

**ITEM 1 – Cover Page**

**Firmament CAP Advisors LLC**

50 Rockefeller Plaza  
Floor 2, Suite 201  
New York, New York 10020

Telephone: (212) 956-1061

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**March 31, 2023**

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This brochure provides information about the qualifications and business practices of Firmament CAP Advisors, LLC (the “**Adviser**”). If you have any questions about the contents of this brochure, please contact Marie Isabelle Palacios Hardy, General Counsel and Chief Compliance Officer, at 212.314.0177. The information contained in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority. This Brochure is strictly a disclosure document and is not an offer to sell securities.

The Adviser is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Please note that registration with the SEC does not imply a certain level of skill or training.

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

## **ITEM 2 – Material Changes**

This brochure dated March 31, 2023, updates the brochure filed in November 18, 2022.

This is the Adviser's first annual update. There have been material changes across the entire document since the Adviser's original filing. This document should be reviewed in its entirety as some changes to the document may be considered material to some readers and immaterial to others.

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#### **ITEM 4 – Advisory Business**

Firmament CAP Advisors LLC (the “**Adviser**” or “**FCAP**”) was formed in 2022 and its principal office and place of business is located in New York, New York. The Adviser, either directly or through controlled entities, provides investment advisory and administrative services to private investments fund(s) (the “**Clients**”, “**Funds**” or “**FCAP Funds**”), which are privately placed. The Adviser is an SEC registered investment adviser.

FCAP invests primarily in senior debt securities in middle market private companies. The Adviser will generally target companies with revenue between \$10 million and \$200 million and EBITDA between \$3 million and \$25 million. In addition, the Adviser plans to invest in net asset value lending by providing senior facilities to middle market private equity funds.

FCAP is affiliated with several other companies that serve as general partners/investment managers and/or administrators (collectively, “**Firmament**”) that are responsible for running certain day-to-day operations of the Funds. Firmament is not registered with the SEC and predominantly manages private funds as Small Business Investment Companies (“**SBIC Funds**”) that are licensed and regulated by the Small Business Administration (“**SBA**”) or are otherwise exempt from registration with the SEC.

Advantage Capital Holdings LLC (“**ACH**”) indirectly owns a non-controlling, minority equity interest in the Adviser. ACH is the parent company of Advantage Capital Management LLC (“**A-CAP Management**”), an SEC registered investment adviser; the following insurance companies: Atlantic Coast Life Insurance Company, Sentinel Security Life Insurance Company, Haymarket Insurance Company, Jazz Reinsurance Company, and Southern Atlantic Reinsurance Company; and Kopentech Capital Markets LLC, a registered broker-dealer (collectively, “**A-CAP**”). FCAP operates independently of the A-CAP group of companies and is managed by the Firmament Partners, Christopher D. Smith and Parris A. Boyd, and other senior management personnel.

Throughout this brochure, we disclose potential conflicts of interest. We encourage clients and potential clients to review our policies and procedures and inquire directly with us about such conflicts. The Adviser provides advisory services to its Clients in accordance with the investment objectives, investment guidelines and restrictions set forth in each Fund’s organizational and offering documents and as further described below under Item 8. The general investment guidelines and restrictions applicable are negotiated and fixed at the time that the particular Fund is formed, although there may be subsequent revisions with the consent of the Fund’s investors.

As of March 24, 2023, the Adviser managed approximately \$83,333,333 in regulatory assets under management, all on a discretionary basis.

#### **ITEM 5 – Fees and Compensation**

The Adviser provides investment management services on a fee basis, which includes fees based upon a Fund’s invested capital, as well as fees based on performance of the FCAP Funds.

Applicable fees are set forth in detail in each Fund's offering documents. A brief summary of the Adviser's fees is provided below. Investors should refer to the relevant offering documents for a complete understanding of how the Adviser is compensated for its advisory services.

### *Management and Structuring Fees*

The Adviser generally receives an annual management fee equal to 1% of the amount invested by the FCAP Fund, payable quarterly in arrears, on a per class basis. The Adviser also generally receives a structuring fee with respect to each investment, payable upon closing of such investment. The structuring fee payable to the Adviser may be equal to the closing fee, application fee and/or the syndication fee earned as a result of closing the investment. The precise amount of the structuring fee for each such FCAP Fund may vary due to a number of factors including, but not limited to, the type of investment, whether the Adviser acts as Agent to an underlying loan and/or origination.

The Adviser or one of its affiliates also will generally receive a carried interest allocation of up to 35% of the aggregate realized profits or distributions, as applicable, to investors, which is in addition to advisory and administrative fees and expenses, as described more fully in the organizational documents and/or offering documents of the particular FCAP Fund. Such performance-related compensation with respect to a Fund is subject to a performance hurdle set forth in such Fund's organizational documents and/or offering documents. The governing documents of the Fund contain the method by which the performance-related compensation is calculated.

In some cases, Adviser or its affiliates receive reimbursement of certain expenses from the Funds, as described in the offering documents and periodic reports of those Funds. These reimbursements are for expenses deemed by the Adviser in its discretion to be beneficial services to the Funds.

### *Expenses*

The Fund bears all its organizational, offering and ordinary operating expenses and other fees and expenses incurred in relation to the Fund, other than the operating expenses of the Adviser, all as further described in the Fund's offering documents.

Organizational and initial offering fees and expenses borne by a Fund typically include all those incurred in connection with (i) the offering and sale of interests in the Fund, (ii) the formation and organization of the Fund and (iii) the preparation, negotiation, execution and delivery of the Fund's governing and offering documents, including any related legal and accounting fees and expenses, travel expenses and filing fees.

Other fees and expenses borne by the Fund typically include, without limitation, (i) expenses incurred in the holding, purchase, sale or exchange of investments (whether or not actually consummated), including without limitation, accounting fees, brokerage fees, transfer fees, legal fees, consulting fees, real property or personal property taxes on investments, including documentary, recording, stamp and transfer taxes, broken deal expenses and costs related to the

registration or qualification for sale of investments; (ii) business development costs and expenses; (iii) bookkeeping and similar services (including, without limitation, accounting fees, preparation of annual and interim financial statements of the Fund, portfolio financing reports, and capital certificates); (iv) legal, insurance and bonding expenses and auditing expenses, and the amounts of any judgments or settlements paid in connection with any legal actions, proceedings or investigations; (v) investment-related travel; (vi) all interest and expenses payable by the Fund on any leverage incurred by the Fund; (vii) costs and expenses associated with meetings of the investors; (viii) all out-of-pocket expenses of preparing and distributing reports to members and expenses associated with Fund communications with investors, including expenses related to an investor web portal or the preparation of annual or other reports to the investors; (ix) expenses associated with regulatory registrations and compliance of the Fund; (x) any indemnification expenses and other extraordinary fees and expenses (such as those associated with litigation and threatened litigation) and (xi) the costs of winding up and liquidating the Fund. If the Adviser determines in its reasonable discretion that a cost or expense incurred by it and reimbursable above is attributable to the Fund and one or more other clients of FCAP or Firmament, the cost or expense to the Fund and such other client or clients shall be allocated in a manner that the Adviser believes is fair and equitable.

The allocation of expenses by FCAP between it and any FCAP Fund and among the Funds represents a conflict of interest for FCAP. To address this conflict, FCAP has adopted and implemented policies and procedures for the allocation of expenses. FCAP allocates expenses to the Funds in accordance with the Fund's arrangement with FCAP (including applicable client disclosures). FCAP seeks to allocate shared expenses for products and services benefiting FCAP and the Funds and not covered in the Funds' arrangements in a fair and reasonable manner.

**Notwithstanding anything contained in this Brochure, all fees and expenses are controlled by the applicable governing documents of the Fund. If any conflict between the governing documents and this Brochure exists, the governing documents shall control. Investors are advised to refer to the governing documents for a more in-depth description of all fees and expenses.**

#### **ITEM 6 – Performance-Based Fees and Side-by-Side Management**

As discussed in response to Item 5 above, the Adviser or one of its affiliates receives a performance-based fee, i.e., an incentive fee or incentive allocation or carried interest distributions borne by the investors in the Funds. This fee arrangement creates a potential conflict of interest. The fact that FCAP will be compensated based on profits may create an incentive for FCAP to make investments, on behalf of Clients, that are riskier or more speculative than would be the case in the absence of such compensation or to disproportionately allocate time, services or functions to the Funds paying carried interest at a higher rate. To address that risk, FCAP has adopted policies and procedures to ensure the fair allocation of investment opportunities among all of its Clients.

The fact that Adviser and its affiliates manage assets for different clients at different fee structures can create a conflict of interest for the Adviser with regard to the allocation of investment opportunities or transactions among clients (i.e. cross trades). As a result, Adviser's senior management and Compliance Department strive to identify potential conflicts and address them in a fair and consistent manner. See Item 10 below for information regarding certain potential conflicts of interest relating to the Adviser's current Clients, and how such potential conflicts are mitigated.

On occasion, following an investment by one Fund, the adviser has the opportunity to make an additional or follow-on investment in the same or related entity. Sometimes, instead of allocating these opportunities to the same Funds which made the initial investment, the Adviser allocates the opportunity to other Funds or even to strategic outside investors.

### **ITEM 7 – Types of Clients**

The Adviser generally provides investment advisory services directly to the FCAP Funds which are organized as domestic partnerships, limited liability companies, or other similar entities.

The Funds may be comprised of various types of investors, including corporations, endowments, foundations, financial institutions, trusts, estates, fund-of-funds, high net worth individuals, and pension and profit-sharing plans. The Funds are offered exclusively to accredited investors and/or qualified purchasers pursuant to Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act") or knowledgeable employees, and are therefore not required to register as investment companies under the Company Act in reliance upon certain exemptions available to the Funds the securities of which are not publicly offered.

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

The methods of analysis, investment strategies and material risks applicable to FCAP's advisory services are set forth in the offering documents provided to each investor in the Funds.

#### *Methods of Analysis and Investment Strategies*

FCAP follows an investment process that focuses on origination, transaction execution and portfolio management. FCAP primarily pursues a private credit investment strategy in companies with revenue between \$10 million and \$200 million, and EBITDA between \$3 million and \$25 million. The Adviser invests primarily as a financing source to the middle market, targeting predominantly debt transactions, though the Adviser may also invest in certain equity co-investments to support the financing transaction. The Adviser will also seek to invest in net asset value (NAV) lending to middle market private equity funds. The Adviser seeks to employ a generalist approach to investing by sector in the middle market, building on Firmament's existing

sector experience to leverage both proprietary deal flow and primary sources of market intelligence.

FCAP focuses on each aspect of its strategy implementation: (i) origination, (ii) transaction execution and (iii) portfolio management.

The Investment Committee is made up of the following persons: Christopher D. Smith, Parris A. Boyd and Edward Zhu. Each investment opportunity is assessed by the Investment Committee, which approves progression of the investment at each stage of the due diligence process from origination to execution. The investment teams meet regularly to review key performance indicators and performance data of investments as part of its portfolio management.

### *Origination*

The Fund employs a marketing strategy that includes continuing dialogues with existing deal source relationships as well as actively cultivating new deal source relationships. Through proactive research, FCAP identifies entrepreneurs to partner with to build unique businesses within sectors that typically exhibit the following characteristics: (i) hyper-fragmented, (ii) significant scaling potential, (iii) durable and non-cyclical, and (iv) technology delinquent. Coverage is designated amongst the investment team in a coherent, organized fashion. All investment professionals share in the responsibility for sourcing potential investment opportunities.

### *Transaction Execution*

The primary components of the investment process are as follows:

**Phase I** of FCAP's investment process comprises the initial investigation of the investment opportunity, the introduction of the investment to the Investment Committee (whose approval, by unanimous consent, shall be required on all investment decisions), and a determination as to whether to proceed to the next phase. Once a deal team is staffed to a transaction at the Adviser's weekly deal meeting, the junior investment professional on the deal team is tasked with compiling a Phase I investment memorandum, which is a summary of the transaction opportunity, the business, the industry, the capital structure, summary historical and projected financials, and the high-level risks and mitigants of the transaction. Once completed, the deal team submits the investment memorandum to the Investment Committee, who will review the investment memorandum and provide initial feedback to the deal team at the Phase I meeting. The Investment Committee then determines whether to move forward to Phase II.

**Phase II** of FCAP's investment process comprises a thorough analysis of the target company and the investment opportunity. At the outset of Phase II, the Investment Committee and the deal team agree on the specific due diligence objectives for the investment, including identifying the following: (i) the critical questions that need to be answered or addressed to validate the investment thesis, (ii) the specific steps required to achieve validation of the investment thesis, and (iii) what, if any, additional resources, including third-party advisors or



consultants, are required to complete the specific steps identified. The investment team conducts a detailed analysis of the business based on the Phase II due diligence outline. The deal team is responsible for aggregating the information gleaned from the Phase II diligence review into a Phase II investment memorandum to be submitted to the Investment Committee for its review. The deal team and the Investment Committee will meet to have an in-depth discussion about the merits of the transaction at the Phase II meeting, at which point the Investment Committee decides whether to advance to Phase III.

**Phase III** of FCAP's investment process includes all matters and actions required to execute and close the investment transaction. In Phase III, the Investment Committee clearly defines the remaining items that need to be completed to consummate the investment. All remaining third-party services are typically completed during this phase of diligence, including work product from industry experts on quality of earnings, insurance, legal and environmental matters. Customer calls and other discussions with primary diligence sources including distribution channel checks and research analysts are completed during Phase III. Once all diligence conditions to the deal proposal are satisfied, the investment team summarizes the information into the Phase III investment memorandum, which serves as the closing memorandum subject to completion of the definitive documentation for the transaction. The Investment Committee reviews the Phase III memorandum and convenes the deal team to discuss the investment before final approval is granted. Upon final approval, the deal team will lead the completion of the definitive documentation and provide to the Investment Committee regular updates throughout the documentation process until wires are prepared for the closing of the investment transaction.

### *Portfolio Management*

The Adviser reviews weekly and monthly key performance indicators and financial performance data, and communicates regularly with management teams on the state and direction of the business. Coverage teams issue monthly flash reports to provide consistent updates on performance. Monthly reporting and the Adviser's value creation system, which considers financial performance / outlook, covenant compliance, management team competence and goal achievement, assist the Adviser in managing portfolio management resources.

### *Risk Factors*

Investments in a Fund are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in such Fund. Prospective investors should carefully consider the risks of investing, which include, without limitation, those set forth below which are more fully described in the applicable Fund's offering documents. These risk factors include only those risks the Adviser believes to be material, significant, or unusual and relate to particular investment strategies or methods of analysis employed by the Adviser and do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Adviser.

**Limited Operating History:** FCAP was formed in November 2022 and has a limited transaction history. When evaluating the Adviser as an investment advisor, please consider that past performance is not an indication or a guarantee of future results. Further, Registrant cannot predict whether its intended operations will meet the stated objectives.

**Risk of Loss:** No guarantee or representation is made that the Adviser's investment program, including, without limitation, the Adviser's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the investments otherwise made by the investment professionals of the Adviser are not necessarily indicative of the Funds or the Adviser's future performance.

**Investment Risks in General:** Inherent in any investment in securities is the risk of losing the invested capital. The Adviser believes that the Adviser's research techniques moderate this risk through a careful selection of investment opportunities, as well as through the application of the Adviser's ongoing qualitative and quantitative risk assessment and management program. However, no guarantee or representation is made that the Adviser will be successful or profitable, and investment results may vary substantially over time.

**Dependence on the Investment Manager:** The success of a Fund depends in substantial part on the skill and expertise of the management of the Adviser to identify and evaluate investment opportunities, to negotiate and arrange the closing of transactions, to monitor and manage performance of the Fund's portfolio companies, and to arrange for timely disposition of investments. The loss of one or more of the Adviser's managers could have a material adverse effect on a Fund. All decisions with respect to the management and investments of a Fund will be made exclusively by the Adviser, Managing Member or General Partner, which has exclusive control of a Fund. Limited Partners or Members will have no right or power to take part in the management of a Fund or to select investments or define the investment criteria or decisions of a Fund. Accordingly, no prospective investor should invest in a Fund unless such investor is willing to entrust all aspects of the management of a Fund to the Adviser, Managing Member or General Partner. The nature of, and risk associated with, the future investments of a Fund may differ from those investments and strategies undertaken historically by the Adviser's managers.

**Unspecified Investments:** The proceeds from the investors of a Fund are intended to be invested primarily in loans to private portfolio companies, equity co-investments and private equity funds. A Fund will not identify the particular investments it will make in advance. The Adviser, Managing Member or the General Partner will have broad discretion in making investments on behalf of a Fund, which generally will have significant risks as a result of business, financial, market or legal uncertainties. The success of a Fund will depend on its ability to identify and consummate suitable investments.

**Limited Diversification:** Although a Fund may intend to diversify its Portfolio Investments among different businesses and across different industries with varying levels of risks and returns, a Fund will make a limited number of Portfolio Investments and may elect to make

several Portfolio Investments in one industry or one industry segment. Furthermore, to the extent that the capital raised by a Fund is less than its targeted amount, or to the extent that a Fund invests less than all of its committed capital, a Fund may make fewer Portfolio Investments and thus be less diversified. Therefore, the Portfolio Investments made by a Fund likely may not represent a fully diversified portfolio. If a Fund's Portfolio Investments are concentrated in a limited number of Portfolio Companies, Private Funds or industries, a Fund's aggregate returns could be significantly affected by the performance of a small number of Portfolio Companies, Private Funds or a particular industry.

***Loans and Debt Instruments:*** A Fund may invest in a variety of loans and debt instruments. The risks of loans and debt instruments include, but are not limited to: (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the obligor may be insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the borrower during periods of economic downturn, (iv) the obligor is often a small or mid-size company representing only local or regional interests, (v) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (vi) if the investment is subordinated, subordination to the prior claims of other loans or senior lenders. Loans and debt instruments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for loans and corporate debt and adversely affect the value of outstanding loans and fixed income holdings and the ability of the borrowers thereunder to repay principal and interest. Moreover, defaults may prove to be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

Loans and debt instruments may become non-performing for a variety of reasons. Non-performing instruments may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal. A Fund may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a loan or debt instrument. Although a Fund may have voting rights with respect to an individual holding, there can be no certainty that a Fund will be able to exercise votes in respect of a sufficient percentage of voting rights with respect to such holding to determine the outcome of such vote.

Loans may be illiquid and possess credit risks. In addition, because of the unique and customized nature of a loan and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and historically the trading volume in the loan market has been small relative to the market for high-yield bonds. Trading in loans is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent bank or the underlying borrower.

***Nature of Loans:*** The returns achieved by a Fund will depend in large part on the efforts and performance results obtained by the management of the portfolio companies to which a

Fund lends. Although the Adviser intends to cause a Fund to lend to portfolio companies with proven management in place, there can be no assurance that such management will continue to work for such portfolio companies or operate successfully. Although the Adviser will monitor the performance of each loan, a Fund will rely upon portfolio company management to operate the portfolio companies on a day-to-day basis and equity investors who control the boards of directors of the portfolio companies to select qualified management for such companies.

***Nature of Loans Generally:*** Although a Fund expects to invest primarily in loans and other debt instruments or obligations secured by collateral, a Fund may be exposed to losses resulting from default and foreclosure of any such loans or interests in loans in which it has invested and may acquire equity or equity-related securities in connection with a reorganization, bankruptcy or similar proceeding or a restructuring, work-out or similar event involving a portfolio company. Therefore, the value of underlying collateral, the creditworthiness of borrowers and the priority of liens are each of great importance in determining the value of a Fund's loans. No guarantee can be made regarding the adequacy of the protection of a Fund's security in the loans or other debt instruments in which it invests. In addition, certain debt instruments may be supported, in whole or in part, by guarantees made by a corporation or other person or entity affiliated with the borrower. The amount realizable with respect to a debt instrument may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, in the event of foreclosure, a Fund or an affiliate thereof may assume direct ownership of any assets collateralizing such foreclosed loans. The liquidation proceeds upon the sale of such assets may not satisfy the entire outstanding balance of principal and interest on such foreclosed loans, resulting in a loss to a Fund. Any costs or delays involved in the effectuation of loan foreclosures or liquidation of the assets collateralizing such foreclosed loans will further reduce proceeds associated therewith and consequently, increase possible losses to a Fund. In addition, no assurances can be made that borrowers or third parties will not assert claims in connection with foreclosure proceedings or otherwise, or that such claims will not interfere with the enforcement of a Fund's rights.

There are no restrictions on the credit quality of loans and debt instruments that a Fund may invest in, and such debt instruments may have speculative characteristics. Borrowers that are the subject of such loans and that issue such debt instruments are often highly leveraged and may not have more traditional methods of financing available to them

***Nature of Middle Market Senior Loans:*** If rated, loans will generally have ratings or implied or imputed ratings below investment grade. The lower rating of such loans reflects a greater possibility that adverse changes in the financial condition of the borrower or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the borrower to make payment of principal and interest. The market for lower-rated and comparable non-rated debt instruments and securities is thinner, often less liquid, and less active than that for higher-rated and comparable non-rated debt instruments and securities, which can adversely affect the prices at which such debt instruments and securities can be sold and may even make it impracticable to sell such debt instruments and securities. In addition to the foregoing, such loans may become nonperforming

for a variety of reasons. A nonperforming loan may require substantial work-out negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of principal of or accrued interest due on the loan as well as substantial legal and other fees and expenses. Because of the unique and customized nature of a loan agreement and the private syndication of a loan, loans generally will not be purchased or sold as easily as publicly traded securities and historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent or borrower. Other risks associated with loans include the fact that pre-payments may occur at any time without premium or penalty and that the exercise of pre-payment rights during periods of declining spreads could cause a Fund to reinvest proceeds in lower-yielding loans.

Loans to middle market companies may carry more inherent risks than loans to larger, publicly-traded entities. For example, there is generally no publicly available information about privately-owned middle market companies and some obligors may not meet net income, cash flow and other coverage tests that may be imposed by certain lenders. Further, middle market companies that are obligors of below investment-grade loans may be highly leveraged. These companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. These companies frequently have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Accordingly, loans made to middle market companies may involve higher risks than loans made to larger companies that have greater financial resources or are otherwise able to access traditional credit sources.

***Nature of Investment in First Lien Senior Loans:*** The assets of a Fund's portfolio may include first lien senior secured debt, including term loans and revolving loans and may pay interest at a fixed or floating rate. A Fund may acquire interests in first lien loans by way of purchase or assignment in the primary and secondary markets. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the legal documentation with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. In addition, if a Fund acquires loans pursuant to an assignment, it is possible that a Fund's claims may be subject to attack (i.e., equitable subordination (as more fully discussed below) or disallowance) on account of the conduct of the transferee. Senior secured loans with no or low credit ratings may be more illiquid than other debt instruments; there can be no assurance that levels of supply and demand in senior secured loan trading will provide an adequate degree of liquidity.

The factors affecting an issuer's first lien loans, and its overall capital structure, are complex. Some first lien loans may not necessarily have priority over all other debt of an issuer. For example, some first lien loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company) or

involve first liens only on specified assets of an issuer (e.g., excluding real estate). Issuers of first lien loans may have two tranches of first lien debt outstanding, each with first liens on separate collateral. Furthermore, any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. In the event of a chapter 11 filing by an issuer, title 11 of the United States Code (11 U.S.C. §§ 101 - 1532) authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on the issuer's property, senior even to liens that were first in priority prior to the bankruptcy filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection," which may, but need not always, consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of prior liens on a Fund's collateral would adversely affect the priority of the liens and claims held by a Fund and could adversely affect a Fund's recovery on its investments.

A Fund's investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions that, in each case, could result in the issuer repaying the principal on an obligation held by a Fund earlier than expected. It is common for first lien debt to be repaid prior to its maturity; thus, the actual duration of such investments is typically shorter than their stated final maturity calculated solely on the basis of the stated life and repayment schedule. Generally voluntary prepayments are permitted and may be made with or without prepayment penalty to the issuer. Consequently, the timing of prepayments cannot be predicted with any accuracy. The degree to which issuers prepay senior debt, whether as a contractual requirement or at their election, may be affected by general business conditions, market interest rates, the issuer's financial condition and competitive market conditions among lenders.

**Debt Instruments:** The debt instruments in which a Fund will invest may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. A Fund will invest in non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. A Fund's investments in debt instruments may experience substantial losses due to adverse changes in interest rates and the market's perception of any particular issuer's creditworthiness, which may inhibit such issuer's ability to refinance, restructure or otherwise experience recovery. A Fund also will invest in certain hybrid debt arrangements, which are subject to risks in addition to the conventional risks of general interest-rate movements and the issuer's ability to pay the debt in accordance with its terms. Certain of a Fund's investments may include first and second lien senior secured debt. Such debt may (i) include term loans and revolving loans, (ii) pay interest at a fixed or floating rate and (iii) be acquired by way of purchase or assignment in the primary and secondary markets.

***Nature of Investment in Second Lien Senior Loans:*** The assets of a Fund's portfolio may include second lien senior secured debt, including term loans and revolving loans, which may pay interest at a fixed or floating rate. Investments in second lien senior loans may be unsecured and will rank behind the issuer's secured indebtedness, including first lien senior loans.

Second lien loans are subject to the same risks associated with loans in general described above under “– Nature of Investment in First Lien Senior Loans.” However, second lien senior loans are subordinate in right of payment to one or more senior secured loans of the related borrower and therefore are subject to additional risk that the cash flow of the related borrower and the property securing the loan may be insufficient to repay the scheduled payments to a Fund after giving effect to any senior secured obligations of the related borrower. Second lien senior loans are also expected to be a more illiquid investment than senior secured loans for such reason. There also is less likelihood that a Fund will be able to sell participations in or assignments of second lien loans that it originates or acquires, which would expose a Fund to increased risk.

***Equity Securities and Investments Generally:*** A Fund's investment portfolio may include equity securities, including as a result of bankruptcy process. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by a Fund.

Holders of equity or equity-related investments generally own a residual interest in the applicable portfolio company and are junior to obligations owed to the senior or subordinated creditors of such portfolio company. All of a Fund's investments in stocks will be subject to normal market risks. While diversification among issuers may mitigate these risks, a Fund is not required to diversify its investments in equity securities. Because equity securities rank lower in the capital structure of an issuer, such investments may subject investors to additional risks not applicable to debt securities. Prices of equity securities generally fluctuate more than prices of debt securities and are more likely to be affected by poor economic or market conditions. In some cases, the issuers of such equity securities may be highly leveraged or subject to other risks such as limited product lines, contracts, markets, or financial resources. In addition, actual and perceived accounting irregularities may cause dramatic price declines in the equity securities of companies reporting such irregularities or that are rumored to be subject to accounting irregularities. In addition, holders of equity securities may be wiped out or substantially reduced in value in a bankruptcy proceeding or corporate restructuring.

***Nature of Preferred Equity Investments:*** The preferred equity investments in which a Fund may invest, by the nature of the capital structure of such investments, will involve a high degree of financial risk. These securities will be unsecured. In addition, while the Adviser will endeavor to structure the preferred equity investments in a manner most favorable to a Fund, these securities may not be protected by all the financial and other covenants and limitations

that would be typical for secured loans. These investments often reflect a greater possibility that adverse changes in the financial condition of the counterparty and underlying assets or in general economic conditions or both may impair the ability of the counterparty to make distributions. Preferred equity investments are often issued in connection with leveraged acquisitions, recapitalizations or restructurings, each of which entails potential risks.

***Competition and Availability of Loans:*** A number of entities will compete with a Fund to make the types of loans that a Fund plans to make in middle market companies. A Fund will compete with public and private funds, commercial and investment banks, commercial financing companies, and business development companies. Additionally, as competition for investment opportunities increases, alternative investment vehicles, such as open-ended funds, may frequently invest in middle market companies. As a result of these new entrants, competition for investment opportunities in middle market companies has intensified, and the Adviser expects the trend to continue.

Many of a Fund's potential competitors are substantially larger and are expected to have considerably greater financial, technical, and marketing resources than a Fund will, including other private investment firms and open-ended funds, large and well-capitalized industrial groups, project developers and operators, contractors, equipment suppliers, commercial, investment and merchant banks and insurance and reinsurance companies. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to a Fund. In addition, some of a Fund's competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and establish more relationships than a Fund. There can be no assurances that the competitive pressures faced by a Fund will not have a material adverse effect on a Fund's business, financial condition, and results of operations. Furthermore, as a result of this competition, a Fund may not be able to take advantage of attractive investment opportunities from time to time, and a Fund can offer no assurance that it will be able to identify and make loans that are consistent with its investment objective.

Entrants in a Fund's industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. A Fund will not seek to compete primarily based on the interest rates it offers, and the Adviser believes that some of a Fund's competitors may make loans with interest rates that are lower than the rates a Fund offers. A Fund may lose investment opportunities if it does not match its competitors' pricing, terms and structure. However, if a Fund matches its competitors' pricing, terms and structure, a Fund may reduce its net investment income.

In addition, although the Adviser intends to seek diversity, loans could potentially be concentrated in relatively few industries or sectors. Additionally, the loans may be concentrated geographically within the United States. A consequence of a limited number of loans would be that the aggregate returns realized by a Fund may be substantially adversely affected by the unfavorable performance of a small number of such loans.



**Leverage:** A Fund's investment strategy may involve the use of leverage, including the use of subscription lines. A Fund may also participate in leveraged acquisitions of portfolios of debt instruments. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks to underlying investors. The leverage provided will result in interest expense and other costs incurred in connection with such borrowings, which may not be covered by available cash flows. In addition, a Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). Because amounts borrowed under a subscription line typically are secured by pledges of the relevant general partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. While leverage may enhance total returns to a Fund and its underlying investors, if investment results fail to cover borrowing costs, then returns will be lower than if there had been no leverage.

**Investment Performance:** A Fund will make loans based upon analyses of historical financial performance and estimates and projections developed by the Adviser or a portfolio company concerning the portfolio company's future performance and cash flow. These projections will be only estimates of future results and, therefore, there can be no assurance that the projected results will be achieved. Actual results may vary significantly from the projections, and general economic and other factors out of the control of the Adviser may negatively impact the reliability of the financial projections. There is no assurance that a Fund's loans will yield the returns expected by a Fund's management. It is possible that a Fund will not be able to make loans at favorable prices or on favorable terms and conditions, thereby reducing expected returns. Debt investments entail risks that such loans may not perform in accordance with expectations. A Fund may not be successful in identifying suitable loans that meet its investment criteria or in consummating loans on satisfactory terms. Failures in identifying or consummating loans on satisfactory terms could reduce the number of loans that are completed and slow a Fund's growth. There can be no assurance that a Fund will make a profit on its loans or even be able to recover its invested capital during any anticipated period of time.

**Illiquid and Long-Term Loans:** A Fund intends to invest its assets in long-term loans, which are generally illiquid. Illiquidity may result from the absence of an established market for loans as well as legal or contractual restrictions on their resale. To the extent that there is no trading market for a loan, a Fund may be unable to liquidate that loan or may be unable to do so at a profit.

**Interest Rate Risk:** Interest rate fluctuations may have a substantial negative impact on a Fund. A reduction in the interest rates on new loans relative to interest rates on current loans could also have an adverse impact on a Fund's net investment income. An increase in interest rates could decrease the value of any investments a Fund holds with interest rate floors above prevailing rates or earning fixed interest rates, and also could increase a Fund's interest expense, thereby decreasing its net income.

**Prepayment Risk:** The frequency at which prepayments (including voluntary prepayments by obligors and accelerations due to defaults) occur on loans will be affected by a variety of factors, including the prevailing level of interest rates and spreads, as well as economic, demographic, tax, social, legal, and other factors. In the case of some loans, having the loan prepaid could reduce the achievable yield for a Fund, which could have a material adverse effect on such Fund's business, financial condition, and results of operations.

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

**Creditors' Rights:** A Fund's loans and the collateral underlying those loans will be subject to various laws for the protection of creditors in the jurisdictions of the loans concerned. Such differences in law may also adversely affect the rights of a Fund as a lender with respect to other creditors. Additionally, a Fund, as a creditor, may experience less favorable treatment under different insolvency regimes than those that apply in the United States, including in cases where a Fund seeks to enforce any security it may hold as a creditor.

**Risks of Subordinated Loans:** Subordinated loans are subordinate in right of payment to one or more senior secured loans and, therefore, are subject to additional risks that the cash flows of the related obligor(s) and any property securing such subordinated loan may be insufficient to make the scheduled payments after giving effect to any senior secured loans of the related obligor(s). Subordinated debt investments may increase a Fund's exposure to adverse economic factors such as significantly rising interest rates, severe downturns in the economy or deterioration in the condition of the portfolio company on the subordinated debt investment.

While subordinated debt investments may benefit from the same or similar financial and other covenants as those enjoyed by the indebtedness ranking ahead of such investments and may benefit from cross-default provisions, some or all such terms may not be part of particular investments. In addition, the ability of the subordinated debt holders to influence a company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under terms of subordination agreements, senior creditors are typically able to block the acceleration of the mezzanine debt or other exercises by the subordinated creditors of their rights. Accordingly, a Fund may not be able to take the steps necessary to protect its investments in a timely manner or at all. Further, the unsecured debt in which a Fund may invest may not be protected by financial covenants or limitations upon additional indebtedness, could have limited liquidity and may not be rated by a

credit rating agency. Subordinated loans are expected to be more illiquid investments than senior secured loans, which, as discussed, are themselves illiquid investments.

Unsecured loans are unsecured obligations of the applicable obligor(s), may be subordinated to other obligations of such obligor(s) and generally have greater credit, insolvency and liquidity risk than is typically associated with secured obligations. Unsecured obligations will generally have lower rates of recovery than secured obligations following a default. Also, in the event of the insolvency of an obligor of an unsecured obligation, the holders of such unsecured obligation will be considered general, unsecured creditors of such obligor, will have fewer rights than secured creditors of such obligor and will be subordinate to the secured creditors of such obligor with respect to the related collateral.

Issuers of subordinated debt obligations may be highly leveraged and may not have available to them more traditional sources of financing. During an economic downturn or a sustained period of rising interest rates, such issuers may be more likely to experience financial stress and may be unable to meet their obligations.

***Lender Liability and Equitable Subordination:*** In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of a Fund’s loans, a Fund could be subject to allegations of lender liability.

Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities that may exceed the amount of a Fund’s loan. Depending on the facts and circumstances of a Fund’s loans and the extent of its involvement in the management of a particular borrower, upon the bankruptcy of that borrower, a bankruptcy court may (i) re-characterize a Fund’s loans as equity interests and subordinate all or a portion of a Fund’s claim to that of other creditors, (ii) disallow a Fund’s claims against the borrower or (iii) find a Fund liable for damages suffered by third parties as a result of a Fund’s activities. This could occur even though a Fund may have structured its investment as senior debt.

***Restricted Nature of Investment Positions and Difficulty in Valuation:*** It is anticipated that there will be no readily available market for a substantial number (if not all) of a Fund’s loans, and therefore, most of the loans will be difficult to value.

***Investments Longer than Term:*** A Fund can make investments that might not be fully realized or disposed of prior to the date of termination of such Fund. As a result, a Fund might have to sell, distribute, or otherwise dispose of investments at a disadvantageous time for a price that is less than the price that could have been obtained if the investments were held for a longer period.

**Leveraged Nature of Portfolio Companies:** The portfolio companies to which a Fund may lend may be highly leveraged, thereby increasing the degree of credit risk inherent in each loan. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of the debt service, and may impair its ability to finance future operations and capital needs or to pay principal and interest on a Fund's loans when due. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's loans to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment, or rising interest rates. In the event any portfolio company cannot generate adequate cash flow to meet its debt service needs, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of a Fund. Furthermore, the companies to which a Fund will lend generally will not be rated by a credit rating agency.

**Changes in Market Circumstances:** A Fund faces risks attendant to changes in economic environments, changes in interest rates, instability in certain securities markets, changes in the relative valuations of its target investment sectors and changes in the availability of, and/or the general terms and conditions for, investment financing, among other factors – any one of which could adversely affect loan returns. In addition, major market disruptions could occur which could significantly impair the value of the portfolio.

**Disruption in Credit Markets:** In recent years, the global economy has been negatively affected by significant disruptions in the credit markets, including the collateralized debt obligation and leveraged finance markets, and a general economic downturn and, in certain countries, recession. Significant risks for a Fund and any limited partners continue to exist as a result of credit market volatility and uncertain economic conditions. These risks include, among others, (a) the possibility of accelerated prepayments of attractively priced (i.e. the all-in yield), structured or performing Fund assets as a result of increased liquidity and competition in the middle market private debt asset class driven by economic conditions, relative performance, monetary policy or other governmental action or other factors, and (b) the impact of adverse economic conditions on the obligors of a Fund's assets. These risks may affect the returns, if any, to any limited partners or the ability of a Fund to return any or all of a limited partners' capital.

The market for a number of financial products, including leveraged loans, is volatile. Disruptions in the credit markets may reduce opportunities for a Fund to make loans, and may also heighten refinancing risk in respect of maturing Fund assets. Any events that slow, delay or reverse economic recovery or cause a deterioration in loan performance generally may affect the returns, if any, to the limited partners or the ability of a Fund to return any or all of the limited partners' capital.

Negative macroeconomic conditions may adversely affect the credit rating (if any), performance and the realization value of a Fund's assets. It is possible that a Fund's assets will experience higher default rates and lower recovery rates than anticipated and that performance will be materially worse than expected.

In addition, the bankruptcy, insolvency or financial distress of one or more financial institutions could trigger additional disruptions in the global credit markets or the global economy which could have a material adverse effect on a Fund and its assets.

***Volatile Market Conditions:*** In past years, there has been significant volatility and disruption in the global financial markets and it is difficult to predict if this volatility will recur or continue. Volatility and disruption in the credit markets could adversely affect the value of a Fund's loans. For example, the lack of available credit and/or the increased cost of credit may adversely affect the performance of a Fund. Disruptions in the debt markets may make it more difficult for a Fund to exit and realize value from loans. Any or all of these factors may result in lower investment returns for a Fund.

***Currency Risks:*** A portion of a Fund's loans, and any income received by a Fund with respect to such loans, may be denominated primarily in foreign currencies. However, the books of a Fund will be maintained, and contributions to and distributions from a Fund generally will be made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of loans and the amounts of distributions, if any, to be made by a Fund. In addition, a Fund may incur costs in connection with hedging currency fluctuations and for conversions between various currencies.

***Political and Economic Conditions:*** A Fund's loans may be adversely affected by changes in economic conditions or political events that are beyond its control. For example, a stock market downturn, the outbreak of hostilities involving the United States, or the death of a major political figure may have significant adverse effects on a Fund's investment results. Other factors, such as changes with regard to taxation, securities laws, bank regulatory policies or accounting standards, may make investments less desirable and may have an adverse effect on a Fund's loans. Similarly, legislative acts, rulemaking, adjudicatory or other activities of the U.S. Congress, the SEC, the U.S. Federal Reserve Board, the New York Stock Exchange, the Financial Industry Regulatory Authority or other governmental or quasi-governmental bodies, agencies and regulatory organizations may make the business of a Fund less attractive.

***Limited Information Concerning Potential Investments:*** A Fund may not receive access to all available information relating to an investment before it has committed to such investment. Although The Adviser intends to conduct due diligence with respect to its investments, there can be no assurance that such due diligence processes will uncover all relevant facts. In addition, investment analyses and decisions by the Adviser 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 Adviser at the time of making an investment decision may be limited, and it may not have access to detailed information regarding the investment. Therefore, no assurance can be given that The Adviser will have knowledge of all circumstances that may adversely affect an investment.

***Non-Performing Nature of Debt:*** It is anticipated that certain investments made by a Fund may be non-performing and/or possibly in default at the time of purchase. Furthermore, the

obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to those investments.

***Reliance on Rating Agencies:*** Credit ratings of debt obligations or issuer(s) represent the rating agencies' opinions or estimates regarding their credit quality and are not a guarantee of quality. In addition, rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, such credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes to their credit ratings in response to subsequent events and an issuer's current financial condition may be better or worse than a rating indicates.

***Risk of Fraud:*** Of concern in investments in loans is the possibility of material misrepresentation or omission on the part of a borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying a loan or may adversely affect the ability of a Fund to perfect or effectuate a lien on the collateral securing the loan. The Adviser will rely upon the accuracy and completeness of representations made by borrowers to the originators of such loans to the extent reasonable but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

***Non-U.S. Investments and Emerging Markets:*** A Fund may invest a portion of its assets in the debt or other securities and instruments of issuers located outside of the U.S. and in non-U.S. currencies. Investing in the securities of such companies and countries involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Partnership's investment opportunities.

In addition, accounting and financial reporting standards that prevail in non-U.S. countries generally are not equivalent to U.S. standards and, consequently, less information is available to shareholders of companies located in such countries than is available to shareholders of companies located in the U.S. Moreover, an issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associate risks, are not expected to be highly correlated with each other and may behave in unpredictable ways. There is also less regulation, generally, of the securities markets in non-U.S. countries than there is in the U.S.

A Fund may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage, stamp or other taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by a Fund from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a Fund will reduce its net income or return from such investments. Furthermore, a non-U.S. issuer of debt or the non-U.S. governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and a Fund may have limited recourse in the event of a default. Some of these risks do not apply equally to issuers in larger, more developed countries. These risks are more pronounced in investments in issuers in countries with emerging markets or if a Fund invests significantly in a particular country.

Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions and a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property than investments in securities of issuers based in developed countries. In addition, a Fund's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices, and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some of non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations in emerging markets than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

While the Adviser will take these factors into consideration in making investment decisions for a Fund, no assurance can be given that it will be able to fully avoid these risks.

**Additional Risks:** Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available.

**Competition; Potential Strategy Saturation:** Despite the specialized, differentiated character of a Fund's portfolio, Funds will compete with numerous other private investment funds and financial institutions (both diversified and specialized private investment funds), as well as other investors, which pursue similar strategies and many of which have resources substantially greater than a Fund's. The amount of capital committed to "alternative investment strategies" has increased dramatically during recent years and at the same time, market conditions have become significantly more adverse to many of such strategies than they were in previous years. The profit potential of a Fund may be materially reduced as a result of the "saturation" of the alternative investment field.

**Cybersecurity:** The Adviser, a Fund and its respective portfolio companies generally rely on information technology systems for current and planned operations. Information and technology systems of the Adviser and a Fund's portfolio companies may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. If any systems designed to manage such risks are compromised, become inoperable for extended periods of time or cease to function properly, the Adviser, a Fund and/or a portfolio company may have to make a significant investment to fix or replace them. Any disruption in any of these systems or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the fund's investment results and its ability to make distributions to its partners. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Adviser's, a Fund and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the Adviser, a Fund or a portfolio company's reputation, subject them and their respective affiliates to legal claims and otherwise affect their business and financial performance.

**Financial Institution Risk; Distress Events.** An investment in a Fund is subject to the risk that one or more of the Fund's banks, brokers, hedging counterparties, lenders, or other custodians of some or all of the Fund's assets (each, a "**Financial Institution**") fails to perform its obligations or experiences insolvency, closure, receivership or other financial distress or difficulty (each, a "**Distress Event**"). Distress Events can be caused by various factors, including eroding market sentiment, significant withdrawals (e.g., a bank run in which depositors collectively withdraw their balances within a short period of time), fraud, malfeasance, poor performance or accounting irregularities. In the event a Financial Institution experiences a Distress Event, Adviser, the Funds and/or their portfolio companies may not be able to access deposits, borrowing facilities or other services for an extended period of time or ever. 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, or the Securities Investor Protection Corporation, in the case of certain broker-dealers, amounts in excess of the relevant insurance (including Fund assets maintained with qualified custodians pursuant to Rule 206(4)-2 under the Advisers Act) are subject to risk of loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose increased risk of loss. Although in recent years governmental intervention has resulted in additional protections for depositors, there can be no assurance that governmental intervention will be successful or avoid the risk 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 the Adviser to manage the Funds and their investments, and on the ability of Adviser, any Fund and/or portfolio companies to maintain operations, which in each case could result in significant losses and unconsummated investment acquisitions and dispositions. Although Adviser seeks to do business with Financial Institutions it believes are creditworthy and capable of fulfilling their respective obligations to the Funds, Adviser is under no obligation to use a minimum number of Financial Institutions with respect to any Fund or to maintain account balances at or below the relevant insured amounts. Furthermore, such balances maintained by Adviser and the Funds are generally expected to fluctuate, including with respect to the Funds in connection with capital calls to limited partners and dispositions of investments, and certain balances from time to time will substantially exceed applicable deposit insurance.

*The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in a Fund vehicle that the Adviser may form in the future. Prospective investors should read a Fund's confidential offering memorandum in its entirety, as well as the organizational documents of such Fund and consult with their own advisers before deciding whether to make an investment with the Adviser in its Funds.*

#### **ITEM 9 – Disciplinary Information**

Neither the Adviser nor any of its executive officers, members of its investment committees or other “advisory affiliates” as defined in Form ADV has been subject to legal or administrative proceedings or disciplinary events related to their business activities, or otherwise is required to disclose any event required by this Item 9.

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

Certain members of management at the Adviser are general partners, limited partners, and/or managing members of the general partner of various affiliated entities (listed below). This may create conflicts in the allocation of time, resources and investment opportunities among the Funds and the affiliated entities. Please refer to the Fund’s governing documents for complete information on the requisite time commitments (if any) of the Adviser and its related persons to

the Funds and the allocation of investment opportunities among the Funds and the affiliated entities.

*Manager, General Partner, and Similar Entities:*

- I. Firmament Opportunities Advisors, LLC
- II. Firmament Opportunities Associates, LLC
- III. Firmament Advisors Parallel IV, LLC
- IV. Firmament Associates Parallel IV, LLC
- V. Firmament Advisors SBIC IV, LLC
- VI. Firmament Associates SBIC IV, LLC
- VII. Firmament Advisors SBIC III, LLC
- VIII. Firmament Capital Partners SBIC III, LLC
- IX. McLarty Capital Advisors SBIC II, LLC
- X. McLarty Capital Partners SBIC II, LLC
- XI. McLarty Capital Partners SBIC, LLC
- XII. McLarty Capital Advisors SBIC, LLC

*Funds:*

- I. Firmament Opportunities, LLC
- II. Firmament Partners Parallel IV, LP
- III. Firmament Partners SBIC IV, LP
- IV. Firmament Capital Partners SBIC III, LP
- V. McLarty Capital Partners SBIC II, LP
- VI. McLarty Capital Partners SBIC, LP

Advantage Capital Holdings LLC (“**ACH**”) owns an indirect, minority, non-controlling interest in the Adviser in excess of 25%, but less than 50%. ACH is the parent company of Advantage Capital Management LLC (“**A-CAP Management**”), an SEC registered investment adviser; the following insurance companies: Atlantic Coast Life Insurance Company, Sentinel Security Life Insurance Company, Haymarket Insurance Company, Jazz Reinsurance Company, and Southern Atlantic Reinsurance Company; and Kopentech Capital Markets LLC, a registered broker-dealer (collectively, “**A-CAP**”)

*Allocation of Investment Opportunities*

Certain inherent conflicts of interest arise from the fact that the Adviser provides investment management services to several Clients and provides investment management services to the other accounts of financial affiliates. The respective investment programs of the Funds and the financial affiliates will often be substantially similar. The Adviser and its affiliates are expected to give advice and recommend investments to one client which differs from advice given to, or securities recommended or bought for, another Client, even though their investment objectives could be the same or similar.

While the Adviser will seek to manage potential conflicts of interest in good faith, such transactions or advice could have consequences that are adverse to the interests of the Clients,

such as, for example and without limitation, adversely affecting the availability, price, or other terms of investments. Investors should be aware that conflicts will not necessarily be resolved in favor of a particular Client's interests. The Adviser generally will share appropriate investment opportunities (and sale opportunities) with each Fund for which that opportunity is within its investment mandate and in general, this means that such opportunities will be allocated pro rata among the relevant Funds based on available capacity for such investment in each Fund, taking into account capital commitments, available cash and the relative capital of the respective Clients and such other factors as the Adviser determines in good faith to be appropriate, subject to any priority arrangements set forth in the relevant governing documents.

Nevertheless, such appropriate investment and/or sale opportunities could be allocated other than on a pro rata basis (i) based upon a Fund's priority with respect to certain investments and/or (ii) if the Adviser deems in good faith that a different allocation among the Funds is appropriate, taking into account, among other considerations:

- a. The risk-return profile of the proposed investment,
- b. the Funds' objectives (whether such objectives are considered solely in light of the specific investment under consideration or in the context of the portfolio's overall holdings),
- c. the potential for the proposed investment to create an industry, sector, issuer or other similar imbalance in one or more Funds' portfolios,
- d. liquidity requirements (or cash position) of each Fund, including during a ramping or wind-down period,
- e. tax consequences,
- f. regulatory restrictions,
- g. the need to re-size risk in a Fund's portfolio,
- h. redemption or withdrawal requests or defaults on contributions and anticipated future contributions,
- i. proximity of a Fund to the end of its specified term/commitment period, (j) when a pro rata allocation could result in de minimis or "odd lot" allocation,
- j. availability of leverage and any requirements or other terms of any existing leverage facilities,
- k. the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals dedicated to a Fund; and
- l. other considerations deemed relevant by the Adviser.

The Adviser believes that, in certain circumstances, it will be in the best interests of the Funds to be able to co-invest with other Funds to be able to participate in a wider range of transactions. The Adviser can in its sole and absolute discretion give certain persons, including Co-Investment Vehicles, an opportunity to co-invest in particular investments. The allocation of co-investment opportunities could involve a benefit to the Adviser, including, without limitation, management fees or incentive allocations from the co-investment opportunity, and capital contributions to a Fund. There can be no assurances with respect to the amount of any investment opportunity that will be allocated to a Fund, or that any particular Fund will be allocated any particular opportunity.

### *Allocation of Time and Personnel*

FCAP and Firmament are under common control. The Adviser and its members, partners, officers, and employees will devote as much of their time to the activities of Funds as they deem necessary and appropriate. Subject to the governing documents of the relevant Fund, FCAP is not restricted from forming additional investment funds or from entering into investment advisory relationships or from engaging in other business activities, even though such activities could be in competition with the Funds and/or could involve substantial time and resources of the Adviser. FCAP's investment professionals will continue to work on other projects, including investment advisory services for financial affiliates, and conflicts of interest could arise in allocating time, services or functions among such professionals and the Funds. FCAP and Firmament also share supervised persons who provide portfolio management services to Funds with other Firmament affiliate entities, which have their own investment businesses. Their time is shared between the entities, which might privilege an entity and its investment business and clients.

From time to time, senior management at the Adviser are offered investment opportunities personally, principally in private placements and other private equity transactions. In addition, Firmament's senior management have 501(c)(3) charitable foundations which they are allowed to manage subject to certain rules of oversight and review. The Adviser's personnel reviews such opportunities and determines whether they are appropriate investments for any of the Funds based upon such criteria as the size of the transaction, the business of the company in which the investment is being made, the expected length of the investment and other similar issues. These investments do not typically result in additional research or other costs to the Adviser.

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

### *Code of Ethics*

The Adviser has adopted a code of ethics pursuant to Rule 204A-1 under the Advisers Act that establishes procedures governing the conduct and securities transactions of each of the Adviser's officers, employees, and supervised persons. The code of ethics (the "**Code**") is designed to prevent violations of the fiduciary responsibilities owed by the Adviser to its Clients. The Code contains provisions relating to the confidentiality of firm information, a prohibition on insider trading, a discussion of media relations, a policy on gifts and personal securities trading procedures, among other things. Each supervised person of the Adviser is required to acknowledge in writing the terms of the Code annually and when it is amended.

The Code is designed to ensure, among other things, that the personal securities transactions, activities and interests of the officers, employees and supervised persons of the Adviser will not interfere with (i) making decisions in the best interest of its Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, the Code requires pre-clearance of certain transactions. Employee trading is monitored under the Code to reasonably prevent conflicts of interest between the Adviser and its Clients.

The Adviser's Clients and prospective clients may request to view a copy of the Code by contacting the Chief Compliance Officer, Firmament CAP Advisors, LLC, 50 Rockefeller Plaza, Suite 201, New York, NY 10020 or at [compliance@firmament.com](mailto:compliance@firmament.com).

As discussed above, conflicts of interest may arise from time to time as a result of the Adviser's relationships with their affiliates. For more information on the conflicts that may arise and how they will be addressed, see Item 10.

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

FCAP may purchase or sell for its Funds securities of an issuer in which Firmament, its affiliates, principals, employees and/or related persons also have a financial position or interest. The Adviser, its affiliates, and their respective personnel, can invest in the Funds, and in securities or other assets in which the Funds or other clients invest, subject to applicable law and the Code. Conflicts of interest may arise if FCAP or its employees recommend a particular transaction because of a financial interest held by any such person in such securities or interests. As previously mentioned, the Adviser has adopted the Code to address these conflicts of interest (e.g, review of Fund transactions by the Compliance Department, prior employee trade approval from its Compliance Department with respect to personal securities transactions, etc.).

The Adviser discourages "cross" trades. However, on certain occasions, one FCAP Fund will sell a security which another Fund wants to own. On these occasions, after FCAP and Compliance Department review and documentation, a sale of the security or asset from one fund to another will be permitted. On occasion, one of the Funds will become restricted in a particular security and this restriction could potentially prevent other of the Funds from trading that security.

From time to time, FCAP and/or its principals donate to charitable organizations that are supported by clients and/or are supported by an individual employed by one of the Firm's clients. In general, those donations are made in response to requests from clients or their personnel. In the case of donations being made by the Adviser, such contributions are generally approved by senior management.

#### *Dual Employees*

Certain employees of FCAP are dual employees of other entities with which FCAP has a business affiliation. These dual employees are involved in the investment decision making, trading processes and/or administration for accounts managed by the other affiliated entities or unaffiliated third parties, as applicable. The Adviser has implemented controls to address the supervision of its dual employees to ensure compliance with client investment guidelines and applicable regulatory requirements.

Dual employees of FCAP and the other affiliated entities will continue to perform services solely in their capacity as an FCAP employee or solely as employees of the affiliated entity. Depending on the role of the dual employee, the dual employee will be subject to supervision by the Adviser, as well as by the other entity. Dual employees, at all times, must be mindful of which entity they are providing services for, in order to confirm they are in compliance with the respective policies and procedures of each entity. Dual employees cannot utilize information obtained in a way that advantages FCAP clients over the clients of the affiliated entity, or vice versa.

#### *Insider Trading Policy*

FCAP and/or its employees may, from time to time, come into possession of material non-public or other confidential information (“**MNPI**”) which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Adviser and its employees may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other third party. Accordingly, should FCAP and/or its employees come into possession of MNPI with respect to any company, they may be prohibited from communicating such information to, or using such information for the benefit of, FCAP Funds and their underlying investors. FCAP has adopted a policy in accordance with Section 204A of the Advisers Act, which establishes procedures designed to prevent the misuse of MNPI by FCAP and its employees.

### **ITEM 12 – Brokerage Practices**

The Adviser does not currently effect transactions in securities through broker-dealers. The Adviser does not receive compensation, soft dollars, research, or any remuneration from any broker-dealer.

### **ITEM 13 – Review of Accounts**

#### *Review of Client Accounts*

The Adviser will continuously monitor portfolio investments on behalf of the Funds. Investments are reviewed in the context of each Fund’s stated investment objectives and guidelines as set forth in the governing documents of each Fund. Members of FCAP’s investment team meet regularly to determine and review overall investment objectives, risk tolerance and other information relevant to the Funds.

#### *Reports to Clients*

Subject to the respective governing documents of each Fund, generally, the Funds distribute quarterly and annually written reports to their respective limited partners or investors. Annual reports generally contain an individual capital account statement as of the end of the applicable

reporting period, a list of the Funds' investments as of the end of the applicable reporting period and the financial statements of the Funds.

Investors are requested to refer to the governing documents of each Fund for further information on the reports provided by a particular Fund to its investors.

#### **ITEM 14 – Client Referrals and Other Compensation**

FCAP does not expect to compensate third-party individuals or entities for client and investor referrals. However, should FCAP opt to work with such parties in the future, to the extent deemed applicable such arrangements will be entered into in accordance with the terms and conditions of the Advisers Act.

The Adviser has the authority to engage one or more persons to act as a placement agent for a Fund in connection with the offer and sale of interests to certain prospective investors. The Adviser and the placement agent will individually negotiate fees payable to a placement agent. Generally, and except as otherwise set forth in the governing documents of a Fund, the Adviser of the Fund will ultimately bear all fees and out-of-pocket expenses of any placement agent that solicits investors for Funds.

#### **ITEM 15 – Custody**

FCAP does not have physical custody of any client assets (other than physical custody of certain privately offered securities held directly or indirectly by the Funds to the extent permitted by the Advisers Act). Nevertheless, the Adviser is deemed to have constructive custody of the assets of the Funds as a result of its position as an affiliate of the general partner, manager, managing member, etc. of each Fund. It is FCAP's policy with respect to each Client for which the Adviser is deemed to have custody to either (i) cause audited financial statements to be prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and distributed to investors no later than 120 days after the end of each fiscal year or (ii) engage an independent accounting firm to conduct a surprise examination of such clients assets. The independent public accountant retained to perform the Funds' annual audit or surprise examination will at all times be registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board.

#### **ITEM 16 – Investment Discretion**

The Adviser has discretionary authority with the Funds, to purchase and sell securities or other investments on behalf of the Funds and to determine the amount of such investments to be

bought and sold, subject to such restrictions as may be specified in the offering or governing documents.

#### **ITEM 17 – Voting Client Securities**

Given FCAP's investment strategy, the Adviser is generally not required to vote proxies on behalf of the Funds. To the extent FCAP is required to vote proxies on behalf of the Funds, FCAP will adopt and implement written policies and procedures governing the voting of Client securities in accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act.

Proxies must be voted with diligence, care, and loyalty. FCAP votes each proxy in accordance with its fiduciary duty to its Clients. FCAP seeks to vote proxies in a way that maximizes the value of Clients' assets. If a material conflict exists, the Adviser will take steps to ensure that its voting decision is based on the best interests of the Client and is not a product of the conflict. The Adviser may, at its discretion, (A) seek the advice of the applicable advisory board of a Fund in voting such security (if any); (B) disclose the conflict of interest to the Client or the applicable advisory board of a Fund and defer to the Client's voting recommendation; (C) defer to the voting recommendation of an independent third party provider of proxy voting services; and/or (D) take such other action in good faith (in consultation with the Adviser's outside counsel, if necessary) which would serve the best interest of the Client. Depending on the particular circumstances involved, the appropriate resolution of one conflict of interest may differ from the resolution of another conflict of interest, even though the general facts underlying both conflicts may be similar (or identical). Clients can obtain a copy of proxy voting policies and procedures upon request.

#### **ITEM 18 – Financial Information**

The Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair their ability to meet contractual and fiduciary commitments to its Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.