Fund's (or any portfolio company's) assets fails to timely perform or otherwise defaults on its obligations or experiences insolvency, closure, seizure, receivership or other financial distress or difficulty (each, a "**Distress Event**"). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance, undercapitalization, market forces or accounting irregularities. If a Financial Institution experiences a Distress Event, Versa Capital, any General Partner, the Versa Funds and/or any of the portfolio companies may be unable to access deposits, borrowing facilities or other services, either permanently or for an indeterminate period of time. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation, in the case of banks, and the Securities Investor Protection Corporation, in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of total loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose potentially increased risk of loss. While in recent years governmental intervention has often resulted in additional protections for depositors and counterparties in connection with Distress Events, there can be no assurance that any intervention will occur, be successful or avoid the risks of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of Versa Capital to manage the Versa Funds and their investments, and on the ability of Versa Capital, any Versa Fund or any portfolio company to maintain operations, which in each case could result in operational burdens, significant losses and unconsummated investment acquisitions and dispositions. Such losses could include: a loss of funds; an obligation to pay fees and expenses in the event a Versa Fund is unable to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of the Versa Fund to access capital contributions or otherwise); the inability of the Versa Fund to acquire or dispose of investments, including at prices that the relevant General Partner believes reflect the fair value of such investments; and/or the inability of Versa Capital or portfolio companies to make payroll, fulfill obligations and/or maintain operations. If a Distress Event leads to a loss of access to a Financial Institution's services, it is also possible that Versa Capital will experience operational

burdens and expenses, and a Versa Fund or a portfolio company will incur additional expenses and/or delays in putting in place alternative arrangements and/or that such alternative arrangements will be less favorable than those formerly in place (with respect to economic terms, service levels, access to capital or otherwise). There can be no assurance that Versa Capital will be able to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, or that such remedies will be successful or avoid losses, delays or other negative impacts. The Versa Funds and their portfolio companies are subject to additional risks in the event a Financial Institution utilized by investors of a Versa Fund or suppliers, vendors, service providers or other counterparties of a portfolio company become subject to Distress Events, which could have a material adverse effect on a Versa Fund, its investors or such portfolio companies, including the risk of investor defaults.

Many Financial Institutions require, as a condition to using their services (including lending services), that Versa Capital and/or the relevant Versa Fund maintain all or a set amount or percentage of their respective accounts or assets with the Financial Institution, which heightens the risks associated with a Distress Event with respect to such Financial Institutions. Although Versa Capital seeks to do business with Financial Institutions that it believes are creditworthy and capable of fulfilling their respective obligations to the Versa Funds, Versa Capital is under no obligation to use a minimum number of Financial Institutions with respect to any Versa Fund, or to maintain account balances at or below the relevant insured amounts.

*U.S. Taxation of Carried Interest.* U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the Versa Funds as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset that generated such gain for more than three years. Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as a Versa Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law are treated as an allocation of the partnership's income (and which may be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that may be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a Versa Fund, its General Partner, or Versa Capital who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for the relevant General Partner and its affiliates to incentivize, attract and retain individuals to perform services for a Versa Fund. This creates potential incentives for Versa Capital to cause a Versa Fund to hold investments for a longer period than would be the case if such greater-than-three-year holding period requirement did not exist.

## **Conflicts of Interest**

During the investment period of the Versa Funds, all appropriate investment opportunities will be pursued by Versa Capital principals through the relevant Versa Funds, subject to certain limited exceptions. Without limitation, Versa Capital principals currently manage several other investments similar to those in which the Versa Funds will be investing, and reserves the right to direct certain relevant investment opportunities to those investments. Versa Capital's principals and investment staff will continue to manage and monitor such investments until their realization. Such other investments that Versa Capital principals may control may potentially compete with companies acquired by the Versa Funds. Following the investment period of the Versa Funds,

Versa Capital principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Versa Funds' investments.

From time to time, Versa Capital will be presented with investment opportunities that would be suitable not only for the Versa Funds, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of Versa Capital. In determining which investment vehicles should participate in such investment opportunities, Versa Capital and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Versa Capital attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by Versa Capital's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Versa Funds, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, the relevant General Partner consults and receives consent to conflicts from an advisory committee consisting of limited partners of each applicable Versa Fund and such other investment vehicles.

Because the General Partners' carried interest is based on a percentage of net realized profits, it may create an incentive for the General Partners to cause the Versa Funds to make riskier or more speculative investments than would otherwise be the case. Since the General Partners are generally permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Versa Fund investments, potential conflicts of interest are expected to arise in connection with approving transactions and setting such compensation.

As a result of the Versa Funds' controlling interests in portfolio companies, Versa Capital and/or its affiliates typically have the right to appoint board members to such portfolio companies, or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Versa Capital and/or its affiliates. Versa Capital and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Private Investment Funds or other investment vehicles advised by Versa Capital and/or its affiliates. Additionally, Versa Capital, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions or other service providers, some of which will invest (or will be affiliated with an Investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Versa Capital and/or its affiliates, and/or the Versa Funds or other investment vehicles they advise. Any of these situations subjects Versa Capital and/or its affiliates to potential conflicts of interest.

Some portfolio companies from time to time pay certain fees and/or expenses to consultants, and such fees or expenses will not offset the Management Fee as described herein or in the Partnership Agreements of the Versa Funds and with the cost being borne by the relevant Versa Fund and/or portfolio company. Such consultants may be introduced or arranged by Versa Capital and/or its affiliates and may be retained to regularly provide non-investment advisory operations and related services to one or more Versa Fund portfolio companies. Versa Capital may also retain such consultants through ongoing, employment or similar relationships, and may otherwise permit such consultants to make use of Versa Capital resources in the course of providing such services to portfolio companies. The use of any such consultants is expected to

fluctuate over time. Versa Capital will confirm periodically that such consultants are being retained to provide services at rates that Versa Capital believes are reflective of the market for such services.

A General Partner generally is permitted to receive a distribution in kind from a Versa Fund, including in connection with investment dispositions or the payment in kind of amounts owed to the General Partner as carried interest (which generally will be made using the value of the relevant securities on the date of contribution). In such circumstances, there is a potential conflict of interest between the General Partner (and its beneficial owners) and the relevant Versa Fund's limited partners. For example, the General Partner and its beneficial owners may intend to hold the investment for a different time period than Versa Capital deems suitable for the Versa Fund. Although the General Partner and its beneficial owners bear the risk that such securities will decrease during their holding period, to the extent the value of the relevant securities increases following the Versa Fund's disposition thereof, neither the relevant Versa Fund nor its limited partners will benefit from the increase, and over time the economic benefit to the General Partner and its beneficial owners could exceed the value of the General Partner's pro rata interest in the Versa Fund and the amount of carried interest owed. To the extent the beneficial owners of the General Partner contribute such securities to a charity (including to a private foundation or other charitable organization associated with, operated or chosen by such persons or their families), any tax efficiencies or other personal benefits associated with the contribution will inure to the benefit of such beneficial owners rather than to the Versa Fund or its limited partners.

#### **DISCIPLINARY INFORMATION**

Versa Capital and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

VCM, L.P. is affiliated with other Versa Capital investment advisers deemed registered with the SEC under the Advisers Act pursuant to VCM, L.P.'s registration in accordance with SEC guidance. These advisers are Versa II GP and Versa III GP. 1801 Admin, a wholly owned subsidiary of VCM, L.P., is also registered with the SEC as an investment adviser. Additionally, VCMFM and VCMFA serve as "relying advisers" that are registered under the Advisers Act pursuant to VCM, L.P.'s registration. These affiliated investment advisers operate as a single advisory business together with VCM, L.P. and serve as General Partners or other advisory entities of Private Investment Funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Versa Capital has adopted a Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Versa Capital principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Versa Capital personnel to report their personal securities transactions, prohibits or requires pre-clearance for Versa Capital personnel from directly or indirectly acquiring beneficial ownership or disposing of certain securities, and prohibits Versa Capital personnel from directly or indirectly



acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Versa Capital Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to Randall R. Schultz, the Versa Capital Chief Compliance Officer, at (215) 609-3447, e-mail: [rschultz@versa.com](mailto:rschultz@versa.com). Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

Versa Capital and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Versa Capital and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Versa Capital.

Accordingly, should Versa Capital or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, Versa Capital would be prohibited from communicating such information to clients, and Versa Capital will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Versa Capital personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Versa Funds.

Principals and employees of Versa Capital and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Versa Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Versa Funds.

Co-invest opportunities may also be presented to certain affiliates of the Advisers, as well as third party investors and other persons, and such co-investments may be effected through co-investment vehicles or directly in a particular portfolio company. Additionally, the Versa Funds and other Private Investment Funds may invest together with other Private Investment Funds advised by an affiliated adviser of Versa Capital in the manner set forth in the relevant Partnership Agreement. Versa Capital will determine the allocation of investment opportunities in a manner that it believes is fair and equitable to its clients consistent with Versa Capital's obligations and may take into consideration factors such as the following: the client's investment and operating guidelines and conflicts provisions (including those set forth in the relevant client's governing documents, where applicable), diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

Versa Capital and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Versa Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Versa Funds, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain Versa Funds may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Versa Funds

or may give priority with respect to investments to such Versa Funds. Some of these restrictions could be waived by investors (or their representatives) in such Versa Funds.

### **BROKERAGE PRACTICES**

Versa Capital focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may or may not be retained. However, Versa Capital may also distribute securities to investors in the Versa Funds or sell such securities, including through using a broker-dealer, if a public trading market exists. Versa Capital has not engaged, and does not intend to regularly engage, in public securities transactions on behalf of the Versa Funds, to the extent it does so, it will follow the brokerage practices described below.

If Versa Capital sells publicly traded securities for a Versa Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by Versa Capital. In such event, the Versa Capital will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, Versa Capital reserves the right to consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information. As a result, although Versa Capital generally will seek competitive commission rates, it may not necessarily, nor is it obligated to, pay the lowest commission or commission equivalent.

Consistent with Versa Capital seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although Versa Capital generally does not make use of such services at the current time and has not made use of such services since their respective inception dates.

To the extent that Versa Capital allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on the relevant Versa Funds' interest in receiving most favorable execution.

In Versa Capital's private company securities transactions on behalf of Versa Funds, Versa Capital reserves the right to retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Versa Funds. In doing so, Versa Capital reserves the right to consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although Versa Capital generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and a Versa Fund may not necessarily pay the lowest commission or fee for such services.

### **REVIEW OF ACCOUNTS**

The investments made by the Versa Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Versa Capital closely monitors companies in which the Versa Funds invest,

and the Versa Capital Chief Compliance Officer periodically checks to confirm that each Versa Fund is maintained in accordance with its stated objectives.

Each Versa Fund will provide to its limited partners (i) annual GAAP audited financial statements, (ii) unaudited financial information for the first three quarters of each fiscal year, (iii) annual tax information necessary for each Versa Fund limited partner's U.S. tax return and (iv) periodic descriptive investment information for each Versa Fund portfolio company.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Versa Capital and/or its affiliates may provide certain business or consulting services to companies in each Versa Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the relevant Partnership Agreement, this compensation may, in many cases, offset all or a portion of the Management Fees paid by the relevant Versa Fund. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Fees and Compensation."

Versa Capital reserves the right from time to time to enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Versa Fund. Any fees payable to any such placement agents generally will be borne by Versa Capital indirectly through an offset against the Management Fee under the Partnership Agreements, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including, but not limited to, placement agent travel, meal and entertainment expenses, typically are borne by the relevant Versa Fund(s).

#### **CUSTODY**

Versa Capital expects that it will be deemed to have "custody" (within the meaning of Advisers Act Rule 206(4)-2 (the "**Custody Rule**")) of funds or securities held in the name of the relevant Versa Fund and intends to maintain such assets with the following qualified custodian: JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, NY 10017.

#### **INVESTMENT DISCRETION**

Versa Capital has discretionary authority to manage investments on behalf of the Versa Funds. Versa Capital assumes this discretionary authority pursuant to the terms of the relevant Partnership Agreement and powers of attorney executed by the limited partners of such Versa Fund. As a general policy, Versa Capital does not allow clients to place limitations on this authority. Pursuant to the terms of the relevant Partnership Agreement, however, Versa Capital and/or its affiliates are permitted to enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the relevant Versa Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

## VOTING CLIENT SECURITIES

Versa Capital has adopted Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how it will vote proxies, as applicable, for the Versa Funds’ portfolio investments. The Proxy Policy seeks to ensure that Versa Capital votes proxies (or similar instruments) in the best interest of the Versa Funds, including where there may be material conflicts of interest in voting proxies. Versa Capital generally believes its interests are aligned with those of the Versa Funds’ investors through the principals’ beneficial ownership interests in the Versa Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Versa Capital may address the conflict using several alternatives, including by seeking the approval or concurrence of the relevant Versa Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Versa Fund’s advisory board may approve Versa Capital’s vote in a particular solicitation. Versa Capital does not consider service on portfolio company boards by Versa Capital personnel or receipt of management or other fees from portfolio companies by Versa Capital entities to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Versa Capital when voting proxies on behalf of the Versa Funds. If you would like a copy of Versa Capital’s complete Proxy Policy or information regarding how Versa Capital voted proxies for particular portfolio companies, please contact Randall R. Schultz, the Versa Capital Chief Compliance Officer, at (215) 609-3447, e-mail: [rschultz@versa.com](mailto:rschultz@versa.com), and it will be provided to you at no charge.

## FINANCIAL INFORMATION

Versa Capital does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.