

**PART 2A FORM ADV**

**FIRM BROCHURE**

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**This brochure provides information about the qualifications and business practices of Freeman Spogli Management Co., L.P. If you have any questions about the contents of this brochure, please contact Christopher M. Iorillo at (310) 444-1822. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Freeman Spogli Management Co., L.P. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Freeman Spogli Management Co., L.P. is an investment adviser registered with the SEC. Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.**

**THIS BROCHURE IS NOT AN OFFER TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES.**

**Item 2.           Material Changes**

This Form ADV Part 2A (or “**brochure**”), dated March 2023 updates Freeman Spogli Management Co., L.P.’s brochure dated March 2022. It reflects routine updates to improve and clarify the descriptions of Freeman Spogli Management Co., L.P.’s business practices, compliance policies and procedures and to respond to evolving industry best practices.

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

##### **A. Organization and Ownership**

For purposes of this brochure, “**Freeman Spogli**” or the “**Firm**” means Freeman Spogli Management Co., L.P., together (where the context permits) with the general partners (the “**General Partners**”) of the Funds (as defined below). The Firm is a Delaware limited partnership that was organized in 2008. The owners of the Firm are Brad J. Brutocao, Bradford M. Freeman, Benjamin D. Geiger, Jordan A. Hathaway, John Hwang, Christian B. Johnson, Jon D. Ralph, John M. Roth, and Ronald P. Spogli.

##### **B. Advisory Services**

The Firm currently serves as the investment adviser to private equity funds (the “**FS Funds**”) and parallel investment entities that invest proportionately with a FS Fund in all investments on substantially the same terms and conditions subject to applicable tax, legal, or regulatory constraints (the “**Parallel Funds**” and, together with the FS Funds, the “**Funds**”).

The Funds are dedicated exclusively to investing and partnering with management in companies positioned for strong growth and equity appreciation. The Funds make investments in equity and equity-related securities issued in corporate acquisitions organized and led by the Firm. In accordance with the Funds’ respective investment objectives, investments are generally made in middle-market companies in consumer- and distribution- related sectors (the “**Target Sectors**”). The Firm’s management and administrative services include investigating, structuring and negotiating potential investments, monitoring the performance of portfolio companies in which the Funds invest, and advising the Funds as to exit strategies from such portfolio investments.

Investment restrictions for the Funds, if any, are generally established in the organizational or offering documents of the applicable Fund, investment advisory agreement, and/or side letter agreements negotiated with investors in the applicable Fund (collectively, the “**Organizational Documents**”).

In addition to the advisory services described in the preceding paragraphs, the Firm and its employees provide certain consulting services to portfolio companies in which the Funds have invested.

##### **C. Tailoring of Investment Advice**

The Firm provides investment management advice in accordance with the investment objectives and guidelines set forth in each Fund’s Organizational Documents.

##### **D. Wrap Fee Programs**

The Firm does not participate in any wrap fee programs.

**E. Assets Under Management**

The Firm manages the assets of each Fund on a discretionary basis. As of December 31, 2022, the amount of assets held by the Funds was approximately \$5,445,966,492.

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

### **A. Management Fees**

As compensation for investment supervisory services rendered to the FS Funds, the Firm receives from each such FS Fund a management fee. Management fees paid by an FS Fund are indirectly borne by investors in such FS Fund. The precise amount of, and the manner and calculation of, the management fees for each FS Fund are established by the Firm and are set forth in such FS Fund's Organizational Documents. The management fees are generally subject to waiver or reduction by the Firm in its sole discretion. The fee structures described above are modified from time to time. Fees will on occasion differ from one FS Fund to another, as well as among investors in the same FS Fund. Parallel Funds generally do not pay management fees.

The Funds' General Partners are also entitled to receive from each Fund performance-based compensation ("**Carried Interest**") as further described in **Item 6** below. The specifics of each fee arrangement are negotiated for each Fund and are set forth in the limited partnership agreement ("**Partnership Agreement**") related to the specific Fund.

### **B. Payment of Management Fees**

The General Partner of each FS Fund calls capital from investors not affiliated with the Firm in each respective FS Fund for payment of management fees. Management fees are then paid by each of the FS Funds to the Firm.

Subject to an FS Fund's Organizational Documents, management fees paid by a FS Fund will generally be reduced by a percentage of (1) the amount of fees paid by such FS Fund to persons acting as a placement agent in connection with the offer and sale of interests in such FS Fund to certain potential investors and/or (2) certain Transaction and Monitoring Fees (as defined below) received by the Firm from a FS Fund's portfolio companies and prospective portfolio companies (with respect to a break-up fee), as further described in **Item 5.C** below.

In the event the Firm receives compensation that would be applied to offset an FS Fund's management fees and such compensation exceeds any remaining management fees due at the end of the life of the FS Fund, such excess compensation generally will be remitted to the investors in the applicable FS Fund.

### **C. Other Fees and Expenses**

#### *Transaction and Monitoring Fees*

As described in **Item 11** the portfolio companies and prospective portfolio companies (with respect to a break-up fee) in which a Fund invests typically pay a variety of cash and equity compensation such as directors' fees, transaction fees, consulting fees, advisory fees, monitoring fees, break-up fees and other fees ("**Transaction and Monitoring Fees**") to the Firm or any of its employees in connection with the consummation, holding or disposition of a portfolio company investment or the termination of an unconsummated investment by the Fund. Any such Transaction and Monitoring Fees received by the Firm or any of its employees will be remitted to the Firm. These Transaction and Monitoring Fees are often substantial.

As noted in **Item 5.B** above, in general, a percentage of such fees received by the Firm or any of its employees (after a deduction for applicable expenses) will be credited toward an offset of the management fee. The remainder will be retained by the Firm. The amount and manner of such offset is set forth in the Organizational Documents of the applicable Fund. To the extent any Transaction and Monitoring Fees relate to more than one Fund, the Firm will allocate any such fees among the applicable Fund(s) in proportion to their interest (or prospective interest) in the portfolio company. Any reduction of an FS Fund's management fees will be limited to the extent of such FS Fund's investment (or prospective investment) in a portfolio company in proportion to the aggregate investment (or prospective investment) of all Funds to the applicable portfolio company. With respect to certain FS Funds, the portion of any such fees allocated to a Parallel Fund (as Parallel Funds generally do not pay management fees), co-investment vehicle or other co-investor that does not pay management fees, or to capital committed by an FS Fund investor that does not pay management fees, will not benefit such entities, to the extent permitted by the Organizational Documents of certain FS Funds, and will be retained by the Firm. The Organizational Documents of certain FS Funds provide that the management fee reduction for an FS Fund will be determined by taking into account such FS Fund's actual or anticipated ownership of the particular portfolio company relative to the actual or anticipated ownership of the FS Fund, any Parallel Fund, and other vehicles or third parties. Certain Transaction and Monitoring Fees are prepaid for a given year. To the extent there is a realization event (such as an initial public offering or strategic exit) during such year, the portion of such fees attributable to the remainder of the year will be refunded to the portfolio company.

#### *Payments Made to Third Parties*

The Firm engages and retains senior advisors, advisers, consultants, and other similar professionals, including but not limited to Industry Executives (discussed in **Item 8**) who are not employees or affiliates of the Firm and who, in addition to any retainer paid by the Firm, receive additional compensation from, or allocations with respect to, portfolio companies and/or other entities. Such remuneration includes, but is not limited to, consulting fees, salary, bonus, director fees, and stock options and will not be deemed paid to or received by the Firm and its affiliates. For the avoidance of doubt, such remuneration will not be remitted to the applicable Funds or otherwise subject to the offset described above. For a discussion of the material conflicts of interest created by the engagement of such persons, please see "Conflicts Related to Industry Executives" in **Item 11** below.

#### *Expense Reimbursement*

Additionally, a portfolio company will reimburse the Firm for expenses incurred by the Firm in connection with its performance of services for a portfolio company, including, without limitation, travel and travel-related expenses (which have in the past, and may in the future, include, without limitation, expenses for commercial and non-commercial transportation (including chartered, private plane, first class or business class travel, "black car" and private car travel), lodging and accommodations, and meals (including late night meals while not traveling)), entertainment expenses, expenses relating to hiring portfolio company personnel (including background checks, recruiting and relocation expenses), indemnification expenses, certain legal expenses and similar out-of-pocket expenses, as well as consulting fees and other cash and non-cash compensation and expenses; such reimbursed expenses are generally not

included as “Transaction and Monitoring Fees” under the terms of the applicable Organizational Documents, and such reimbursements are not subject to the offset described above. For a discussion of material conflicts of interest created by the receipt of such reimbursements, please see **Item 11** below.

### *Fund Expenses*

To the extent permitted by a Fund’s Organizational Documents, each Fund generally bears all expenses relating to its activities (to the extent not reimbursed by a portfolio company), including (1) the fees, costs and expenses of service providers to a Fund, including attorneys, accountants, administrators, advisors, auditors, consultants, valuation experts, due diligence professionals, and other service providers, (2) interest on, and fees, costs and expenses arising out of, a Fund’s borrowings and indebtedness and any other amounts due under any borrowing or a Fund obligation (including the costs and expenses incurred in obtaining, negotiating, entering into, effecting, maintaining, varying, refinancing, extending or terminating such borrowings and commitments and interest arising therefrom), (3) premiums and fees for insurance including insurance premiums of any director and officer liability, general partner liability, errors and omissions or other insurance and extraordinary administrative or operating expenses, including, without limitation, all litigation, arbitration, settlement, and indemnification costs, expenses, judgments or settlements, including insurance of which the Firm and its affiliates are beneficiaries, and cyber-security insurance premiums, (4) litigation expenses and other extraordinary expenses related to a Fund, any portfolio investment, any potential portfolio investment or a person in which a Fund holds a portfolio investment and certain others, (5) fees, costs and expenses associated with maintaining a Fund, the General Partner and subsidiary entities, and other entities, including co-investment entities, alternative investment vehicles, parallel funds, feeder funds, and including fees, costs, and expenses associated with compliance with any government, tax, securities law, and other legal requirements and/or regulatory filings related to a Fund or its investors or the offering of interests (including regulatory filings of the Firm and its affiliates relating to a Fund, including without limitation, preparation and filing of Form PF, registration, any AIFMD filings, management of compliance with FATCA or similar regimes and including reimbursements of any fees and expenses to advisers, service providers and other third parties, but not, for the avoidance of doubt, filings solely related to the operation of the Firm generally), other than fees, costs and expenses associated with amendments or restatements to the constituent documents of a General Partner that are made solely for purposes of addressing internal matters of a General Partner, (6) fees, costs and expenses relating to an advisory committee and its members, (7) fees, costs and expenses incurred in connection with the preparation of all reports to the limited partners or an advisory committee or for purposes of complying with any applicable law, rule or regulation, including software and information technology expenses, (8) all fees, costs and expenses of holding any meetings of the partners or an advisory committee (including, without limitation, all fees, costs and expenses related to (A) any preliminary or preparatory meeting held in advance of such meeting, (B) third-party advisers to a Fund and a General Partner and potential investors in a subsequent fund who are in attendance at such meetings and (C) meetings with portfolio personnel, in each of the foregoing clauses (A)-(C), reasonable meals and entertainment related thereto), (9) fees, costs and expenses incurred in connection with any indemnification obligations of a Fund, except, for the avoidance of doubt, costs and expenses that are excluded under the indemnification provisions of a Fund’s Partnership Agreement, (10) fees, costs and expenses (including travel at commercial airline



rates) related to or arising from (A) the discovery, investigation, development, research, acquisition or consummation, ownership, maintenance, monitoring, financing, hedging, currency conversions, or disposition of portfolio investments, permitted temporary investments and potential portfolio investments, (B) the sourcing, diligencing and evaluation of potential portfolio investments (irrespective of whether any such investment is ultimately consummated) (including expenses and fees that would have been allocable to co-investment vehicles or other co-investors), and (C) expenses and fees generated in the course of the organization, maintenance, administration, operation and negotiation of joint ventures arrangements and platform investments, (11) expenses related to a Fund's exercise of its remedies with respect to defaulting partners, (12) any taxes, fees, duties, penalties or other governmental charges incurred, payable by or levied against a Fund (except to the extent that such taxes, fees, or governmental charges have actually been reimbursed or deemed to have been paid by a partner or former partner), (13) advertising costs, (14) broken deal expenses, including, without limitation, formation and organizational expenses incurred by a co-investment entity formed to facilitate such investment, (15) management fees, (16) a Fund's organizational expenses, (17) placement agent fees and expenses, (18) expenses incurred in connection with complying with provisions in investor side letter agreements, including "most favored nation" provisions, (19) research and other information (including, but not limited to, data and information service subscriptions, related systems and services from data providers and data management software) (and including any research or other service that may be deemed to be bundled for the benefit of such Fund), as well as the information technology systems used to obtain such research and other information related to an actual or potential portfolio investment; but not including general research services and subscriptions (e.g. Bloomberg terminals), which shall be borne by a General Partner or the Firm, (20) subject and industry-matter research and experts directly or indirectly related to an actual or proposed portfolio investment or the Target Sectors (21) bridge financing expenses and (22) any expenses and costs related to the preparation, printing and delivery of any report, certificate or opinion required under a Fund's Organizational Documents; provided, that any taxes, fees, and other expenses that the Firm reasonably determines are unique to maintaining the operations of a feeder fund will be borne solely by such feeder fund.

From time to time, the general partner of a Fund creates certain "special purpose vehicles" or similar structuring vehicles for purposes of accommodating certain tax, legal and regulatory consideration of investors ("SPVs"). In the event the general partner creates an SPV, consistent with the Organizational Documents of the Fund, all expenses will typically be borne by the Fund, and indirectly, the investors thereof (even if such investors do not participate in any such SPV) related to its organization and formation and other expenses incurred solely for the benefit of the SPV. In addition, expenses of the type borne by a Fund but associated with any feeder fund or similar vehicle organized to facilitate the participation of certain investors in the Fund (including, without limitation, expenses of account and tax services) may be borne by the Fund and indirectly, the investors thereof (even if such investors do not participate in any such feeder fund or similar vehicle). In addition, the Funds will bear the expenses of all third-party administrator service providers even if there is some overlap in services performed by such third-party administrator and Firm personnel.

In addition, the Firm, from time to time, engages one or more fund administrators or similar service providers to perform certain functions in relation to certain Funds, which services may

include coordination of the Funds' legal entity management function, execution and recordkeeping associated with applicable tax elections and filings, support for the valuation process and investor correspondence, investor data management and reporting requests as well as data collection required for various regulatory reporting which with the Funds are required to comply. Pursuant to a Fund's respective Organizational Documents, all or a portion of the expenses allocable to a Fund related to such service providers are borne by such Fund.

#### *Allocation of Expenses*

The Firm allocates fees, costs and expenses in accordance with a Fund's Organizational Documents. To the extent not allocated to a portfolio company, the Firm will allocate out-of-pocket fees and expenses incurred in the course of evaluating and making investments that are consummated between Funds in accordance with each Fund's Organizational Documents or, to the extent not addressed in such Organizational Documents, pro rata based on the respective total capital commitments of such Funds.

The appropriate allocation between Funds, investors in the Funds and other third parties of third-party expenses and fees generated in the course of evaluating potential investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by the Firm in its good faith discretion, consistent with the Organizational Documents of the Funds, as applicable. If multiple Funds evaluate a potential investment that is not consummated, the Firm generally allocates fees and expenses generated in the course of evaluating such investment among such Funds based on the anticipated investment of each Fund. If a proposed transaction is not consummated, all of the expenses incurred in connection with the unconsummated transaction will be borne solely by the Fund or Funds selected by the Firm as proposed investors to the transaction and will not be borne by any co-investors expected to participate in the proposed transaction.

With respect to allocating other expenses among Fund(s) and/or third parties, as appropriate, to the extent not addressed in the Organizational Documents of a Fund, the Firm will make any such allocation determination in a fair and reasonable manner using its good faith judgment, notwithstanding its interest (if any) in the allocation (which methodologies may include pro rata allocation based on the respective capital commitments of a Fund, pro rata allocation based on the respective (or anticipated investment) of an allocable party in an investment, relative benefit received by an allocable party, or such other equitable method as determined by the Firm in its sole discretion). The Firm will make any corrective allocations and take any mitigating steps if it determines such corrections are necessary or advisable to ensure allocations are equitable on an overall basis in good faith judgment. Notwithstanding the foregoing, the portion of an expense allocated to a Fund for a particular service may not reflect the relative benefit derived by such Fund from that service in any particular instance and a Fund will bear more or less of a particular expense based on the methodology used.

There may be occasions when one allocable party (the **"Payor Allocable Party"**) pays an expense common to multiple allocable parties (the **"Allocated Parties"**) (e.g., legal expenses for a transaction in which multiple funds and/or co-investors participate). On such occasions, each Allocated Party will reimburse the Payor Allocable Party for its share of such expense, generally without interest, promptly after the payment is made by the Payor Allocable Party. There may

be occasions where a Fund procures borrowing through a subscription line or credit facility in order to make an investment, syndicating out a portion of the investment to another allocable party. Subject to the Organizational Documents, the borrowing Fund will bear the entire cost of interest from the borrowing, even though the investment may ultimately be made by other allocable parties. Furthermore, while highly unlikely, it is possible that one of the Allocated Parties could default on its obligation to reimburse the Payor Allocated Party.

#### **D. Fees Payable in Advance**

The management fees are paid semi-annually in advance, shortly following the commencement of such semi-annual period, or quarterly in advance, subject to the terms of the applicable Fund's Organizational Documents.

In the event a FS Fund overpays the management fee for any period payable in advance (whether by reason of a change in the calculation of the management fee, a termination of the management fee, or otherwise), the excess payment will either be credited against the amount due for the next payment or refunded.

If the Firm is removed as the investment adviser to a FS Fund, the Firm will be entitled to the management fee relating to the full period, as applicable, during which it was removed, unless it was removed for malfeasance, in which case the portion of the management fee for any partial period after the date of removal will be returned.

#### **E. Compensation for the Sale of Securities**

Neither the Firm nor any of its supervised persons accepts any compensation for the sale of securities or other investment products, including units of ownership ("**Interests**") in the Funds.

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

### **Performance-Based Profits Allocations**

As noted in **Item 5.A** above, the General Partners are entitled to receive distributions of Carried Interest from each Fund. Carried Interest paid by a Fund is indirectly borne by investors in such Fund.

### **Potential Conflicts of Interest**

The existence of Carried Interest compensation may create an incentive for the Firm to make riskier or more speculative investments than it would otherwise make in the absence of such an arrangement.

While it is inherently uncertain what position the current administration or future administrations will take going forward, legislation has been passed in the United States, which, among other things, provides that gains in respect of a General Partner's right to Carried Interest will be subject to a three year "holding period" in order to be classified as "long term capital gains", while the corresponding holding period requirement with respect to limited partners is one year. Please see "**Tax Reform Risk**" in **Item 8** below.

The terms of the Carried Interest could also give the Firm an incentive to make decisions regarding the timing and structure of realization transactions that are not necessarily in the best interests of investors. For example, the General Partner of a Fund would be in a position to receive Carried Interest distributions earlier if profitable investments are liquidated prior to investments that are not profitable because, at the time proceeds from such profitable investments are liquidated, the General Partner would not be required to first distribute capital to limited partners to make up for prior losses associated with unprofitable investments although the Firm would be required to take into account any write downs, as discussed below.

The Carried Interest also creates a potential conflict of interest for the Firm in valuing investments. For example, the General Partner of a Fund will not receive a Carried Interest until the limited partners in such Fund receive distributions equal to their share of any write downs that were not taken into account for prior distributions. This creates an incentive for the Firm to avoid writing down the value of assets that are not readily marketable or difficult to value because the General Partner will be in a position to receive a higher Carried Interest.

The payment of Carried Interest at varying effective rates based on the past performance of a Fund could create an incentive for the Firm to disproportionately allocate time, services or functions to Funds paying Carried Interest at a higher effective rate, or allocate investment opportunities to such Funds. Generally, and except as otherwise set forth in the Organizational Documents of the Funds, this conflict is mitigated, at least in part, by (i) certain limitations on the ability of the Firm to establish new investment funds, (ii) contractual provisions requiring certain Funds to purchase and sell investments contemporaneously and/or (iii) contractual provisions and procedures setting forth investment allocation requirements.

Please see **Item 11** below for additional information relating to how conflicts of interest are generally addressed by the Firm.

## **Item 7.       Types of Clients**

Each Fund is a client of the Firm. As further described in **Item 4** above, the Firm provides investment advice to the Funds and makes investment decisions on behalf of the Funds consistent with the stated investment objectives set forth in each Fund's respective Organizational Documents. Investment advice is provided directly to the Funds (subject to the direction and control of the General Partner of each such Fund, if applicable) and not individually to investors in such Fund.

The Funds generally accept potential investors who are "accredited investors" as defined in Regulation **D** under the Securities Act of 1933, as amended (the "**Securities Act**") and "qualified purchasers" as that term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "**Investment Company Act**").

The Firm does not have a minimum size for a Fund, but, depending on the Fund documents, minimum investment commitments have in the past and may in the future be established for investors in the Funds.

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

### **INVESTMENT STRATEGY**

The Firm focuses its investments in the Target Sectors, with transactions typically ranging from \$250 million to \$1.0 billion in enterprise value and equity investments generally ranging from \$75 million to \$200 million. The Firm invests in companies that have established defensible market positions in products, channels, or geographic niches. The Firm is particularly attracted to situations in which its in-depth knowledge of the target's particular sector allows the Firm to identify areas of potential operating improvement or strategic initiatives that may help transform a company and increase its value. An integral part of the Firm's investment philosophy is to partner with strong management teams and enable them to become significant owners of their businesses. Although the Firm prefers control investments, it will selectively consider minority investment opportunities where its industry knowledge and the board's voting composition allow the Firm to exert significant influence. The Firm actively participates in the development and growth of each of its portfolio companies.

The Firm utilizes the services of talented independent consultants with extensive industry experience ("**Industry Executives**"). The Industry Executives generally assist the Firm in sourcing and evaluating investment opportunities as well as developing and implementing strategic and growth initiatives for portfolio companies with which they work. Certain Industry Executives with expertise in certain critical functions such as information technology or operations, are expected to also be retained by the Firm as subject matter experts to be available on a prospective basis to work on investment opportunities or with portfolio companies. For their service, certain of the Industry Executives receive a consulting fee and/or retainer from the Firm and, in the case of subject matter experts, may also be retained and/or paid directly by a portfolio company as determined between the portfolio company and such Industry Executive. In their capacities as directors, they also receive directors' fees directly from the portfolio companies paid in the form of cash and stock options. Industry Executives also in the past have received, and in the future are expected to receive, transaction fees and/or other fees or compensation from or in connection with certain of the Funds' investments. Because Industry Executives are not affiliates of the Firm, these directors' fees, other compensation or retainer received by Industry Executives from portfolio companies are not offset against the Firm's management fees. In addition, to ensure their interests are properly aligned with the Firm's, Industry Executives invest directly in the portfolio companies for which they serve as directors and may also invest in certain FS Funds. These executives have significant operating experience in the Target Sectors.

### **INVESTMENT PROCESS**

The Firm employs a five-step approach to investing: proactive deal sourcing, rigorous due diligence, prudent transaction structuring, post-closing value creation, and opportunistic monetization.

In addition to evaluating investment opportunities in connection with sale processes, the professionals of the Firm also proactively reach out to various intermediaries in order to generate new business ideas and stay in front of new deals coming to the market. The Firm leverages its

relationships with key executives in the consumer and distribution sectors to assist in the identification of potential investments. The Firm bases its investment decisions on extensive due diligence reviews to help identify and manage the risks and evaluate the growth opportunities associated with acquisitions. The Firm's due diligence investigations are enhanced by the Industry Executives and other third-party consultants who have operating expertise in the sector in which the potential portfolio company participates. The Firm prefers management to focus on growing its business rather than managing a highly leveraged capital structure, and actively works to increase the value of its companies through both organic and acquisition growth. The Firm takes an opportunistic approach to monetization. Decisions regarding exit timing and methodology are based primarily on expectations regarding a portfolio company's future operations and general conditions in the capital markets.

## **INVESTMENTS AND RISK OF LOSS**

An investment in a Fund involves various risks. A Fund may lose all or a substantial portion of its investments, and prospective investors in Funds must be prepared to bear the risk of a complete loss of their investments. There is no guarantee of a Fund's successful performance, that a Fund's investment objectives can be reached or that a positive return will be achieved. As a general rule, investors should expect that investments with higher return potential will also have higher potential of risk of loss to capital and/or income. A Fund itself is not a balanced investment program for purposes of an investor's portfolio diversification needs and, therefore, investors should consult with their own financial advisers for the appropriateness of an investment in a Fund for their overall investment program. In addition to the information set forth in a Fund's offering document (the "**Private Placement Memorandum**"), a prospective investor in a Fund should consider the following factors and other considerations. The following risk factors do not purport to be a complete examination of all of the risks involved.

### **Risks Relating To Fund Investments Control Investments and Directorships**

A Fund will acquire control positions in certain companies in which it invests. Additionally, officers and employees of the Firm will at times serve as directors of portfolio companies in which a Fund invests. The exercise of control over a company through a control position, or the service of an officer or employee of the Firm as a director of such company, could (i) expose the assets of a Fund to claims by such company, its security holders and creditors or (ii) impose additional risks of liability for failure to supervise management, violation of governmental regulations and other types of liability in which general limited liability protections are ignored. If these liabilities were to occur, a Fund, directly, and the Fund's partners indirectly, would likely suffer losses with respect to their investments.

### **Illiquid Nature of Portfolio Company Investments**

A Fund will make investments in securities that have limited liquidity. It is anticipated there will be a significant period of time before a Fund has completed its investments in portfolio companies. Such investments typically take from two to seven years from the date of initial investment to reach a state of maturity when partial or complete realization of the investment can be achieved. Transaction structures typically will not provide for liquidity of a Fund's investment prior to that time. Generally, there will be no readily available market for a

substantial amount of a Fund's portfolio investments. Most investments held by a Fund will not be able to be sold except pursuant to a registration statement filed under the Securities Act or in accordance with Rule 144, Regulation D or another exemption under the Securities Act. The market prices, if any, of such investments tend to be volatile, and a Fund may not be able to sell such investments when it desires, or, upon sale, to realize what it perceives to be their fair value. Further, companies whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements applicable to publicly traded companies. In light of the foregoing, it is likely that no return from the disposition of a Fund's investments will occur until a significant period of time has passed. Furthermore, disposition of such investments may result in distributions in-kind to investors.

### **Portfolio Company Risks**

A Fund will be invested in certain portfolio companies that are subject to a high degree of business and/or financial risks. Certain portfolio companies will be distressed or have operating losses, or significant variations in operating results, and certain portfolio companies will be engaged in a rapidly changing business subject to a substantial risk of competition and/or other significant challenges to their sustained operations and profitability. There can be no assurance that any portfolio company investment will be successful. In addition, certain portfolio companies require substantial additional capital to support their operations, to finance expansion and/or to maintain their competitive positions, or otherwise have weak financial conditions. Certain portfolio companies in which a Fund will invest face intense competition from larger and/or more experienced companies with greater financial and technical resources, more marketing and service capabilities and/or a greater number of qualified personnel.

### **General Economic Conditions; Market Dislocation**

Although financial markets have been generally experiencing a period of recovery, volatility remains and any future deterioration could have an adverse impact on a Fund. Disruptions in the financial markets typically make it more difficult for a Fund to realize investments and impact the market prices of securities and adversely affect the valuation of a Fund's investments. The success of a Fund's activities, and of the portfolio companies in which a Fund will invest, will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of a Fund's investments), trade barriers, and political circumstances (including wars, terrorist acts or security operations).

### **Geopolitical Risk**

The Funds are subject to the risk that war, cyber attacks, terrorism, global health crises or similar pandemics, and other related geopolitical events which have led and may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, and may have adverse effects on issuers of securities and the value of a Fund's investments. Those events as well as other changes in world economic, political and health conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the



value of a Fund's investments. At such times, a Fund's exposure to a number of other risks described elsewhere in this section can increase.

Uncertainty around future political, legislative or administrative developments or global health crises may cause volatility in the U.S. or global economies and financial markets more generally, which in turn may have an adverse effect on the values of the Funds' investments and on the Funds' ability to execute their investment strategies. While the Funds and their investment programs stand to benefit from certain potential regulatory changes, other potential changes may adversely affect the Funds.

### **Russian Invasion of Ukraine**

On February 21, 2022, Russian President Vladimir Putin ordered the Russian military to invade two regions in eastern Ukraine (the Donetsk People's Republic and Luhansk People's Republic regions). The following day, the United States, United Kingdom and European Union announced sanctions against Russia. On February 24, 2022, President Putin commenced a full-scale invasion of Russia's pre-positioned forces into Ukraine, including Russia's forces pre-positioned in Belarus. In response, the United States, United Kingdom, and European Union imposed further sanctions designed to target the Russian financial system, and thereafter a number of countries have banned Russian planes from their airspace. Further sanctions may be forthcoming, and the U.S. and allied countries have recently announced they are committed to taking steps to prevent certain Russian banks from accessing international payment systems. Russia's invasion of Ukraine, the resulting displacement of persons both within Ukraine and to neighboring countries and the increasing international sanctions could have a negative impact on the economy and business activity globally, and therefore could adversely affect the performance of the Funds' investments. Furthermore, given the ongoing and evolving nature of the conflict between the two nations and its ongoing escalation (such as Russia's recent decision to place its nuclear forces on high alert and the possibility of significant cyberwarfare against military and civilian targets globally), it is difficult to predict the conflict's ultimate impact on global economic and market conditions, and, as a result, the situation presents material uncertainty and risk with respect to the Funds and the performance of their investments or operations, and the ability of the Funds to achieve their investment objectives.

### **Coronavirus Outbreak Risks**

The ongoing global outbreak of the 2019 novel coronavirus ("COVID-19"), together with resulting voluntary and U.S. federal and state and non-U.S. governmental actions, including, without limitation, mandatory business closures, vaccine mandates, public gathering limitations, restrictions on travel and quarantines, has meaningfully disrupted the global economy and markets. The global impact of COVID-19 has been evolving over the course of the pandemic and, at different points of time has, and may continue to have ongoing material adverse effects across many, if not all, aspects of the regional, national and global economy. In particular, the COVID-19 outbreak has already, and will continue to, adversely affect the Funds' investments and the industries in which they operate. The spread of COVID-19 among the Firm's personnel and its service providers would also significantly affect the Firm's ability to properly oversee the affairs of the Funds (particularly to the extent such impacted personnel include key investment professionals or other members of senior management), which could result in a temporary or

permanent suspension of a Fund's investment activities or operations. The full effects, duration and costs of the COVID-19 pandemic are impossible to predict, and the circumstances surrounding the COVID-19 pandemic will continue to evolve.

### **Custody and Banking Risks**

The Funds maintain funds with one or more banks or other depository institutions ("banking institutions"), which may include U.S. and non-U.S. banking institutions, and may enter into credit facilities or have other financial relationships with banking institutions. The distress, impairment or failure of one or more banking institutions with whom the Funds, their portfolio companies, the General Partners and/or the Firm transact may inhibit the ability of the Funds or their portfolio companies to access depository accounts or lines of credit at all or in a timely manner. In such cases, the Funds may be forced to delay or forgo investments or to call capital when it is not desirable to do so, resulting in lower performance for the Funds. In the event of such a failure of a banking institution where the Fund or one or more of its portfolio companies holds depository accounts access to such accounts could be restricted and U.S. Federal Deposit Insurance Corporation (FDIC) protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to banking institutions in other jurisdictions not subject to FDIC protection). In such instances, the Funds and their affected portfolio companies may not recover such excess, uninsured amounts and instead, would only have an unsecured claim against the banking institution and participate pro rata with other unsecured creditors in the residual value of the banking institution's assets. The loss of amounts maintained with a banking institution or the inability to access such amounts for a period of time, even if ultimately recovered, could be materially adverse to the Funds or their portfolio companies. One or more investors or a Fund's General Partner could also be similarly affected and unable to fund capital calls, further delaying or deferring new investments. In addition, a Fund's General Partner may not be able to identify all potential solvency or stress concerns with respect to a banking institution or to transfer assets from one bank to another in a timely manner in the event a banking institution comes under stress or fails.

### **Middle Market Companies**

Investments in middle market companies such as those that a Fund targets for investment, while often presenting greater opportunities for growth, may also entail larger risks than are customarily associated with investments in large companies. Middle market companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more adversely impacted by general economic trends and specific changes in markets and technology than larger companies. In addition, future growth may be dependent on additional financing, which may not be readily available on acceptable terms at the time needed. Further, there is ordinarily a more limited marketplace for the sale of interests in such private companies, which may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private investments in middle market companies, could make it difficult for a Fund to react quickly to negative economic or political developments.

## **Competition for Investments**

The Firm expects Funds will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships, business development companies and corporations, small business investment companies, large industrial and financial companies investing directly or through affiliates and individuals. Some of these competitors may have more relevant experience, greater financial resources and more personnel than the Firm. To the extent that a Fund encounters competition for investments, yields to its investors may decrease.

## **Hedging Transactions May Affect Overall Performance**

The Funds may choose, but are not required, to engage in transactions designed to reduce the risk or to protect the value of their investments, including securities hedging transactions. To the extent a General Partner elects to engage in these transactions, a Fund will incur additional costs, and there can be no assurance that any particular hedging strategy will achieve its intended purpose or that suitable hedging transactions will be available. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions and may result in decreased returns.

## **Use of Leverage**

While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. A Fund's investments involve varying degrees of leverage, as a result of which recessions, operating problems and other general business and economic risks will potentially have a more pronounced effect on the profitability or survival of such companies. Moreover, rising interest rates increase portfolio company interest expense. If a portfolio company cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company. While the use of leverage will create opportunities to increase a Fund's returns, it also may increase a Fund's losses. A decrease in the availability of financing (or an increase in the interest cost) for leveraged transactions (e.g., due to adverse changes in economic or financial market conditions such as those described above or a decreased appetite for risk by lenders) can materially impair a Fund's ability to consummate portfolio investments, to make leveraged distributions or to sell investments to buyers who utilize similar leverage strategies.

## **Initial Public Offerings**

Funds may invest in companies whose securities are subsequently sold pursuant to initial public offerings. Such securities (i) have no public market prior to their initial offering and there is no assurance that (a) an active public market in such securities will develop or continue after their initial offering or (b) the initial public offering price of such securities will be indicative of the market price for such securities after their initial offering and (ii) are subject to lockups and restrictions in connection with their initial offering and they may not be readily disposed of. Due to these restrictions, a Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell securities of a portfolio company that it otherwise might have sold.

## **Material, Non-Public Information**

By reason of its investment in a portfolio company, a Fund will often acquire confidential or material non- public information or otherwise be restricted from initiating transactions in certain securities. A Fund will not be able to act upon any such information. Due to these restrictions, certain Funds will not be able to initiate transactions that they otherwise might have initiated and will not be able to sell securities of portfolio companies that they otherwise might have sold.

## **Minority Investments**

Funds have in the past and may in the future invest in minority positions of companies and in companies for which the Fund has no right to appoint a director or otherwise exert significant influence. In such cases, the Fund will rely significantly on the existing management and board of directors of such companies, which often include representation of other financial investors with whom the Fund is not affiliated and whose interests could conflict with the interests of the Fund. Where practicable and appropriate, a Fund generally will seek shareholder rights to protect its interests, but it will not always be possible to secure such rights.

## **Risk of Limited Number of Investments**

Funds participate in a limited number of investments and, as a consequence, the aggregate return of such Funds can be substantially adversely affected by the unfavorable performance of even a single portfolio company. Other than as set forth in the Partnership Agreement of a Fund, investors have no assurance as to the degree of diversification of a Fund's portfolio investments. Although a Fund's Partnership Agreement generally will limit a Fund's ability to invest aggregate commitments in any one investment, the General Partner will have sole discretion within such limitations to select investments for the Fund. Unforeseen circumstances may cause it to limit the number of its investments or type of investment activity. At a particular time, it is possible that a Fund will have a significant portion or all of its investment capital in only one portfolio investment or a single Target Sector. Consequently, a Fund's results will be more susceptible to adverse economic and business conditions. In addition, where the General Partner intends to refinance all or a portion of the capital invested in a portfolio company, there is a risk that such refinancing will not be completed, which would increase the risk a Fund will have an unintended long-term investment as to such portion of the amount invested leading to reduced diversification.

## **Bridge Financings**

From time to time, a Fund will invest in portfolio companies on a short-term, unsecured basis (a "**Bridge Financing**") in anticipation of a future issuance of equity or long-term debt securities. During the initial one-year period that any Bridge Financing is outstanding, such Bridge Financing will be treated as a short- term investment and will not be subject to the Preferred Return or Carried Interest provisions outlined in the Partnership Agreement. To the extent that a Bridge Financing is not refinanced, sold or otherwise repaid within such one-year period, the Bridge Financing will be treated as a permanent investment in the portfolio company.

## **Follow-on Investments**

A Fund may be called upon to provide follow-on funding for its investments or have the opportunity to increase its investment in a portfolio company. There can be no assurance that a Fund will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision by a Fund not to make a follow-on investment or its inability to make a follow-on investment may have an adverse impact on a portfolio company in need of such an investment or may diminish a Fund's ability to influence the portfolio company's future development. In addition, the failure to make a follow-on investment would dilute a Fund's interest in the investment.

Furthermore, a conflict of interest also arises because a Fund that participates in a follow-on investment in a portfolio company held by another Fund will benefit from the initial evaluation, investigation and due diligence undertaken by the Firm on behalf of the original Fund and from operational or other information about such portfolio company acquired from the original Fund's ownership of interests in the portfolio company. In such circumstances, such benefitting Fund or Funds will not be required to reimburse the original Fund for expenses incurred in connection with researching such investment. An investment by a Fund in a portfolio company in which another Fund invests at a later stage may be made at a higher or lower valuation than the investment in such portfolio company by such other Fund and an investment by one or more other Funds in any such portfolio company may dilute the original Fund's interest in such portfolio company.

## **Fund Level Borrowing**

The Funds from time-to-time borrow funds or enter into other financing arrangements for various reasons, including to pay fund expenses, to pay management fees, to make or facilitate new or follow-on investments (including borrowings pending receipt of capital contributions from investors), to make payments under hedging transactions, to cover any shortfall resulting from an investor's default or exclusion. If a Fund borrows in lieu of calling capital to fund the acquisition of an investment, the borrowing would be used for all limited partners in such Fund on a pro-rata basis, including the general partner. In addition, credit facilities for certain Funds are available to provide borrowed funds directly to the portfolio companies of such Funds, in which case such borrowed funds would be guaranteed by such Funds.

To the extent the Fund uses borrowed funds in advance or in lieu of capital contributions, the Fund's investors generally make correspondingly later capital contributions, but the Fund will bear the expense of interest on such borrowed funds. As a result, the Fund's use of borrowed funds will impact the calculation of net performance metrics (to the extent that they measure investor cash flows) and generally make net IRR calculations higher than they otherwise would be without fund-level borrowing as these calculations generally depend on the amount and timing of capital contributions. It is expected that the interest will accrue on any such outstanding borrowings at a lower rate than any preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant Fund. Thus, while the Fund will bear the expense of borrowed funds, such borrowings can also increase the carried interest received by the Fund's General Partner or will result in the Fund's General Partner receiving Carried Interest earlier than

it would otherwise have by decreasing the amount of distributions from the Fund that are required to be made to Fund investors in satisfaction of any preferred return. The General Partner therefore has a conflict of interest in deciding whether to borrow funds because the General Partner may receive disproportionate benefits from such borrowings.

In addition, the batching of capital calls may amplify the magnitude of potential defaults by investors as a result of there being fewer but larger capital calls. To the extent a subscription facility is due upon demand by a lender (such as upon an event of default or otherwise), such a demand may be issued at an inopportune time at which liquidity is generally constrained, potentially resulting in greater defaults as a result of such liquidity constraints and/or investors facing similar capital calls in multiple funds and being unable to satisfy all such demands simultaneously. Moreover, the existence of a subscription facility may impair an investor's ability to transfer its interest in a Fund as a result of restrictions imposed on such transfers by the lender.

Borrowing by a Fund will generally be secured by capital commitments made by the limited partners to the Fund and/or by the Fund's assets, and documentation relating to such borrowing may provide that during the continuance of a default under such borrowing, the interests of the investors may be subordinated to such Fund-level borrowing. Moreover, tax-exempt investors should note that the use of borrowings by the Fund may cause the realization of Unrelated Business Taxable Income.

### **Environmental, Social and Governance Matters.**

While ESG is only one of the many factors the Firm will consider in making an investment, there is no guarantee that the Firm will successfully implement and make investments in companies that create positive environmental, social or governance ("ESG") impact while enhancing long-term shareholder value and achieving financial returns. To the extent that the Firm engages with companies on ESG-related practices and potential enhancements thereto, such engagements may not achieve the desired financial and social results, or the market or society may not view any such changes as desirable. Successful engagement efforts on the part of the Firm will depend on the Firm's skill in properly identifying and analyzing material ESG and other factors and their impact-related value, and there can be no assurance that the strategy or techniques employed will be successful. Considering ESG qualities when evaluating an investment may result in the selection or exclusion of certain investments based on the Firm's view of certain ESG-related and other factors, and carries the risk that the Firm may underperform funds that do not take ESG-related factors into account because the market may ultimately have a different view of a particular company's performance than that anticipated by the Firm.

Further, ESG practices are evolving rapidly and there are different principles, frameworks, methodologies, and tracking tools being implemented by other asset managers, and the Firm's adoption and adherence to various such principles, frameworks, methodologies and tools is expected to vary over time. There is also a growing regulatory interest across jurisdictions in improving transparency regarding the definition, measurement and disclosure of ESG factors. The Firm's ESG policies could become subject to additional regulation in the future, and the Firm cannot guarantee that its current approach will meet future regulatory requirements.

## **Climate Change**

The Funds may acquire investments that are located in, or have operations in, areas that are subject to climate change. Any investments located in coastal regions may be affected by any future increases in sea levels or in the frequency or severity of hurricanes and tropical storms, whether such increases are caused by global climate changes or other factors. There may be significant physical effects of climate change that have the potential to have a material effect on the Funds' business and operations. Physical impacts of climate change may include increased storm intensity and severity of weather (e.g., floods or hurricanes), sea level rise, fires, and extreme and changing temperatures. As a result of these impacts from climate-related events, the Funds may be vulnerable to the following: risks of property damage to the Funds' investments; indirect financial and operational impacts from disruptions to the operations of the Funds' investments from severe weather; increased insurance premiums and deductibles or a decrease in the availability of coverage for investments in areas subject to severe weather; decreased net migration to areas in which investments are located, resulting in lower than expected demand for both investments and the products and services of the Funds' investments; increased insurance claims and liabilities; increase in energy costs impacting operational returns; changes in the availability or quality of water, food or other natural resources on which the Funds' business depends; decreased consumer demand for consumer products or services resulting from physical changes associated with climate change (e.g., warmer temperature or decreasing shoreline could reduce demand for residential and commercial properties previously viewed as desirable); incorrect long-term valuation of an equity investment due to changing conditions not previously anticipated at the time of the investment; and economic distributions arising from the foregoing.

## **Possibility of Fraud or Other Misconduct of Employees and Service Providers**

Misconduct by employees of the Firm, portfolio companies, service providers to a Fund and/or their respective affiliates could cause significant losses to a Fund. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Fund, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting a Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to a Fund. The Firm has controls and procedures through which it seeks to minimize the risk of such misconduct occurring. However, no assurances can be given that the Firm will be able to identify or prevent such misconduct.

## **Management Team of Portfolio Companies**

Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although the Firm will be responsible for monitoring the performance of each investment and intends to invest considerable time in contributing, directly and indirectly, to strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company in accordance with a Fund's plans.

## **Reliance on the Firm and its Principals**

Decisions with respect to the management of the Funds will be made by the Firm. An investor in a Fund must rely upon the ability of the Firm in identifying, structuring, and implementing investments consistent with a Fund's investment objectives and policies. The success of a Fund will depend on the ability of the Firm to identify and consummate suitable investments, to improve the operating performance of portfolio companies and to dispose of investments of the Fund at a profit. The success of a Fund depends in substantial part upon the leadership, skill and expertise of the principals of the Firm. However, there can be no assurance that each of the principals will continue to be affiliated with a Fund or the Firm throughout a Fund's anticipated term. In addition, the principals will continue to have an interest in, and participate in the management and investments of other Funds managed by the Firm or its affiliates.

## **Difficulty Locating Suitable Investments**

Investors in a Fund will not have the opportunity to evaluate the business, financial and other information that will be used by the Firm in its analysis, selection, and monitoring of portfolio company investments for a Fund. There can be no assurance that the Firm will be able to identify a sufficient number of attractive investment opportunities to fully invest a Fund's committed capital in opportunities that satisfy a Fund's investment objectives, or that such investment opportunities will lead to completed investments by a Fund. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

## **Portfolio Company Pension Liability Considerations**

As a result of its equity ownership, representation on the board of directors and/or contractual rights, a Fund may be deemed to control, participate in the management of or influence the conduct of one or more of its portfolio companies. This could expose the assets of a Fund to claims by a portfolio company, its other security holders, its creditors or governmental agencies. In addition, if a Fund holds 80% or more of the interests in a portfolio company and such Fund is found to be a "trade or business" under ERISA, a court could find that such Fund is jointly and severally liability with the portfolio company for any withdrawal liability with respect to a multiemployer pension plan which the portfolio company withdraws or is deemed to withdraw from. There is also a risk that a Fund could be deemed to be part of a "partnership-in-fact" with certain co-investors based on joint investment and other activities. This is currently an unsettled area of law, which is subject to recent litigation in the First Circuit Court of Appeals and ongoing litigation in the district courts, and significant questions remain regarding the potential application of these theories to similar factual situations. If a Fund were to be deemed a "trade or business" with the requisite level of ownership of an investment, either alone or in concert with other investors, a Fund could face liability with respect to the pension plans of its portfolio companies. In addition, it is possible that a court could expand this theory to cause multiple portfolio companies of a Fund to be treated as a controlled group or under common control, and thereby be liable for these funding obligations.



## **Foreign Investments**

To the extent a Fund invests in companies organized or with substantial operations outside the United States, those investments will be subject to risks associated with foreign investment. These risks include, but are not limited to, potential material adverse effects caused by inflation, currency devaluation, less developed entity and finance laws and regulations, exchange rate fluctuations, repatriation or exchange control regulation, withholding or other taxes, changes in government policies (including foreign investment policy and taxation), social instability and other political, economic or diplomatic developments in such countries.

## **Third Party Litigation**

The investment activities of a Fund, particularly with respect to its relationships with portfolio companies (including participation on boards of directors), will subject a Fund to the risk of becoming involved in litigation brought by portfolio companies, their stockholders, their creditors and others. Generally, a Fund would bear the expense of defending against claims by such parties and paying amounts necessary to satisfy any settlements or judgments. If a Fund becomes subject to liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and may not be limited to any particular asset, such as the investment giving rise to a liability.

## **Valuation of Investments**

A Fund will rely on the General Partner for valuation of its assets and liabilities. A Fund will primarily hold securities and other assets that will not have readily accessible market values. An accurate assessment of fundamental value will depend on a complex analysis of a number of legal, financial, microeconomic, macroeconomic and other factors. The valuation of illiquid securities and other assets is inherently subjective and subject to increased risk that the information utilized to value such assets or create pricing models may be inaccurate or subject to error. A Fund's success will depend in large part on the ability of its General Partner to accurately assess the fundamental value of a Fund's assets, and no assurance can be given that the General Partner will accurately assess the nature and magnitude of the many factors having a bearing on the value of a Fund's assets. Further, no assurance can be given that all of the relevant factors or that all of the pertinent information will be considered by or be available to those persons in formulating any particular investment decision. The failure to consider any of those factors or to accurately assess the nature and magnitude of the relevant factors or pertinent information may cause a Fund to miss significant profit opportunities or to incur substantial losses. As a result, due to a wide variety of market factors and the nature of certain securities and assets to be held by a Fund, there can be no guarantee that the value determined by the General Partner will represent the value that will be realized by a Fund upon the disposition of the investment. The amount and timing of Carried Interest received by the General Partner may depend in part on the valuation of a Fund's assets and liabilities.

## **Assessment of Value May Not Be Accurate**

A Fund's success will depend in large part on the ability of its General Partner to accurately assess the fundamental value of the Fund's assets. An accurate assessment of fundamental value

will depend on a complex analysis of a number of legal, financial, microeconomic, macroeconomic and other factors. No assurance can be given that the General Partner will accurately assess the nature and magnitude of the many factors having a bearing on the value of the Fund's assets. Further, no assurance can be given that all of the relevant factors or that all of the pertinent information will be considered by or be available to those persons in formulating any particular investment decision. The failure to consider any of those factors or to accurately assess the nature and magnitude of the relevant factors or pertinent information may cause a Fund to miss significant profit opportunities or to incur substantial losses.

### **Due Diligence Risk**

The Firm conducts due diligence in connection with investment opportunities. The Firm's due diligence process may not reveal all facts that may be relevant in connection with an investment made by a Fund. In some cases, only limited information is available about a company in which the Firm is considering an investment. There can be no assurance that the due diligence investigations undertaken by the Firm will reveal or highlight all relevant facts that may be necessary or helpful in evaluating a particular investment opportunity, or that the Firm's due diligence will result in an investment being successful.

### **Projections**

A Fund may rely upon projections, forecasts or estimates developed by the Firm or a portfolio company concerning a portfolio company's future performance, outcome and cash flow. Projections, forecasts or estimates are inherently subject to uncertainty and factors beyond the control of the Firm and the portfolio company. The inaccuracy of certain assumptions, the failure to satisfy certain requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values, outcomes and cash-flow. Actual events are difficult to predict and beyond a Fund's control. Actual events may differ from those assumed. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results for a Fund or its portfolio companies will not be materially lower than those estimated or targeted therein.

### **Risks Upon Disposition of Certain Investments**

In connection with the disposition of an investment in a portfolio company, a Fund typically will be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. It typically will also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements can result in contingent liabilities, which might ultimately have to be funded by the partners to the extent of their commitments or previous distributions made to them.

### **Side Letters**

The Firm and/or the Fund will typically enter into certain written agreements ("**Side Letters**") with one or more of the Fund's investors. These Side Letters entitle an investor to make an investment in a Fund on terms different from those in the Fund's Partnership Agreement. Any such terms, including with respect to (i) opting out of particular investments; (ii) reporting

obligations of the Fund; (iii) transfers to affiliates; (iv) co-investment opportunities; (v) withdrawal rights due to adverse tax or regulatory events; (vi) consent rights to certain Partnership Agreement amendments; or (vii) any other matters, can be more favorable than those offered to any other investors. Also, investors will have no recourse against a Fund, the applicable Fund's General Partner, the Firm or their respective affiliates in the event that certain investors receive additional or different rights or terms pursuant to such Side Letters, some of which rights may impact the rights and/or increase the obligations of other investors.

## **Cybersecurity Risk**

The Firm, the Funds' service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Funds and their investors, despite the efforts of the Firm and the Funds' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the security, confidentiality, integrity and availability of information belonging to the Funds and their investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, encrypt or otherwise prevent access to these systems of the Firm, the Funds' service providers and counterparties, as well as the data stored by these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Firm's systems to disclose sensitive information in order to gain access to the Firm's data or that of the Funds' investors. A successful penetration or circumvention of the security of the Firm's systems could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, the Firm or their service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. In addition, the Firm may incur substantial costs related to investigation of the origin and scope of a cybersecurity incident, increasing and upgrading cybersecurity, identity theft, unauthorized use or loss of proprietary information, adverse investor reaction, increased insurance premiums or difficulties obtaining insurance coverage, or litigation, regulatory actions or other legal risks.

Similar types of operational and technology risks are also present for the companies in which the Funds invest, which could have material adverse consequences for such companies, and may cause the Funds' investments to lose value.

## **Tax Reform Risks**

On December 22, 2017, P.L. 115-97 (the "**Tax Act**"), originally introduced in Congress as the U.S. Tax Cuts and Jobs Act, was enacted. There continues to be uncertainty regarding certain aspects of this law and its application, and the current administration has announced that it is contemplating further legislation that may result in significant changes to the Internal Revenue Code of 1986, as amended. In addition, under current law, capital gains in respect of a General Partner's right to Carried Interest will be subject to a three-year "holding period" in order to be classified as "long term capital gains," while the corresponding holding period requirement with

respect to capital gains that Fund investors are allocated is one year. This Carried Interest holding period requirement could affect investment decisions, including the timing and structure of dispositions and other realization events, and it could adversely impact returns for investors. For example, the holding period requirement may incentivize the General Partner to cause a Fund to hold an investment for longer than three years in order for the General Partner to obtain a preferential tax rate on Carried Interest, even if there are attractive realization opportunities prior to that time. Further, there are currently administrative and legislative proposals to further change the tax treatment of “carried interest” in ways that may be adverse to partners in the General Partner. A General Partner and the Firm may take these potential adverse consequences into account in their management and operation of the Funds and in addressing these adverse consequences, the interests of the General Partner and the Firm, on the one hand, may diverge from the interests of the investors, on the other hand.

## **Data Protection**

Privacy and data protection are receiving increased amounts of attention and scrutiny from regulators globally. The purpose of these laws is to increase the protection of individuals’ rights and freedoms in relation to their privacy and with respect to the collection, processing, storing, sharing and deletion of their personal data. Compliance with current and future data privacy and data protection laws and regulations could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and some of the Firm’s, Funds’ and/or a portfolio company’s current or planned business activities.

For example, the EU data protection law currently in effect is in the form of the General Data Protection Regulation (EU 2016/679) (the “**EU GDPR**”), which took direct effect across the EU member states on May 25, 2018. The UK GDPR has been in effect in the UK since January 1, 2021, as it is defined by the Data Protection Act 2018 and amended by the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019 (SI 2019/419) (“**UK GDPR**”) (together, the EU GDPR and the UK GDPR are referred to as the “**GDPR**”). The GDPR applies to “controllers” and “processors” of personal data, including the Fund. Under the GDPR, a “controller” determines the purposes and means related to the processing of personal data, and a “processor” is responsible for processing personal data on behalf of a controller. The GDPR has a wide territorial reach and applies to controllers and processors (i) with an establishment in the EU or UK, (ii) that offer goods or services to EU or UK data subjects, or (iii) that monitor EU or UK data subjects’ behavior within the EU or UK. The GDPR imposes more stringent operational requirements on both controllers and processors and introduces significant penalties for non-compliance, with fines of up to 4% of total annual worldwide revenue or EUR 20 million/GBP 17.5 million (whichever is higher, with the currency of the fine dependent on whether such fine is brought under the EU GDPR or the UK GDPR), depending on the type and severity of the breach. The Cayman Islands has a similar law in effect known as the Data Protection Law, 2017 (the “**DPL**”).

The EU GDPR and UK GDPR are currently aligned, although enforcement of the two may differ as the UK regulator (the Information Commissioner’s Office) is not bound to follow the rulings and actions of the EU Data Protection Authorities. The UK’s data protection framework may also change under the Data Protection and Digital Information (No. 2) Bill, which reforms the UK GDPR, a draft of which was introduced to Parliament for discussion on March 8, 2023. Any

changes required if the Bill becomes law could lead to additional data protection compliance steps and increased costs. Although the UK is no longer a part of the European Union, on 21 June 2021 the EU Commission approved an adequacy decision for the UK allowing the free flow of personal data from the European Economic Area to the UK. The UK already recognized the EEA as providing adequate protection for personal data. The EU adequacy decision is to be reviewed annually and will expire in June 2025.

As stated above, the GDPR will apply not only to businesses based in the EU or UK, but also to businesses outside the EU or UK that process personal data collected through the offering services or goods to citizens in the EU or UK or from monitoring their behavior. To the extent a Fund and/or its current or prospective portfolio companies operate in the EU or UK or are involved in the processing of such personal data, it is possible that a Fund and such portfolio company will be required to comply with the GDPR. The law requires businesses to meet new requirements regarding the handling of such personal data, which may entail substantial expense and the diversion of resources from other projects. In addition, ongoing legal reviews by regulators may result in burdensome or inconsistent requirements affecting the location and movement of personal data (e.g., customer and employee data) as well as the management of that data. GDPR compliance may require changes in services, business practices, or internal systems that result in increased costs, lower revenue, reduced efficiency, or greater difficulty in competing with foreign-based firms. The law imposes potential significant financial penalties for noncompliance which would have a significant adverse impact on a Fund and its portfolio companies.

Other privacy laws that have recently come into force in other jurisdictions, including the California Consumer Privacy Act in the US, which was amended by the California Privacy Rights Act (together referred to as the “CCPA”), which took effect on January 1, 2023 and significantly expanded the CCPA’s data protection obligations. The purpose of these laws is broadly to increase the protection of individuals’ rights and freedoms in relation to their privacy and with respect to the processing of their personal data. Other U.S. jurisdictions have similar laws either in place or going into effect this year.

Data protection laws, like GDPR and CCPA, often require more stringent operational requirements and onerous accountability obligations for controllers and processors of personal data, including, for example, in the case of GDPR, requiring formal records of processing, expanded disclosures, among other things, about how, why and by whom personal data is to be used, limitations on retention of personal data, implementation of appropriate technical and organizational security measures to protect personal data, mandatory data breach notification requirements, and higher standards for controllers to demonstrate that they have obtained valid consent or have another relevant legal basis in place to justify their data processing activities. These laws also include data subject rights, such as the rights to access personal data about them and the right to have such data deleted. These rights are not absolute; however, they will require that the Firm has in place the necessary mechanisms to allow individuals to exercise them.

While the Firm and the Funds intend to comply with their privacy and data protection obligations under GDPR, CCPA and other applicable privacy and data protection laws, they may not be able to accurately anticipate the ways in which regulators and the courts will apply or interpret the law. The failure by the Firm or the Funds to comply with applicable privacy and data protection

laws could result in negative publicity and may subject them to significant costs associated with litigation, settlements, regulatory action, judgments, liabilities, or (actual or contingent) fines and penalties. An assessment by a competent regulatory authority of failure to comply with the requirements of the applicable privacy law could result in serious financial and reputational damage to the Firm or the Funds.

These new laws also could cause the Firm's, the Funds' and their portfolio companies costs to increase and result in further administrative costs as part of their compliance efforts, which is likely to reduce capital that can be deployed for making investments. If the current trend in the development of such laws continues in other relevant jurisdictions, such costs may be exacerbated further as new or different compliance obligations arise. Similarly, if privacy or data protection laws are implemented, interpreted or applied in a manner inconsistent with the Firm's or the Funds' expectations, that may result in business practices changing in a manner that adversely impacts the Firm or the Funds. Moreover, if the Firm or the Funds suffer a security breach impacting personal data, there may be obligations to notify government authorities or data subjects, which may divert the Firm's or the Funds' time and effort and entail substantial expense.

The provisions of GDPR, CCPA and other existing or new privacy and data protection laws may also apply to the portfolio companies. On the basis that global data protection laws are constantly evolving the portfolio companies may be continually subject to new laws, regulations or standards or new interpretations of existing laws, regulations, or standards. These laws could affect the value of the portfolio companies if they incur additional costs and restrict business operations. Similarly to the above, failure by the portfolio companies to comply with applicable requirements may result in governmental enforcement actions, litigation, fines and penalties or adverse publicity, which could have an adverse effect on their and the Funds' reputation and adversely affect the business and the value of the Funds' investments.

### **LIBOR Replacement and Other Reference Rates Risk**

Payment obligations, financing terms and investments in many financial instruments (including debt securities, credit facilities and derivatives) may be tied to floating rates, such as the London Interbank Offered Rate (“LIBOR”). In 2017, the United Kingdom Financial Conduct Authority (“FCA”) announced that it would cease to compel banks to provide the quotations needed to sustain LIBOR after 2021. ICE Benchmark Administration, the administrator of LIBOR, ceased publication of most LIBOR settings on a representative basis at the end of 2021 and announced its intention to cease publication of the remaining U.S. dollar LIBOR settings on a representative basis after June 30, 2023. In addition, global regulators have announced that, with limited exceptions, no new LIBOR-based contracts should be entered into after 2021. Actions by regulators have resulted in the establishment of alternative reference rates to LIBOR in most major currencies (e.g., the Secured Overnight Financing Rate for U.S. dollar LIBOR and the Sterling Overnight Interbank Average Rate for GBP LIBOR). Various financial industry groups have been planning for the transition away from LIBOR, and markets are continuing to develop in response to these new rates, but questions around the liquidity of the new rates and how to appropriately adjust these rates to eliminate any economic value transfer at the time of transition remain a significant concern. It is difficult to predict the full impact of the transition away from LIBOR on the Funds. The transition process may involve, among other things, increased

volatility or illiquidity in markets for instruments that still rely on LIBOR. The transition may also result in a reduction in the value of certain LIBOR-based investments held by the Funds or reduce the effectiveness of related transactions such as hedges. Any such effects of the transition away from LIBOR, as well as other unforeseen effects, could result in losses for the Funds. Since the usefulness of LIBOR as a benchmark could also deteriorate during the transition period, effects could occur at any time.

The foregoing is a summary of certain significant risks relating to an investment in a Fund. This summary is qualified in its entirety by a Fund's Private Placement Memorandum, and should not be interpreted as a representation that the matters referred to herein are the only risks involved in an investment in a Fund, or that the magnitude of such risks is necessarily equal.

**Item 9.           Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of or the integrity of the Firm or its management persons.



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

### **A. Affiliated Broker-Dealers**

Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **B. Affiliated Commodity Advisors**

Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **C. Other Affiliations and Conflicts of Interest**

*The Funds' General Partners.*

As discussed in **Item 6** above, various affiliates of the Firm serve as a General Partner to each Fund and are entitled to receive performance-based Carried Interest distributions from the applicable Fund. The existence of the General Partners' Carried Interest creates an incentive for the General Partners to cause such Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation. In addition, as discussed in **Item 5.C** the Firm, such General Partner or their employees receive Transaction and Monitoring Fees. The payment of Transaction and Monitoring Fees create a conflict of interest, as the Firm is incented to cause a portfolio company to increase such fees. Any such Transaction and Monitoring Fees received by the General Partner of a Fund or any of their respective employees are required to be immediately remitted to the Firm. A percentage of such Transaction and Monitoring Fees are used to offset each Fund's management fee.

Because Industry Executives are not affiliates of the Firm, any such fees received by Industry Executives will not offset the management fee. For a discussion of material conflicts of interest involving the Industry Executives, please see **Item 11** below.

### **D. Recommendation of Other Investment Advisors**

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

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

### **Code of Ethics**

The Firm has adopted a code of ethics as part of its compliance manual (the “**Manual**”) pursuant to Rule 204A-1 under the Advisers Act of 1940, as amended (the “**Advisers Act**”), which imposes ethical standards and duties on the partners, members, owners, principals, directors, officers, supervisors, employees and certain other persons subject to the Firm’s control and supervision (collectively referred to herein as “**Covered Persons**”).

The Manual sets forth standards of conduct expected of all Covered Persons and it requires Covered Persons to comply with applicable federal securities laws. Covered Persons are expected to be familiar with the Manual and adhere to its provisions.

The Manual includes policies and procedures concerning “inside information” that are designed to prevent the misuse of material, non-public information. It prohibits Covered Persons from trading for Funds or themselves, or recommending trading, in securities of a company while in possession of material, non- public information about the company, and from disclosing such information to any person not entitled to receive it.

The Manual also addresses conflicts that could arise from personal securities trading by any Covered Persons. First, securities on the restricted list, initial public offerings, and private placements must be pre- cleared by the Chief Compliance Officer. Second, each Covered Person must submit quarterly reports containing all transactions not subject to an exception, for each of their personal securities account. Lastly, the Manual requires each Covered Person to submit to the Chief Compliance Officer at least annually a report of their securities so that they may be checked for compliance with the Manual.

The Firm will provide copies of the section of the Manual containing its Code of Ethics to the Funds upon request, at no charge.

### **Conflicts of Interest**

The Firm and its related entities may engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds, and providing transaction-related, investment advisory, management and other services to funds and operating companies. In the ordinary course of conducting its activities, the interests of a Fund may, from time to time, conflict with the interests of the Firm, other Funds or their respective affiliates. Certain of these conflicts of interest, as well as a description of how the Adviser addresses such conflicts of interest, can be found below.

The material conflicts of interest encountered by a Fund include those discussed below, although the discussion below does not necessarily describe all of the conflicts that a Fund will face. Other conflicts are disclosed throughout this brochure and the brochure should be read in its entirety for other conflicts.

While the Firm believes that its interests with respect to the success of the Funds are generally aligned with the interests of the Funds' investors, conflicts of interest between the Firm, the Firm's principals and their affiliates, on the one hand, and the Fund, on the other hand, will arise.

### *Resolution of Conflicts*

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

- (1) The Firm will consider the appropriateness of an investment from the viewpoint of a Fund;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the Organizational Documents for the Funds;
- (3) Generally, each Fund has established an advisory committee, consisting of representatives of investors not affiliated with the Firm. The advisory committees meet as required to consult with the Firm as to certain potential conflicts of interest. On any issue involving actual conflicts of interest, the Firm will be guided by its good faith discretion;
- (4) Where the Firm deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price;
- (5) The Firm has adopted and implemented certain policies and procedures designed to reduce certain conflicts of interest; and
- (6) Prior to subscribing for interests in a Fund, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Fund.

### *Other Activities of the Firm*

Except as provided otherwise in the Organizational Documents of the applicable Funds, the Firm, their affiliates, and their respective members, managers, directors, officers, partners, shareholders, employees and agents have in the past and may in the future directly or indirectly purchase, sell, hold or otherwise deal with investments for their own accounts, for their family members or for other clients, irrespective of whether such investments are purchased, sold, held or otherwise dealt with for the account of the Fund. An investor will not, solely by reason of being a partner in a Fund, have any right to participate in any manner in any profits or income earned or derived by or accruing to the Firm, their affiliates, and their respective members, managers, directors, officers, partners, shareholders, employees and agents from the conduct of any business other than the business of the Fund or from any transaction or other investment effected by any such person for any account other than that of the Fund.

None of the Firm, the Firm's principals or their respective affiliates will be precluded from undertaking investment activities on behalf of persons in which any of them has an investment as of the date that a Fund has admitted an initial group of limited partners.

It is expected that officers and employees of the Firm responsible for managing a particular Fund will have responsibilities with respect to other Funds managed by the Firm, including Funds that will be raised in the future or to proprietary investments made by the Firm and/or its principals of the type made by a Fund. Conflicts of interest arise in allocating time, services or functions of these officers and employees.

Officers and employees of the Firm may buy securities in other investment vehicles (including private equity funds, hedge funds, real estate funds and other similar investment vehicles) which may include potential competitors of the Funds. Such transactions are subject to the policies and procedures set forth in the Firm's Code of Ethics and investors will not benefit from any such investments.

By reason of their responsibilities in connection with other activities of the Firm or outside activities, certain Firm personnel may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Funds will not be free to act upon any such information. Due to these restrictions, the Funds may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

Funds from time to time may invest in securities of companies in which officers, principals, employees and other related persons of the Firm and its affiliates have previously invested for their own accounts. While the significant interests of the officers and employees of the Firm generally align the interest of such persons with the Funds, such persons may have differing interests from the Fund with respect to such investments (for example, with respect to the availability and timing of liquidity).

#### *Conflicts Relating to Allocation of Investment Opportunities*

The Firm makes allocation determinations consistent with the Funds' Organizational Documents and in accordance with its written policies and procedures. The Firm allocates investment opportunities (in whole or in part) between Funds managed by the Firm in such manner as it believes to be appropriate given each entity's investment focus, capacity for new investments, diversification requirements, scheduled termination date, and any other factors the Firm determines to be relevant to such allocation decision. The Firm may, subject to any investment allocation requirements set forth in a FS Fund's Organizational Documents, allocate any such investment opportunity (in whole or in part) between existing FS Funds and any subsequent FS Funds. Notwithstanding the foregoing, the Firm will not be required to offer a Fund the opportunity to invest in any investments in portfolio companies of any other Fund or account managed by the Firm.

The Firm has organized the Parallel Funds, which have similar investment policies as the FS Funds. To the extent that any such Parallel Fund participates in the investments made by an FS Fund, such Parallel Fund and the FS Fund will co-invest pro rata on the basis of their respective

total capital commitments at the time (subject to adjustment by the General Partner to reflect the effect of investors in an FS Fund or Parallel Fund who opt out or are excused or excluded from particular investments under the terms of the applicable Partnership Agreement) and, generally, on the same terms and conditions. Such Parallel Funds generally do not pay management fees.

The Firm has in the past and may in the future form alternative investment vehicles for a Fund making certain investments on behalf of one or more investors in such Fund and co-investment vehicles for the purpose of making certain co-investments with a Fund. The Firm offers investment opportunities to alternative investment vehicles and co-investment vehicles on a case by case basis, generally on the same terms and conditions applicable to the Fund, and subject to the terms and conditions of the Organizational Documents related to the specific Fund.

In exercising its discretion to allocate investment opportunities and fees and expenses, the Firm is faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among Funds with differing fee, expense and compensation structures, the Firm has an incentive to allocate investment opportunities to the Funds from which the Firm or its related persons would derive, directly or indirectly, a higher fee, compensation or other benefit. Situations could therefore arise whereby the Firm has an economic incentive to make a decision that favors one Fund above the other Funds. In addition, the Firm expects that it or its personnel are likely to in the future establish one or more additional funds with investment objectives substantially similar to, or different from, those of an existing Fund. The Firm recognizes that it must allocate such investment opportunities in a manner that is fair to each of the Funds, in light of the facts and circumstances of each situation.

The Firm has adopted the following general procedures to reduce potential conflicts of interests between its various Funds. In order to seek to mitigate potential conflicts of interest between its various Funds, the Firm has established advisory committees, consisting of representatives of the investors in a Fund whom are not affiliated with the Firm. The advisory committees will meet as required to consult with the Firm as to potential conflicts of interest. A Fund's advisory committee will have the right to review and approve or disapprove certain potential conflicts of interest (as set forth in the Fund's Organizational Documents) of the Firm, or any transaction between the Firm and the Fund, which decision will be binding on the subject person and the Fund.

The application of the considerations and procedures described above will often result in allocation of an investment opportunity on a non-pro rata basis and there can be no assurance that a Fund will participate in all investment opportunities that fall within its investment objectives.

#### *Conflicts Related to Investors in the Funds*

The unaffiliated investors of a Fund are expected to include persons or entities organized in various jurisdictions, which often have conflicting investment, tax and other interests in respect of their investments in the Fund. The conflicting interests of individual investors typically relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of portfolio investments, the purchase by the Fund of an interest in a portfolio company where certain investors did not participate in the portfolio investment in such portfolio

company, and the timing of disposition of investments. Such structuring of portfolio investments and other factors can result in different returns being realized by different investors in the same Fund. As a consequence, conflicts of interest arise in connection with decisions made by the Firm, including in respect of the nature or structuring of investments, that are potentially more beneficial for one investor than for another investor, especially in respect of investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, the Firm will consider the investment and tax objectives of the applicable Fund, not the investment, tax or other objectives of any investor individually.

The Organizational Documents of a Fund establish complex arrangements among the Funds, the Firm, investors, and other relevant parties. From time to time, questions may arise regarding certain parties' rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the Organizational Documents, if any, may be broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While the Firm will construe the relevant provisions in good faith and in a manner consistent with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to a Fund or its investors.

#### *Indemnification*

Funds are required to indemnify the Firm and its affiliates and its members, managers, officers, directors, stockholders, partners, employees, agents (including any subcontractors) and affiliates, as well as the Fund's advisory committee members and the limited partners they represent, for liabilities incurred in connection with the affairs of the Fund. Such liabilities may be material and have an adverse effect on the returns to the investors. The indemnification obligation of a Fund would be payable from the assets of the Fund, including the unfunded commitments. If the assets of a Fund are insufficient, the General Partner of the Fund may recall distributions previously made to the partners.

#### *Consequences of Default; Exclusion from Investments*

In the event that a limited partner fails to fund any of its commitment when required, such limited partner's interest in the relevant Fund and its investments may be reduced and such limited partner may be precluded from participating in further investments.

A limited partner may be excluded from participating in any investment if the Firm determines that such participation is reasonably likely to jeopardize the ability of a Fund to consummate the proposed investment or result in a significant delay, extraordinary expense or material adverse effect on a Fund or any of its affiliates, any portfolio company or any future investment, or is reasonably likely to result in a violation of any law, regulation or order to which such limited partner, the Fund or any of its affiliates is subject. If a limited partner is excluded from participating in an investment, it will not participate in the acquisition of the investment or in any income, gain, loss, deduction, credit or distribution with respect thereto. In the event that one or more limited partners are excluded from participating in an investment, the limited partners who are not excluded, all things being equal, may have a percentage ownership interest in certain investments that is greater than their percentage ownership interest in other investments, and

their percentage interest in the relevant Fund as a whole may be greater than the percentage interest of the excluded limited partners in the Fund as a whole.

#### *Conflicts of Interest Related to Portfolio Companies Held by the Funds*

The Funds invest in portfolio companies that often have competing business interests. A Fund's portfolio company may be from time to time also a customer of or a service provider to another Fund's portfolio company, or two portfolio companies of different Funds from time to time may compete with each other, thus creating conflicts of interest in the Firm's advice to multiple Funds. In providing advice to a portfolio company of one Fund, the Firm is not obligated to, and need not, take into consideration the interests of other Funds or their portfolio companies. As a result, a conflict of interest may arise in these instances because advice and recommendations provided by the Firm to a portfolio company may have adverse consequences to the Funds, or a separate portfolio company owned by another Fund and vice versa, which may incentivize the Firm to take action that benefits one Fund to the detriment of another Fund. For instance, a portfolio company may seek to expand its market share at the expense of another portfolio company; withdraw business from another portfolio company in favor of another company offering the same product or service at a lower price; increase its own prices, purchase assets from, or sell assets to, another portfolio company; commence litigation against another portfolio company; or prevent one portfolio company from commencing litigation against another portfolio company.

A principal or employee of the Firm or a related person has in the past and may in the future serve as a director with respect to portfolio companies, the securities of which are purchased on behalf of the Funds. In the event that the Firm or a related person: (i) obtains material non-public information in such capacity with respect to a portfolio company or (ii) is subject to trading restrictions pursuant to the internal policies of the Firm or such portfolio company, the Firm will be prohibited from engaging in transactions with respect to the securities or instruments of the affected portfolio company. Such a prohibition can have an adverse effect on the Funds.

#### *Conflicts Related to Transactions between the Firm and the Funds*

A Fund must obtain the consent of its advisory committee before (a) making any investment in which the Firm or any affiliate of the Firm has previously made an investment, (b) selling any investment in which the Firm or any other affiliate of the Firm has an interest consisting of securities that are substantially identical and have liquidity substantially equivalent to that of the investment being sold unless such interest is being sold pro rata and on substantially the same terms and at an equivalent price as the Fund's stake in such investment, or (c) for certain Funds, before selling any investment to another Fund.

In certain cases, the Firm may cause a Fund to purchase investments from another Fund, or it may cause a Fund to sell investments to another Fund. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Fund may not receive the best price otherwise possible, or the Firm might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, the Firm, its affiliates and/or their professionals (i) may have significant investments, or intentions to invest, in the

Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). The Firm and its affiliates may receive management or other fees in connection with their management of the relevant Funds involved in such a transaction, and may also be entitled to share in the investment profits of the relevant Funds.

Without the consent of a Fund's advisory committee, neither the Firm nor any other affiliate of the Firm will (i) acquire or sell securities (other than securities it received as a distribution in kind from the Fund, any Parallel Fund, or any alternative investment vehicle) of any portfolio company other than through its interest in the Fund, any Parallel Fund, or any alternative investment vehicle, or (ii) borrow funds from the Fund. The prohibitions contained in this paragraph will not apply to (i) with respect to certain Funds, any acquisition of securities pursuant to a merger, consolidation or transaction involving a portfolio company, (ii) any acquisition of securities made pursuant to preemptive rights or similar interests granted to all or substantially all holders of the same class of securities, (iii) any acquisition of securities by or on behalf of an existing Fund or subsequent Fund made concurrently with, at the same price, and on the same terms and conditions as, the acquisition of substantially identical securities in the same portfolio company by the Fund, any Parallel Fund, or any alternative investment vehicle, so long as the costs and expenses of such transaction are equitably prorated, (iv) any sale or distribution of securities by an existing Fund or a subsequent Fund, provided that if such securities are substantially identical to and have equivalent liquidity as securities in the same portfolio company held by the Fund, any Parallel Fund, or any alternative investment vehicle, such sale or distribution must be made pro rata and substantially concurrently with, and on substantially the same terms and conditions as, the sale or distribution of the corresponding securities by such entities, (v) any sale of securities received in a distribution permitted to be made in clause (iv) above, and (vi) any acquisition of marketable securities.

The receipt of Transaction and Monitoring Fees and reimbursements, as described in **Item 5** above, creates a conflict of interest between the Firm and the Funds and their investors because the amounts of these fees and reimbursements are often substantial and the Funds and their investors generally do not have a direct interest in these fees and reimbursements. The Firm determines the amount of these Transaction and Monitoring Fees and reimbursements in its own discretion, subject to agreements with sellers, buyers, and management teams, the board of directors of or lenders to portfolio companies, and/or third-party co-investors in its transactions, and the amount of such fees and reimbursements often will not (except in connection with the reductions described in **Item 5** above) be disclosed to investors in the Funds.

Decisions made by a director may subject the Firm, its affiliate or a Fund to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director-related claims. In general, the Funds will indemnify the Firm and their partners, principals and employees from such claims. In addition, the employees of the Firm serving as directors may make decisions for a portfolio company that negatively impacts returns received by a Fund investing in the portfolio company.

From time to time employees of the Firm may also be asked to serve as directors of, or observers with respect to, certain entities in which a Fund has fully exited its ownership interest. Such companies are not portfolio companies of the Fund and as a result, any compensation received by



such Firm employee is not subject to the management fee offset described above, or otherwise shared with the Funds and/or investors.

In addition, the Firm may continue to receive other fees from a portfolio company after a Fund has fully exited its ownership interest (for instance, in respect of consulting arrangements or group purchasing arrangements). In such circumstances, any fees received with respect to such exited investment is not subject to management fee offset or otherwise shared with the Funds and/or investors.

The Firm does not co-invest with any of its Funds. However, Industry Executives have in the past and may in the future invest their own capital, either directly or indirectly, in the securities of portfolio companies that are recommended to the Funds. In certain instances, Industry Executives directly invest side-by-side with the Funds, either concurrently with the closing of the Fund's investment in such portfolio company or post-closing. In addition, as described above, the Parallel Funds invest proportionately alongside their respective FS Funds in all transactions. Investors in the Parallel Funds may include Covered Persons and their friends and family, as well as entities controlled by, or established for the benefit of, Covered Persons and their friends and family.

The Firm and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Fund, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Fund expenses may result in "miles" or "points" or credit in loyalty/status programs to the Firm and/or its personnel, and such benefits, rewards and/or amounts (whether or not *de minimis* or difficult to value) will exclusively benefit the Firm and/or such personnel even though the cost of the underlying service is being borne by the Funds, its investors and/or the portfolio companies. Any such benefits, rewards and/or amounts will not be subject to the offset arrangements described above or otherwise shared with such Fund, its investors and/or the portfolio companies. In addition, airline travel incurred as a Fund expense for a Firm personnel travelling for appropriate Fund-related purposes (including, without limitation, travel related to a portfolio company, a prospective portfolio company or other Fund-related matter) may benefit such Firm personnel to the extent the trip also serves a personal purpose.

A Fund may create a platform for acquiring companies in a particular industry for the purpose of creating synergies across, and adding value to, such companies (e.g., merging companies together to create economies of scale or running certain companies in a coordinated manner). In such instances, a holding company ("**Holding Company**") would be created that would acquire and manage the companies in the platform. The Holding Company would be staffed with personnel responsible for sourcing, acquiring and managing companies for the Holding Company. The Holding Company's costs and expenses (including compensation for its personnel, which compensation may include, among other things, the granting of profit participation in certain investments of Holding Company and/or a capital interest in such investments or the underlying assets) would be borne by the Holding Company (and, therefore, indirectly borne by the Fund). Such costs and expenses will not offset the management fee and are in addition to management fees and other compensation (e.g., Carried Interest) received by

the Firm. In addition, as the Firm earns management fees and Carried Interest from the Fund, the Firm will benefit from the assets, income and gains of Holding Company.

#### *Allocation of Co-Investment Opportunities and Secondary Transactions*

The Firm will determine if the amount of an investment opportunity exceeds the amount the Firm determines would be appropriate for the Funds (after taking into account any portion of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants and advisers to the Firm and/or the Funds, Industry Executives, or management teams of the applicable portfolio company, certain strategic investors and other investors whose allocation is determined by the Firm to be in the best interest of the applicable Fund), and any such excess will typically be offered to one or more co-investors pursuant to the procedures included in such Funds' Organizational Documents or, to the extent not addressed in such Funds' Organizational Documents, in accordance with the following paragraphs. Before extending any invitation to participate in a co-investment, the Firm must determine that the co-investment is in the best interest of the applicable Fund. There may be circumstances where an amount that could have otherwise been invested by a particular Fund is instead allocated to one or more co-investors. There may be circumstances where the Firm determines, for strategic or other reasons, the amount that could have otherwise been invested by a Fund is instead allocated to one or more co-investors.

Investors in the Funds have in the past and may in the future be invited by a Fund's General Partner to participate individually in investments in portfolio companies, including (where appropriate) as lenders, placement agents, and purchasers of securities. However, investors who participate in such direct investment opportunities will assume any risk, responsibility or expense relating to their participation, and such direct investment will not entitle the limited partners to participate in the management or control of the investment.

In general, subject to any investment allocation requirements set forth in a Fund's Organizational Documents, (i) no investor in a Fund has a right to participate in any co-investment opportunity and investing in a Fund does not give an investor any rights, entitlements or priority to co-investment opportunities, (ii) decisions regarding whether and to whom to offer co-investment opportunities, as well as the applicable terms on which a co-investment is made, are made in the sole discretion of the Firm or its related persons or other participants in the applicable transactions, (iii) co-investment opportunities typically will be offered to some and not other investors in the Funds, in the sole discretion of the Firm or its related persons, (iv) certain persons other than investors in the Funds (e.g., Industry Executives, consultants, joint venture partners, persons associated with a portfolio company and other third parties) rather than one or more investors in a Fund, will be offered co-investment opportunities, in the sole discretion of the Firm or its related persons and investors may be offered a smaller amount of co-investment opportunities than originally requested and an investor may be offered fewer co-investment opportunities than other investors in the same Fund, with the same, larger or smaller capital commitments to such Fund, and (v) co-investors generally purchase their interests in a portfolio company at the same time as the Funds or will on occasion purchase their interests from the applicable Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell down or transfer). Each co-investment opportunity (should any exist) is likely to be different and allocation of each such opportunity will be dependent upon

the facts and circumstances specific to that unique situation (e.g., timing, industry, size, geography, asset class, projected holding period, exit strategy and counterparty). Additionally, non-binding acknowledgments of interest in co-investment opportunities do not require the Firm to notify the recipients of such acknowledgments if there is a co-investment opportunity. However, the Firm has in the past and may in the future agree to give particular investors, Funds, or other third parties priority access to co-investment opportunities. The existence of such priority co-investment access could affect the Firm's decision to offer certain opportunities for co-investment and could limit the ability of Funds or their investors to be offered certain co-investment opportunities.

Any fees generated by the Firm as a result of co-investments in connection with any portfolio company will often not reduce the management fees paid by the Funds and will therefore be retained by the Firm. The allocation of co-investment opportunities will, in many or all cases, also involve a benefit to the Firm in addition to the receipt of fees, including the receipt of management fees or allocation of carried interest from the co-investor, and/or capital commitments to Funds (including successor Funds). As a result of the foregoing, the Firm could be incentivized to allocate a greater portion of an investment to a co-investor than it would have otherwise allocated absent such an arrangement or economic terms.

In exercising its discretion to allocate co-investment opportunities with respect to a particular investment among the Funds and other potential co-investors, the Firm will generally consider some or all of a wide range of factors, which include, but are not limited to, the Firm's own interests and/or one or more of the following:

- The Firm's evaluation of the size and financial resources of the potential co-investment party and the Firm's perception of the ability of that potential co-investment party (in terms of, for example, staffing, expertise and other resources or similar synergies) to efficiently and expeditiously participate in the investment opportunity with the relevant Fund(s) without harming or otherwise prejudicing such Fund(s), in particular when the investment opportunity is time-sensitive in nature, as is typically the case (including whether the potential co-investment party has a complicated tax structure that would require particular structuring implementation or covenants that would not otherwise be required);
- Any confidentiality concerns the Firm has that arise in connection with providing the other account or person with specific information relating to the investment opportunity in order to permit such potential co-investment party to evaluate the investment opportunity;
- Whether a potential co-investment party has a history of participating in opportunities and the Firm's perception of its past experiences and relationships with that potential co-investment party, such as the willingness or ability of the potential co-investment party to respond promptly and/or affirmatively to potential investment opportunities previously offered by the Firm and the expected amount of negotiations required in connection with a potential co-investment party's commitment;

- The character and nature of the co-investment opportunity (including the potential co-investment amount, structure, geographic location, tax characteristics and relevant industry);
- Level of demand for participation in such co-investment opportunity;
- Any interests a potential co-investment party has in any competitors of the portfolio company;
- The Firm's perception of whether the investment opportunity may subject the potential co-investment party to legal, regulatory, competitive, confidentiality, reporting, public relations, media or other burdens that make it less likely that the other account or person would act upon the investment opportunity if offered;
- The Firm's evaluation of whether the profile or characteristics of the potential co-investment party will have an impact on the viability or terms of the proposed investment opportunity and the ability of the Funds to take advantage of such opportunity (for example, if the potential co-investment party is involved in the same industry as a target company in which a Fund wishes to invest, or if the identity of the potential co-investment party, or the jurisdiction in which the potential co-investment party is based, may affect the likelihood of a Fund being able to capitalize on a potential investment opportunity); and
- Whether the Firm believes, in its sole discretion, that allocating investment opportunities to a potential co-investment party will help establish, recognize, strengthen and/or cultivate relationships that provide indirectly longer-term benefits (including strategic, sourcing or similar benefits) to current or future Funds and/or the Firm and whether the potential co-investment party has demonstrated a long-term and/or continuing commitment to the potential success of the current or future Funds and/or the Firm.

The factors above are not listed in order of importance or priority and the Firm is not required to, and does not, consider all of the factors described above in any particular investment and some factors may be more or less important depending upon the nature of the particular investment and attendant circumstances. The Firm's exercise of its discretion in allocating investment opportunities with respect to a particular investment among the persons, including the Funds, investors in the Funds and other third parties, and in the manner discussed above often will not result in proportional allocations among such persons, and such allocations will be more or less advantageous to some such persons relative to other such persons. For example, the Firm may be incentivized to offer a co-investment opportunity to certain persons over others based on its economic arrangement with such persons (including, for example, whether the Firm and/or the applicable general partners are entitled, under arrangements made with certain potential co-investment parties, to additional management fees and/or carried interest based on the availability of co-investment opportunities offered to such parties).. While the Firm determines how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which the allocation is made will be as favorable

as they would be if the conflicts of interest to which the Firm is subject, discussed herein, did not exist.

In the event the Firm determines to offer an investment opportunity to co-investors, there can be no assurance that the Firm will be successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the co-investment will take place on the terms and conditions that will be preferable for the Fund or that expenses incurred by the Fund with respect to the syndication of the co-investment will not be substantial. Further, it is possible that a potential co-investment party may experience financial, legal or regulatory difficulties and may, from time to time, have economic, tax, regulatory, contractual or other business interests or goals that are inconsistent with those of a Fund and as a result, may take a different view from the Firm as to appropriate strategy for an investment or may be in a position to take a contrary action to a Fund's investment objective. In the event that the Firm is not successful in offering a co-investment opportunity to potential co-investors, in whole or in part, it is possible that the Fund will consequently hold a greater concentration and have exposure in the related investment opportunity than was initially intended and would bear the entire portion of any fees, costs and expenses related to such investment, which could make the Fund more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto. Moreover, an investment by a Fund which is not syndicated to co-investors as originally anticipated could significantly reduce the Fund's overall investment returns. Therefore, it is possible that if a Fund overcommits to an investment it will bear a disproportionate allocation of the risks associated with the transaction without being compensated for assuming such risks.

A Fund will on occasion sell down an interest in its portfolio companies to co-investors, including but not limited to Industry Executives. Subject to the applicable Organizational Documents, the Firm may charge (or may decide not to charge) a co-investor (such as the investor in a Fund or a third party) interest costs for the time period between the closing of the applicable Fund's investment in a portfolio company to the date of the transfer of interests in such portfolio company to the applicable co-investor.

The Firm or its affiliates may establish dedicated co-investment vehicles for specific investors in order to facilitate investments by the relevant investors as co-investment parties alongside the Funds. Any such vehicle will be established at the Firm or its affiliates' sole discretion and the Firm and its affiliates have no obligation to offer a similar opportunity to any other investor.

In addition, to the extent the Firm has discretion over a secondary transfer of interests in a Fund or is asked to identify potential purchasers in a secondary transfer, the Firm will do so in its sole discretion, generally taking into account the following factors:

- The Firm's evaluation of the financial resources of the potential purchaser, including its ability to meet capital contribution obligations;
- The Firm's perception of its past experiences and relationships with the potential purchaser, including its belief that the potential purchaser would help establish, recognize, strengthen and/or cultivate relationships that may provide indirectly longer-term benefits to current or future Funds and/or the Firm and the expected amount of negotiations required in connection with a potential purchaser's investment;

- Whether the potential purchaser would subject the Firm, the Funds, or their affiliates to legal, regulatory, reporting, public relations, media or other burdens;
- A potential purchaser's investment into an other Fund (including any commitment into a future fund);
- Requirements in the Partnership Agreement; and
- Such other facts as it deems appropriate under the circumstances in exercising such discretion.

### *Cross-Transactions*

In certain cases, the Firm may cause a Fund to purchase investments from another Fund, or it may cause a Fund to sell investments to another Fund. Such transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Fund may not receive the best price otherwise possible, or the Firm might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. Additionally, in connection with such transactions, the Firm, its affiliates and/or their professionals (i) may have significant investments, or intentions to invest, in the Fund that is selling and/or purchasing such an investment or (ii) otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment). The Firm and its affiliates generally receive management or other fees in connection with their management of the relevant Funds involved in such a transaction, and generally are entitled to share in the investment profits of the relevant Funds.

Depending on the transaction structure, these transactions may disproportionately benefit the purchasing, selling, or merging Fund (or the Firm as a result of its interests in a particular Fund), and one Fund may incur expenses or forego gains that would have been obtained had it not entered into such transaction. For example, the Firm may be incentivized to support a less successful portfolio company of an older Fund by causing a newer Fund with a longer remaining term and investment period to purchase a part or all of such portfolio company in order to provide the Firm additional time to potentially manage it to a successful exit and increase the likelihood of the Firm or an affiliate receiving Carried Interest. Conversely, the Firm may be incentivized to sell an attractive investment in an older Fund to a newer Fund to increase the amount of fees received by the Firm or an affiliate with respect to such an investment. Determining the valuation or other terms of such transactions may also create a conflict of interest due to the Firm's consideration of the particular terms (including the fee terms) of the Funds and the Firm's interest in such Funds. Such acquisition or merger may result in the acquiring entity purchasing a Fund's portfolio company at a valuation that is: (a) not the highest price than could have been obtained in the market had there been a robust sales process with multiple third-party bidders or (b) higher than the value of the company resulting in an overvaluation.

Under certain circumstances, the Firm may wish to reduce the investment of one or more Funds in an investment and increase the investment of other Fund(s) in such investment, and may, therefore, effect such transactions by directing the transfer of such investment between such

Funds or through any other transaction structure (for example, distribution of portfolio company interests from one Fund and contribution of such interests to another Fund). Any costs and expenses associated with any such transaction will be borne by such Funds in accordance with such Funds' Organizational Documents and to the extent not addressed in the applicable Organizational Documents, on an allocation that the Firm deems in good faith to be fair and reasonable.

To address these conflicts of interest, in connection with effecting such transactions, the Firm will follow the Investment Allocation Requirements of the relevant Funds (e.g., the Organizational Documents of certain Funds may provide for the rebalancing of investments at certain times and at a cost set forth in those Organizational Documents so that these Funds' resulting ownership of investments is generally proportionate to the relative capital commitments of the Fund). To the extent such matters are not addressed in the Investment Allocation Requirements, the Firm's Chief Compliance Officer will be responsible for confirming that the Firm (i) considers its respective duties to each Fund and (ii) obtains any required approvals of the transaction's terms and conditions. There can be no assurance that any such conflicts can be resolved in a manner that is beneficial to each Fund or portfolio company nor is there any assurance that such transaction will be equally or similarly profitable or advantageous to each participating Fund.

#### *Continuation Transactions*

From time to time the Firm may determine that it is in the best interest of a Fund holding the investment (the "selling Fund") to transact with another Fund (the "purchasing Fund") in order to provide the selling Fund's investors with an option to either: (1) receive cash proceeds from the selling Fund's sale or transfer of such portfolio company and/or (2) "roll" (i.e., retain) their interest in such portfolio company. These types of transactions are often referred to as "continuation transactions". In connection with such continuation transactions, Firm may require the investors in the purchasing Fund to make an additional investment in a Fund or commit to invest a future Fund. In addition to those conflicts of interest described above under "Cross Transactions", conflicts of interest arise in these continuation transactions because (i) the Firm and its affiliates are charging investors in the purchasing Fund a management fee and Carried Interest (which economics are likely to be different than the selling Fund) and the transactions have the potential to result in the receipt of additional management fees and Carried Interest by the Firm and its affiliates; (iii) the Firm and Firm personnel are expected to have the ability to make material investments in the purchasing Fund, which may cause them to take actions that benefits the purchasing Fund; (iv) the Firm is actively involved in negotiating the terms of the sale on behalf of the selling Fund, on the one hand, and the purchasing Fund, on the other hand (including allocation of expenses incurred in the transaction); and/or (v) of the requirement for an investor in the purchasing Fund to make an investment in a Fund or a commitment to invest in a future Fund, which (a) incentivizes the Firm to favor such investors because of the potential for the Firm and its affiliates to earn additional management fees with respect to any such investment or commitment to invest, and (b) could affect the price such investors offer to purchase the asset from the selling Fund. Additionally, conflicts of interest arise in continuation transactions as a result of the allocation of fees and expenses, because fees and expenses will be incurred in connection with the transaction, and the Firm might determine

to allocate bankers' fees and certain other fees and expenses solely to selling investors and not to the "rolling investors" or "new investors" in the purchasing Fund or vice versa.

To the extent not addressed in a Fund's Organizational Documents, the Firm will address conflicts of interest that arise in connection with continuation transactions as set forth above under "Cross Transactions."

#### *Conflicts Related to Other FS Funds*

FS Funds from time to time make investments in conjunction with an investment being made by other FS Funds, or in a transaction where another FS Fund has already made an investment, including in the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may arise in connection with such investments. Conflicts arise in determining the terms of investments, particularly where these FS Funds may invest in different types of securities in a single portfolio company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raises conflicts of interest. In the event that one FS Fund has a controlling or significantly influential position in a portfolio company, it will have the ability to elect some or all of the board of directors of such a portfolio company, thereby controlling the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling FS Fund is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a company. Such management and operational decisions may, at times, be in direct conflict with another FS Funds that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company.

If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the FS Funds may or may not provide such additional capital, and if provided each FS Fund will supply such additional capital in such amounts, if any, as determined by the Firm. Investments by more than one Fund of the Firm or its affiliates in a portfolio company also raise the risk of using assets of a Fund of the Firm or its affiliates to support positions taken by other Funds of the Firm or its affiliates, or that a Fund may remain passive in a situation in which it is entitled to vote. In addition, there may be differences in timing of entry into, or exit from, a portfolio company for reasons such as differences in strategy, existing portfolio or liquidity needs. In addition (subject to any restrictions or requirements in a Fund's Organizational Documents), where more than one Fund of the Firm (or its affiliates) invests in the same portfolio company, there can be no assurance that such parties will dispose of investments at the same time and on the same terms. For example, because the Firm may have an incentive to show realized returns in connection with other fundraising activities (including fundraising for a successor fund) and because one Fund's term may expire before the end of another Fund's term, such Funds may dispose of the investment at different times. Investments disposed of at different times will likely be disposed of at different valuations and, as a result, each Fund may realize different returns as compared to the same investment held by another Fund. These variations in timing may be detrimental to a Fund. At the same time, if the Firm



determines it is advisable for a Fund to exit an investment at the same time as another Fund of the Firm or its affiliates, the term of which may expire sooner than the former Fund's, such Fund may dispose of its interest earlier than it ordinarily would have and may, as a result, experience lower returns than it otherwise may have earned on such investments.

#### *Conflicts Related to the Compensation Structure*

Because there is a fixed investment period after which capital from investors in the Funds can only be drawn down in limited circumstances and because management fees are, at certain times during the life of the Funds, based upon capital invested by the Funds, this fee structure creates an incentive to deploy capital when the Firm would not otherwise have done so.

In addition, the Firm and its principals have an indirect interest in the securities of portfolio companies held by the Funds because of Carried Interest. As discussed in **Item 6** above, the existence of Carried Interest from the Funds gives rise to certain conflicts of interest that likely would not exist in the absence of such performance-based compensation.

In addition, the General Partners of the Funds are incentivized to hold on to investments that have poor prospective for improvement in order to receive ongoing management fees in the interim and, potentially, a more likely or larger Carried Interest distribution if such asset's value appreciates in the future. This incentive is increased by the presence of the clawback obligation of the Funds' General Partners.

The Organizational Documents of certain Funds permit the General Partner of each such Fund to cause such Fund to distribute such General Partner's share of securities resulting from an investment disposition by such Fund to such General Partner or its affiliates (including managing directors and employees) in kind, while disposing of limited partners' share of such securities and distributing the net cash proceeds of such sale of securities to the limited partners. This ability creates conflicts of interest between the General Partners and the limited partners of the applicable Fund, because the General Partner has an incentive to cause the Fund to exit an investment at a time that could result in limited partners receiving a lesser return on such investment than would be the case if the General Partner was prohibited from receiving its proceeds from investments in kind (or was otherwise required to receive its share of investment proceeds in the same form as limited partners). In the event the General Partner, or its affiliates, of a Fund receive such a distribution, such General Partner will generally act in its own interest with respect to its share of securities and may determine to sell the distributed securities (which may include selling its securities prior to the time at which the investor sells its distributed securities), or hold on to the distributed securities for such time as such General Partner shall determine. The ability of the General Partner of a Fund to act in its own interest with respect to such distributed shares creates a conflict of interest between the General Partner or affiliate, as an adviser to the Fund, and such Fund. Furthermore, the General Partners are particularly incentivized to receive distributions in-kind of securities that they expect to increase in value, and in cases where the increase occurs, if the limited partners received cash distributions instead of in-kind distributions, the limited partners will be denied the benefits of that increase had a Fund retained the securities and the General Partner of such Fund will receive more value from the securities than it would have had its carried interest been paid in cash.

Pursuant to the Organizational Documents of a Fund, the General Partner of a Fund may be required to return excess amounts of Carried interest as a “clawback.” This clawback obligation may create an incentive for the General Partner to defer disposition of one or more investments or delay the liquidation of a Fund if the disposition and/or liquidation would result in a realized loss to the Fund or would otherwise result in a clawback situation for the General Partner.

In addition, the General Partner of a Fund is incentivized to hold on to investments that have poor prospects for improvement in order to receive ongoing management fees in the interim and, potentially, a more likely or larger Carried Interest distribution if such asset’s value appreciates in the future. This incentive is increased by the presence of the clawback obligation of the General Partner.

#### *Conflicts Related to Advisory Committee Rights*

Generally, each Fund has established an advisory committee, consisting of representatives of investors. A conflict of interest may exist when some, but not all limited partners are permitted to designate a member to the advisory committee. The advisory committee may also have the ability to approve conflicts of interests with respect to the Firm and the applicable Fund, which could be disadvantageous to the investors, including those investors who do not designate a member to the advisory committee. Representatives of the advisory committee may have various business and other relationships with the Firm and its partners, employees and affiliates. These relationships may influence the decisions made by such members of the advisory committee.

In addition, members of one Fund’s advisory committee may also be a member of another Fund’s advisory committee. In such instances, a conflict of interest exists because the Funds on which such overlapping advisory committee members may have conflicting interests and such advisory committee members may be asked to provide their consent with respect to such conflicts of interest and will not recuse themselves from any such vote.

#### *Conflicts Related to Industry Executives*

As discussed in **Item 8**, above, the Firm utilizes the services of Industry Executives. The Industry Executives, who are not affiliates of the Firm, are engaged to provide due diligence, research, operational support, specialized operations and consulting services and similar or related services to, or in connection with, one or more portfolio companies or prospective portfolio companies in relation to the sourcing, evaluation, identification, acquisition, holding, improvement and disposition of such portfolio companies or prospective portfolio companies. These services may be high level insight or extensive day-to-day roles, and typically include support to the General Partner or portfolio companies regarding, among other things, the company’s management (including serving in management positions or participating in determining corporate strategy), the company’s supply chain, revenue and margin management (including determining sales/marketing strategy and retail strategy), data intelligence, finance (including generating metrics and reporting and business restructuring), human capital management (including recruiting personnel and determining executive/incentive compensation), information technology, corporate communications, customer service, sustainability (including strategy, policy, and reporting development), real estate matters and similar operational matters. It is expected that the services provided by the Industry Executives will expand over time. The

nature of the relationship with each such Industry Executive and the time devotion requirements of each such Industry Executive may vary significantly. Certain Industry Executives may be subject to contractual obligations to exclusively provide certain services to the Funds and/or the portfolio companies. These arrangements may be memorialized in a formal written agreement or may be informal and are negotiated individually, depending upon the anticipated services to be provided. As noted above under “*Conflicts Related to Transactions between the Firm and the Funds*” Industry Executives are from time to time offered the ability to co-invest alongside Funds, including in investments in which such Industry Executive is involved or participates in the management thereof. In certain cases, Industry Executives have attributes of Firm personnel (for instance, they may have dedicated office space, receive Firm administrative support services, participate in general meetings or events for Firm personnel, have Firm e-mail address or business cards), even though they are not employees, affiliates or personnel of the Firm.

Certain of the Industry Executives receive a consulting fee or retainer from the Firm. In addition, Industry Executives from time to time receive transaction fees and/or other fees or compensation directly from the portfolio companies and, in their roles as directors, from time to time also receive directors’ fees directly from the portfolio companies paid in the form of cash and stock options. Certain Industry Executives may negotiate to be retained and paid directly by a portfolio company. The consulting fee or retainer from the Firm is determined at the discretion of the General Partner taking into account the particular services provided by the Industry Executives and the directors’ fees and other transaction fees or other fees, or compensation or retainer from the portfolio company are determined by the relevant portfolio company. Because Industry Executives are not affiliates of the Firm, directors’ fees and transaction fees or other fees, compensation or retainer paid to the Industry Executives by a portfolio company will not reduce any fees otherwise payable to the Firm or its affiliates. In the event an Industry Executive is paid an annual retainer by the Firm or a portfolio company, the value provided to the Firm, portfolio company and, by extension, the relevant Fund by any such Industry Executive may vary year to year and there can be no assurance that the annual retainer paid will be commensurate with the value provided by the Industry Executive. It may be difficult to distinguish services provided by the Industry Executive from the investment advisory services provided to the Funds by the Firm and its affiliates.

#### *Conflicts Related to Service Providers*

Services required by a Fund (including some services historically provided by the Firm or its affiliates to the Funds) may, for certain reasons including efficiency and economic considerations, be outsourced in whole or in part to third parties or licensed software, in each case in the discretion of the Firm or its affiliates. This can create a conflict of interest because the Firm and its affiliates have an incentive to outsource such services at the expense of the Funds to, among other things, leverage the use of Firm personnel. Such services may include, without limitation, deal sourcing, asset management, information technology, licensed software, depository, data processing, client relations, administration, custodial, marketing and marketing-reviews, accounting, valuation, trading, legal, human resources, client services, compliance, corporate secretarial and tax support, director services and other similar services. Outsourcing may not occur universally for all Funds, and, accordingly, certain costs may be incurred by a Fund for a third-party service provider that are not incurred for comparable services by other Funds. The decision by the to initially perform a service for Fund in-house does not preclude a later decision to outsource such services (or any additional services) in

whole or in part to a third-party service provider in the future, and the Firm has no obligation to inform such Funds or investors of such a change. In addition, certain internal service providers (such as internal accountants) may “shadow” or otherwise review the reports of other services provided by such third parties. The costs and expenses of any such third-party service providers will be borne by the relevant Funds.

The Firm and/or its affiliates engage certain service providers to provide services to the Firm, the Funds and/or the portfolio companies, including services during the due diligence and acquisition process. Such service providers or their affiliates may be investors in a Fund or affiliates of such investors and may include, for example, investment or commercial bankers, outside legal counsel, pension consultants and/or other investors who provide services (including mezzanine and/or other lending arrangements). The engagement of any such service provider may be concurrent with an investor’s admission to a Fund, or during the term of such investor’s investment in a Fund. This creates a conflict of interest, as the Firm may give such investor preferred economics or other terms with respect to its investment in a Fund, enhanced information or may have an incentive to offer such investor co-investment opportunities that it would not otherwise offer to such investor. In addition, the Firm will have a conflict of interest in recommending the retention or continuation of a service provider to the Funds or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in Funds or will provide the Firm with information about markets and industries in which the Firm operates, will provide other services that are beneficial to the Firm and/or will provide financial sponsorship of events held by the Firm (such as transaction closing dinners or outings, or informational summits or training events for the Firm or portfolio company personnel). The Firm generally has an incentive to recommend the products or services of certain investors or prospective investors in the Funds to the Funds or their portfolio companies for use or purchase, even though the products or services recommended may not necessarily be the best available to the Funds or the portfolio companies.

The Firm generally may in its discretion, contract directly with, or recommend to a Fund or to a portfolio company thereof (in response to a solicitation for a recommendation or otherwise) that it contract for services with, a related person of the Firm or an affiliate (including but not limited to a portfolio company of a Fund). When making such a recommendation, the Firm, because of its financial or other business interest, has an incentive to recommend the related or other person even if another person is more qualified to provide the applicable services and/or can provide such services at a lesser cost.

Additionally, former Firm employees may also become employees, officers or directors of, or otherwise be engaged by, third-party service providers that provide services to the Firm, the Funds and/or portfolio companies. While employed by the Firm, the cost of the compensation, benefits and attributable overhead provided to these individuals are paid by the Firm unless a Fund’s governing documents permit certain allocations of internal expenses to a Fund. If a former Firm employee becomes an employee or consultant of a third party that also provides services to a Fund, such former employee may be assigned by such third party to provide services to that account. In such instance, the cost of the third-party service provider attributable to the former Firm employee working on a Fund will be borne entirely by a Fund and no such amounts will reduce the management fee paid or the carried interest distributed by such Fund on the basis that such person used to be a former Firm employee.

The Firm and the Funds will generally engage common legal counsel and other advisers in a particular transaction, including a transaction in which there could be conflicts of interest. Members

of the law firms engaged to represent the Funds are on occasion investors in a Fund, and could also represent one or more portfolio companies or investors in a Fund. In the event of a significant dispute or divergence of interest between Funds, the Firm and/or its affiliates, the parties will in the sole discretion of the Firm and its affiliates engage separate counsel, and in litigation and other circumstances separate representation will often be required. Additionally, the Firm and the Funds and the portfolio companies of the Funds have in the past and may in the future engage other common service providers. In such circumstances, the service provider may charge varying rates or engage in different arrangements for services provided to the Firm, the Funds, and/or the portfolio companies. This may result in the Firm receiving a more favorable rate on services provided to it by such a common service provider than the rates payable by the Funds and/or the portfolio company, or the Firm receiving a discount on services even though the Funds and/or the portfolio companies receive a lesser, or no, discount. In addition, the Firm or its affiliates and service providers often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the expertise required and the time demands of the service provider. As a result, to the extent the services required by the Firm or its affiliates differ from those required by the Funds and/or its portfolio companies, the Firm and its affiliates will pay different rates and fees than those paid by the Funds and/or its portfolio companies.

Certain other service providers to the Firm, the Funds and/or the portfolio companies, or affiliates of such service providers, may also provide goods or services to or have business, personal, financial or other relationships with the Firm, its affiliates, or their respective portfolio companies. Such service providers (or their employees) may also source of investment opportunities, be co-investors or commercial counterparties or entities in which the Firm and/or the Funds have an investment, and payments by a Fund and/or such portfolio companies may indirectly benefit the Firm and/or such Fund.

This creates a conflict of interest between the Firm, on the one hand, and the Funds and/or portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that the Firm will favor the engagement or continued engagement of such persons if it receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Funds and/or the portfolio companies. Neither the Funds nor investors in the Funds will receive the benefit of any such favorable rate or discount provided to the Firm, its personnel or its affiliates, and the management fee paid by any Fund will not be reduced in connection with such favorable rate or discount.

Additionally, employees of the Firm or its affiliates, and/or their family members or relatives may have ownership, employment, or other interests in service providers to the Funds or their portfolio companies. Although the Firm selects service providers that it believes will enhance portfolio company performance (and, in turn, the performance of the relevant Fund(s)), there is a possibility that the Firm, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

### *Other Potential Conflicts*

The Funds from time to time co-invest with third parties through partnerships, joint ventures or other similar entities or arrangements. These investments may involve risks that would not otherwise be present in investments where a third party is not involved. Such risks include, among other things, the possibility that the third party may have differing economic or business goals than those of a Fund, or that the third party may be in a position to take actions that are inconsistent with the investment objectives of the Funds. There may also be instances where the Funds will be liable for the actions of such third-party co-investors. There can be no assurance that the return of a Fund participating in a transaction with a third party would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

The Firm has in the past and may, from time to time in the future, cause one or more Funds to purchase, and/or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) for insurance to insure the applicable Funds, the applicable general partner, the Firm and/or their respective directors, officers, employees, agents, representatives, members of the advisory committee and other indemnified parties, against liability in connection with the activities of the Funds. This may include a portion of any premiums, fees, costs and expenses for one or more “umbrella” or other insurance policies maintained by the Firm that cover one or more Funds and/or the Firm (including their respective directors, officers, employees, agents, representatives, members of the advisory committee and other indemnified parties). The Firm will make judgments about the allocation of premiums, fees, costs and expenses for such “umbrella” or other insurance policies among one or more Funds and/or the Firm on a fair and reasonable basis, and may make corrective allocations should it determine subsequently that such corrections are necessary or advisable. There can be no assurance that a different allocation would not result in a Fund bearing less (or more) premiums, fees, costs and expenses for insurance policies.

The Firm may compete against, or engage in business with (i.e., through co-investments and joint ventures) other investment advisers with which the Firm or its employees have a relationship or from which the Firm or its employees otherwise derives financial or other benefit or may invest in the investment vehicles managed by such investment advisers. In particular, certain employees of the Firm have family members that are employed by other investment advisers and providers of financial services, including competitors of the Firm. Such relationships create a conflict of interest because they can influence the Firm in determining whether to transact with such other adviser. In addition, to the extent Firm personnel receive material non-public information regarding an issuer in connection with investments made or to be made by the other investment adviser, the Funds could be restricted in its investment activities with respect to such issuer.

## **Item 12. Brokerage Practices**

The Firm's investment strategy typically involves making direct long-term investments in companies on behalf of the Funds. As such, the Firm does not routinely trade public securities on behalf of Funds. Any use of broker-dealers most often involves exiting a portfolio company investment either in an underwritten offering or through open market sales. The Firm selects broker-dealers on a "best execution" basis. Best price, after giving effect to commissions and transaction costs, is one factor in this decision, but the Firm also takes into account many other factors of best execution for a specific transaction, including reputation, creditworthiness and financial stability of the broker-dealer, the quality of services, such as market-making, distribution and execution, clearing and settlement and research as well as the Firm's business relationship with the broker-dealer, if any. Accordingly, transactions will not necessarily be executed at the lowest available price or commission.

The Firm currently does not engage in soft dollar arrangements or directed brokerage transactions. The Firm's investment strategy does not typically present the opportunity to aggregate the purchase or sale of securities for various client accounts. In the event more than one Fund purchases or sells the same publicly traded security, the Firm aggregates (or bunches) the orders of such Funds for such security. The Firm often employs this practice because larger transactions generally enable them to obtain better overall prices, including lower commission costs or markups or mark-downs. The Firm will combine orders on behalf of Funds with orders for other Funds for which it has trading authority, or in which it or its affiliates have an economic interest. In such cases, the Firm generally aggregates trade orders for publicly traded securities so that each participating Fund will receive the average price for each execution of a transaction. If an order for more than one Fund for a publicly traded security cannot be fully executed, allocation shall be made based upon the Firm's procedures for allocation of investment opportunities as described in **Item 11** above.

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

#### **A. Account Review**

Members of the Firm monitor, and gather information with respect to the Funds on a periodic basis. In addition, the Firm reviews and conducts valuations of all Funds on a quarterly basis. A member of the deal team responsible for each portfolio investment will gather and review information regarding the investment, develop a valuation for such investment, and submit the valuation and supporting materials to members of the Firm, which shall, in turn, review the valuation and supporting materials. For certain Funds, such materials are then submitted to the advisory committee of the applicable Fund for review and approval. On an annual basis, a third-party accountant will conduct an audit of each Fund and, in connection therewith, will review any internally-developed valuation for the portfolio investments of such Fund.

#### **B. Factors that Trigger an Account Review**

Not applicable.

#### **C. Account Statements**

Investors in the Funds receive written quarterly unaudited financial statements for the first three quarters of the fiscal year, an annual report and annual audited financial statements. Moreover, investors in the Funds can receive certain additional information upon request, as set forth in the applicable Fund's Partnership Agreement.



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

### **A. Benefits from others for Providing Investment Advice**

For details regarding economic benefits provided to the Firm by non-clients, including a description of related material conflicts of interest and how they are addressed, please see **Item 11** above. In addition, the Firm and its related persons, in certain instances, receive discounts on products and services provided by portfolio companies of Funds and/or the customers or suppliers of such portfolio companies.

### **B. Client Referrals**

While not a client solicitation arrangement, the Firm has entered into contractual agreements with several organizations (hereafter referred to as “agents”) that have solicited investors for certain of the Funds. While the specific terms of each arrangement differ, generally an agent’s compensation is based upon the capital commitments made by the referred investors to the Funds. Any sales charge associated therewith will ultimately be payable by the Firm, either directly or through an offset of the management fee payable by the relevant Fund.

**Item 15. Custody**

**Item 15** is not applicable to the Firm.

**Item 16. Investment Discretion**

The Firm has discretionary authority to manage securities accounts on behalf of each Fund, subject to the investment objectives, strategies and policies set forth in the applicable Fund's Partnership Agreement.

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

The Firm has authority to vote proxies on behalf of the Funds and, in accordance with Rule 206(4)-6 of the Advisers Act, has adopted policy and procedures to address how the Firm will vote proxies on behalf of each client. The Firm will consider each proxy issue individually and will exercise its best judgment as a fiduciary to vote all proxies in the best interests of the Funds pursuant to the goals of a Fund's investment strategy. The Firm will at times abstain from voting or decide not to vote if the Firm determines that abstaining or not voting is in the best interests of the applicable Fund(s).

The Firm has in the past been, and may in the future be, subject to material conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. The Firm and/or its employees also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers, or candidates for directorships. In the event a material conflict of interest is identified, the Chief Compliance Officer or designee shall take such actions as he or she deems necessary to determine how to vote the proxy in the best interests of the Funds. Depending upon the specific facts and circumstances associated with a given proxy, such actions can include consulting with: (1) legal counsel, (2) a proxy consultant, or (3) deal team members. After such consultation, the Chief Compliance Officer or designee shall review the votes in advance to ensure that the Firm's proposed vote is not prompted by any conflict of interest. In accordance with Rule 206(4)-6, the Firm will document the basis for its voting decisions.

A copy of the proxy voting policy and procedures is available to the Funds upon request, by contacting Christopher M. Iorillo at (310) 444-1822. Further, upon request, Funds will be provided with information about how proxies have been voted.

**Item 18. Financial Information**

**A. Prepayment of Fees**

The Firm does not require or solicit prepayment of any fees from the Funds six months or more in advance.

**B. Financial Impairment**

As of the date of this brochure, the Firm is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to the Funds.

**C. Bankruptcy Petition**

The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

**Item 19. Requirements for State-Registered Advisers**

Not applicable.