

**ITEM 1      COVER PAGE**

**INVESTMENT ADVISER BROCHURE**

**ARSENAL CAPITAL MANAGEMENT LP**

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**March 31, 2023**

**This Brochure (“Brochure”) provides information about the qualifications and business practices of Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”). If you have any questions about the contents of this Brochure, please contact us at (212) 771-1717. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

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

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

## **ITEM 2        MATERIAL CHANGES**

This Item of the Brochure will discuss only specific material changes that have been made to the Brochure since our last annual update and provide clients with a summary of such changes. The last annual update of our Brochure was March 30, 2022.

This Brochure reflects updates to disclosures relating to fees and compensation, risk factors and potential conflicts of interest, its ownership structure, and Arsenal's business practices and regulatory assets under management. Changes to this Brochure are not material and are solely clarifying or updating changes.

We will further provide you with either a summary of material changes or a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting the Chief Compliance Officer at (212) 771-1717.

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## ITEM 4      ADVISORY BUSINESS

Arsenal Capital Management LP (“Arsenal Capital Management” or “ACM”), a Delaware limited partnership and a registered investment adviser formed in 2000, provides investment advisory services on a discretionary basis to several private equity funds: (i) Arsenal Capital Partners III LP and Arsenal Capital Partners III-B LP comprise “Fund III”; (ii) Arsenal Capital Partners IV LP and Arsenal Capital Partners IV-B LP, comprise “Fund IV”; (iii) Arsenal Capital Partners V LP and Arsenal Capital Partners V-B LP comprise “Fund V”; (iv) Arsenal Capital Partners VI LP, Arsenal Capital Partners VI-B LP and Arsenal Capital VI Executive LP (“VI Executive”) comprise “Fund VI”; and (v) Arsenal Capital Partners Growth LP, Arsenal Capital Partners Growth B LP and Arsenal Capital Growth Executive LP (“Growth Executive”) (the “Growth Fund”). Fund III, Fund IV, Fund V, Fund VI, and the Growth Fund are organized to invest in portfolio companies (together with any future private equity fund to which ACM or its affiliates provide investment advisory services, each an “Arsenal Fund” and collectively the “Arsenal Funds”). In addition, ACM also provides investment advisory services to twelve co-investment vehicles: (i) ACP Biospecimen Holdings, LLC (“ACP Biospecimen Holdings”), (ii) Arsenal IO Co-Invest 1 LP (“ACP IO 1”), (iii) Arsenal IO Co-Invest 2 LP (“ACP IO 2”), (iv) Arsenal IO Co-Invest 3 LP (“ACP IO 3”), (v) Arsenal Revolution Plastics Co-Invest 1 LP (“Arsenal Revolution 1”), (vi) Arsenal Revolution Plastics Co-Invest 2 LP (“Arsenal Revolution 2”), (vii) ACP WCG Co-Invest 1-2020 LLC (“ACP WCG 1-2020”), (viii) ACP WCG Co-Invest 2-2020 LP (“ACP WCG 2-2020”), (ix) ACP WCG Co-Invest 3-2020 LP (“ACP WCG 3-2020”), (x) ACP WCG Co-Invest 4-2020 LP (“ACP WCG 4-2020”), (xi) ACP Value Demonstration Co-Invest 1 (“ACP VD 1”) and (xii) ACP Value Demonstration Co-Invest 2 (“ACP VD 2”) and together with ACP Biospecimen Holdings, ACP IO 1, ACP IO 2, ACP IO 3, Arsenal Revolution 1, Arsenal Revolution 2, ACP WCG 1-2020, ACP WCG 2-2020, and ACP WCG 3-2020, ACP WCG 4-2020, and ACP VD 1 the “Co-Invest Vehicles”, and together with the Arsenal Funds, the “Funds”. The Co-Invest Vehicles were organized to facilitate individual investments into portfolio companies of Arsenal Funds for a discrete group of co-investors.

Arsenal Capital Investment III LP (“Fund III GP”), a Delaware limited partnership, serves as the general partner to Fund III. Arsenal Capital Investment IV LP (“Fund IV GP”), a Delaware limited partnership, serves as the general partner to Fund IV. Arsenal Capital Investment V LP (“Fund V GP”), a Delaware limited partnership, serves as the general partner to Fund V. Arsenal Capital Investment VI LP (“Fund VI GP”), a Delaware limited partnership, serves as the general partner to Fund VI. Arsenal Capital Investment Growth LP (“Growth Fund GP”), a Delaware limited partnership, serves as the general partner to the Growth Fund. Arsenal Capital Investment IO LP (“Arsenal IO Co-Invest GP”), a Delaware limited partnership, serves as the general partner to ACP IO 1, ACP IO 2 and ACP IO 3. Arsenal Capital Investment Revolution Plastics LP (“Arsenal Revolution Co-Invest GP”), a Delaware limited partnership, serves as the general partner to Arsenal Revolution 1 and Arsenal Revolution 2. Arsenal Capital Investment WCG 2020 LLC (“ACP WCG 2020 Co-Invest GP”), a Delaware limited partnership, serves as the general partner to ACP WCG 2-2020, ACP WCG 3-2020 and ACP WCG 4-2020. Arsenal Capital Investment Value Demonstration LP (“Arsenal VD Co-Invest GP”), a Delaware limited partnership, serves as the general partner to ACP VD 1 and ACP VD 2. ACP Biospecimen Holdings, LLC and ACP WCG 1-2020 are each controlled by a board of managers (the “Board of Managers”). Fund III GP, Fund IV GP, Fund V GP, Fund VI GP, Growth Fund GP, Arsenal IO Co-Invest GP, Arsenal Revolution Co-Invest GP, ACP WCG 2020 Co-Invest GP, Arsenal VD Co-Invest GP and the

Board of Managers are each, a “General Partner,” and collectively, together with any future affiliated general partner entities, the “General Partners.” ACM is controlled by its general partner, Arsenal Capital Group LLC, a Delaware limited liability company, which is controlled by its board of managers which consists of Jeffrey B. Kovach and Terrence M. Mullen (collectively, the “Senior Partners”). As of December 31, 2022, ACM managed approximately \$11,120,990,076 in client assets on a discretionary basis.

ACM serves as the management company to Fund III, Fund IV, Fund V, Fund VI and Growth Fund. Employees of ACM comprise the Board of Managers for each of the Co-Invest Vehicles. ACM, the General Partners and other affiliates are collectively referred to as “Arsenal”.

In its capacity as the management company of the Arsenal Funds and through its appointees to the Board of Managers of the Co-Invest Vehicles, ACM has the authority to manage the business and affairs of the Funds.

Arsenal’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments, and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted to some extent. The senior professionals or other personnel of ACM or its affiliates generally serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Funds.

Arsenal makes buyout, recapitalization, and growth equity investments in the middle-market Industrial and Healthcare sectors. Within the Industrial sector, Arsenal sees a technology- and innovation-rich investment opportunity set of businesses poised to meet the growing demand for improved functionality, efficiency, sustainability, and performance of end products and services. Within the Healthcare sector, Arsenal’s attention is focused on building technology-enabled services companies that aim to serve as catalysts for transforming the healthcare system. More specifically, Arsenal’s healthcare team concentrates on: (i) the pharmaceutical services segment, which is facing high drug development costs and lengthy development cycles, and thus in need of technology-rich solutions to increase efficiency, reduce costs, and improve efficacy; (ii) specialty care delivery, where new efficient and integrated care delivery models have emerged that are aimed at reducing the cost of healthcare and improving patient outcomes; and (iii) hospitals and hospital systems, which are facing an increasing demand for care coupled with increasing cost and complexity, and are in need of solutions which improve the efficiency of their operations and quality of care. Across both sectors, Arsenal employs intensive, hands-on oversight, often strengthening and developing management teams and significantly enhancing and augmenting a company’s key capabilities, in an effort to build strategically valuable, growth businesses.

Advisory services provided to the Funds are tailored to the investment objectives and investment restrictions, if any, as set forth in the respective Funds’ limited partnership agreements (“Partnership Agreements”), limited liability company agreements, private placement or offering memorandum, and other Fund documents (together, the “Governing Documents”). As used herein, the term “limited partners” or “investors” refers to the Funds’ limited partners, shareholders, and/or other investors, as applicable. Arsenal does not tailor Fund investments to the individual needs of investors in the Fund, nor may Fund investors impose restrictions on Arsenal’s ability to invest in

certain securities or types of securities. The Funds' General Partners, however, generally enter into side letters or other written agreements with some investors of the Funds ("Side Letters") that have the effect of establishing rights under, or altering or supplementing the terms of, the Governing Documents of the respective Funds. Such Side Letters are generally entered into with a Fund investor without the consent of or notice to any other Fund investor. Further, as detailed in the respective Governing Documents for the Funds, Arsenal will establish an advisory board ("Advisory Board") composed of limited partner representatives of a Fund selected by Arsenal on an annual basis (each of whom are unaffiliated with Arsenal). The Advisory Board will provide such advice and counsel as is requested by Arsenal in connection with Fund investments, potential conflicts of interest, and other Fund matters, as set forth in the Governing Documents for the relevant Fund.

From time to time and as permitted by the relevant Governing Documents, Arsenal provides co-investment opportunities to certain current or prospective investors, including limited partners, lenders, market participants, finders, and/or certain other persons associated with Arsenal and/or its affiliates, including Consultants and Operating Partners (as defined below). Additionally, members on the Strategic Advisory Boards of the Funds are permitted to co-invest alongside the Arsenal Funds, and to the extent they choose to, they do so for a predetermined and non-variable amount in all investments made by that Fund in each such person's sector (*i.e.*, industrials or healthcare), other than in extenuating circumstances (typically regulatory or tax related). Such co-investments involve investment and disposal of interests in the applicable portfolio company generally at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic, regulatory, process, and other reasons, a co-investor will be permitted to purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment, but in certain instances could be well after the Fund's initial purchase. Where appropriate, and in Arsenal's sole discretion, Arsenal reserves the right to (and in certain instances will) charge interest on the sale to the co-investor or co-invest vehicle (or otherwise equitably adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not charged or reimbursed, they will be borne by the relevant Fund.

## **ITEM 5 FEES AND COMPENSATION**

Arsenal (or its Operating Partners (as defined below)) receives various fees and other compensation from its limited partners or Fund portfolio companies. As discussed in further detail below, "Operating Partners" are individuals retained by the General Partners, the Funds and/or the portfolio companies who will be employees of Arsenal or its affiliates, including employees that in certain circumstances could also provide investment advisory services to the Funds on behalf of Arsenal.

The types of fees and compensation received by Arsenal and its Operating Partners are:

1. Management fees ("Management Fee") in connection with its advisory services to the Arsenal Funds.

2. Transaction fees, break-up fees, closing fees, monitoring fees, directors' fees, or other similar fees from portfolio companies, as further described below (collectively, "Portfolio Company Fees") for financial and management consulting services performed for Fund portfolio companies under a management services agreement; such fees generally will offset in whole or in part the Management Fees otherwise payable to Arsenal in accordance with the relevant Governing Documents.
3. Compensation (including cash and non-cash compensation) as an Operating Partner serving in an "Operating Partner - Portfolio Company and Fund Role," and/or an "Operating Partner - Sourcing Role" for services provided to or with respect to portfolio companies or the Funds. Compensation is also permitted to be paid to third-party consultants (including individual operational group members, consultants, and external executives), employees of portfolio companies of the Funds, strategic partners, executive partners or senior or other advisors, including current or future individuals with the title of Senior Advisor, which persons could be employees or affiliates of Arsenal and/or its affiliates ("Consultants"). Such Consultants are engaged to provide services to, or in connection with, a Fund or portfolio company in relation to its activities. The potential roles of Operating Partners and Consultants are discussed in detail, and the relevant terms are defined, under "Operating Partner and Consultant Services and Compensation" in this Item 5. Compensation and other amounts received by Consultants and Operating Partners serving in the Operating Partner - Portfolio Company and Fund Role and in the Operating Partner - Sourcing Role are borne by the relevant Fund and/or portfolio company and do not offset Management Fees.

In addition, investors in the Funds also bear certain fund expenses.

Arsenal will not offset compensation received from outside sources, such as residual employee board seats at entities that are no longer Fund portfolio companies.

### **Management Fees**

Management Fees from Fund III were 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Fund III Management Fees are currently 1.5% of Investment Contributions that have not yet been disposed. Limited partners designated as affiliated partners by Fund III GP do not pay a Management Fee.

Management Fees from Fund IV were 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Fund IV Management Fees are currently 1.5% of Investment Contributions that have not yet been disposed. Limited partners designated as affiliated partners by Fund IV GP do not pay a Management Fee.

Management Fees from Fund V were 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on

Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Limited partners designated as affiliated partners by Fund V GP do not pay a Management Fee. Fund V Management Fees are currently 1.5% of Investment Contributions that have not yet been disposed. Limited partners designated as affiliated partners by Fund V GP do not pay a Management Fee.

Management Fees from Fund VI are 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Limited partners designated as affiliated partners by Fund VI GP do not pay a Management Fee.

Management Fees from the Growth Fund are 2% of capital commitments during the Commitment Period. After the Commitment Period, or upon certain events, the Management Fees are based on Investment Contributions and charged at either 2% or 1.5% as described in the Partnership Agreements. Limited partners designated as affiliated partners by the Growth Fund GP do not pay a Management Fee.

As is generally the case in private equity funds, the Governing Documents provide that a Fund's Management Fees will be calculated and charged on a basis that generally is not tied to the Fund's then-current net asset value. As further described in the Governing Documents, from the effective date of the relevant Fund until a date specified in the Governing Documents (generally representing the earlier of the end of the Fund's defined investment period and the date the relevant General Partner (or an affiliate thereof) first begins receiving or accruing management fees from another Fund meeting certain criteria) (the "Stepdown Date"), Management Fees generally will be calculated based on a formula tied to the amount of the relevant Fund's aggregate Commitments. Further, after the Stepdown Date, Management Fees generally will be charged and calculated based on a formula tied to the amount of investment contributions made by the relevant Fund that have not been permanently written down.

Under the Governing Documents, where the fair market value of an investment exceeds the total amount of investment contributions relating to such investment, post-Stepdown Date Management Fees will not be calculated based upon such appreciated value, and will instead continue to be calculated based on the amount of such investment contributions. However, where there has been a partial distribution, partial writedown or partial sale of an investment and the fair market value of such investment following such event equals or exceeds the total amount of investment contributions relating to such investment, the Governing Documents do not require Management Fees after the Stepdown Date to be reduced. Rather, following such events and after the Stepdown Date, Management Fees otherwise payable will only be reduced to the extent the fair market value of the relevant investment is lower than the investment contributions relating to such investment.

As a result, the amount of Management Fees generally will not correspond with fluctuations in the Fund's net asset value, including following the investment period, and will not be reduced in connection with any write downs (including temporary write downs), except in the case of investments permanently written down. Except where the Governing Documents expressly provide to the contrary, Management Fees will not be reduced (in whole or in part) in the case of partial distributions or partial sales of investments.



In many circumstances, the Management Fee base of such post-Stepdown Date Management Fees will include capitalized transaction-specific expenses of unrealized investments. Further, Management Fees generally will not be reimbursed or refunded under the Governing Documents in the event of realizations, dispositions or write-downs that occur partway through the relevant calculation period.

The Governing Documents set forth the full list of terms under which Management Fees will be reduced, offset or otherwise be limited, and consequently investors should expect to bear the full specified Management Fee rate in the Governing Documents until they are reduced in the circumstances and on the date(s) specified therein. Management Fees payable during term extensions generally require LPAC approval, unless otherwise agreed with investors.

The Co-Invest Vehicles do not pay a Management Fee.

In addition, each of the applicable Arsenal Fund's Management Fees are reduced by an amount determined by the applicable General Partner ("Waived Management Fees"). As a result of such reduction, the amount of capital contributions the applicable General Partner would otherwise be required to contribute to such Arsenal Fund will be reduced by an equivalent amount, and the amount of such reduction will instead be contributed by the applicable limited partners, on behalf of the applicable General Partner, *pro rata* based upon their respective capital commitments. Waived Management Fees are not subject to the Management Fee offsets described below.

### **Portfolio Company Fees**

Arsenal and its affiliates generally receive Portfolio Company Fees associated with investments, proposed investments, or commitments made by each Fund. Portfolio Company Fees are described in each Arsenal Fund's Governing Documents, and generally include monitoring fees, consulting fees, directors' fees, and transaction fees paid by portfolio companies to Arsenal with respect to the relevant Fund's investments, and break-up fees paid to Arsenal with respect to the relevant Fund's transactions not completed, in each case net of certain expenses as set forth in the Governing Documents. Portfolio Company Fees do not include (A) amounts received by Arsenal or its employees or partners or any other person from a portfolio company as reimbursement for out-of-pocket expenses directly related to such portfolio company or amounts received as reasonable compensation for services provided by any of Arsenal's employees or partners in a "seconded" capacity to, or as employees of, portfolio companies or their subsidiaries, in their capacity as such and (B) amounts received by Operating Partners to the extent serving in the Operating Partner - Portfolio Company and Fund Role or in the Operating Partner - Sourcing Role (each as defined in Item 8 below).

Upon receipt of Portfolio Company Fees, Arsenal attributes such fees (net of expenses, as applicable) to the investors of the applicable portfolio company in proportion to the ownership in such portfolio company. Consequently, to the extent that investors in a portfolio company include both one or more Arsenal Funds and one or more co-investors, any Portfolio Company Fees will be allocated among such Arsenal Fund(s) and such co-investor(s). The portion of Portfolio Company Fees attributable to co-investors is retained by Arsenal and does not reduce the Management Fees payable by any Arsenal Funds that have also invested in the relevant portfolio company. As a result, in most cases the Management Fee offset described below will be applied

only to the relevant Arsenal Fund's allocable portion of any such Portfolio Company Fees, and not to the portion that relates to any co-investors or, in case of Fund III, related to General Partner or affiliated partner commitments. As a general matter, fees and expenses, break-up or topping fees or other liabilities or obligations incurred for transactions not consummated are allocated among the Arsenal Funds investors (including for purposes of the offset of Portfolio Company Fees described below) regardless of whether any individual investor negotiated for an elective or automatic contractual right that would have excused them from participating in the investment.

The portions of the Portfolio Company Fees attributed to the Arsenal Funds (excluding affiliated partners in Fund III, Fund IV, Fund V, Fund VI and Growth Fund) are credited against Management Fees as follows:

- 100% for Fund III;
- 100% for Fund IV;
- 100% for Fund V;
- 100% for Fund VI; and
- 100% for the Growth Fund.

In the event that the aggregate amount of Portfolio Company Fees applied against the respective Arsenal Funds' Management Fee exceeds the Management Fee for a specific period (the "Unapplied Excess"), such amount will be carried forward to reduce the Management Fee payable in future periods. In Fund III, Fund IV, Fund V, Fund VI, and the Growth Fund, any Unapplied Excess will be returned *pro rata* to the non-affiliated limited partners at the end of the Fund's term, as provided in the Partnership Agreements. In many cases, Portfolio Company Fees are based on operating performance or other metrics relating to a Fund's portfolio company, and there can be no assurance that the amount of Portfolio Company Fees charged will be proportional to the amount of hours of work performed on behalf of the portfolio company.

### **Operating Partner and Consultant Services and Compensation**

Operating Partners and Consultants (including entities formed for the benefit of such persons and/or to facilitate the provision of their services) are expected to play a combination of roles through which they receive compensation. Such roles generally fall into the following four categories:

1. **Operating Partner - Management Company Role.** In this role, an Operating Partner is engaged by a General Partner to serve Arsenal, such General Partner and their respective affiliates in providing co-leadership on individual investments, including having primary Arsenal-level responsibility for portfolio company operational oversight. In this capacity, Operating Partners provide general support of portfolio company strategy formulation and general management, as well as leadership and guidance on operational and functional matters. At a firm level, this role also provides leadership of a sub-sector and strategy development initiatives and contributes to sector and firm leadership.

2. **Operating Partner - Sourcing Role.** In this role, individuals designated by a General Partner to the applicable Fund's Advisory Board provide sourcing services for such Fund and receive compensation directly or indirectly from a portfolio company in connection with such sourcing services. The General Partner expects to identify and designate to the Advisory Board additional persons to serve in the Operating Partner - Sourcing Role over the next year as Arsenal seeks to grow the group's capabilities.
3. **Operating Partner - Portfolio Company and Fund Role.** In this role, an Operating Partner is engaged by a portfolio company or a Fund when the services required or requested are in addition to the services the operating role of an investment team is already providing, which may be based on the volume, scope, quality or other character of such services. Such services in this role may include in-depth sub-sector specific expertise and analysis, development of sub-sector and strategy initiatives, market analysis and assessment, due diligence services, operational knowledge and consulting, strategy implementation, executive chairman roles, portfolio company board roles, integration/transition services, functional roles that could include operations, technology, sales and marketing and accounting, and other similar activities, and such additional roles as otherwise approved by the applicable Fund's Advisory Board.
4. **Consultants.** In this role, Consultants are engaged to provide services to, or in connection with, a Fund in relation to its activities, or one or more portfolio companies, including in relation to the identification, acquisition, holding, improvement, strategy and disposition of such portfolio companies and including portfolio company strategy, board roles, general commercial activities, sales, marketing, human resources, operations, technology, integration/transition services, sourcing, due diligence, development of sub-sector strategy initiatives, market analysis and assessment, or other similar activities to portfolio companies, as well as provide due diligence, sourcing, industry-specific advice, operational advice, assistance and leadership roles with the respective General Partner and its employees or partners on actual and potential investments, investment advice or similar services to a Fund, any alternative investment vehicle and/or its respective portfolio companies.

Arsenal anticipates that certain Operating Partners will provide services in more than one of the three categories of Operating Partner roles. The amount of time an individual Operating Partner spends in any of the three categories may change over time as well; for example, an individual may devote all or most of his or her time to the Operating Partner – Portfolio Company and Fund Role for six months and then spend the majority of his or her time on the Operating Partner – Management Company Role for the next six months. In any such cases, certain Operating Partners may receive compensation from each of Arsenal, the Funds, and portfolio companies, and the compensation received by the relevant Operating Partner to the extent serving in the Operating Partner - Portfolio Company and Fund Role and in the Operating Partner - Sourcing Role will not offset the Management Fee, and the use of the Operating Partners is expected to fluctuate and/or expand over time. In situations where it was expected that an Operating Partner serving in the Operating Partner – Portfolio Company and Fund Role would be compensated by the applicable portfolio company but the portfolio company was unable to, or did not, pay such Operating Partner, it is expected that the applicable Fund would pay such compensation without offset to the

Management Fee. Therefore, certain Operating Partners are permitted to receive compensation from each of Arsenal, the Funds, and portfolio companies.

Pursuant to the Governing Documents for the applicable Fund, fees, expenses, and other compensation associated with services provided by Operating Partners (to the extent serving in the Operating Partner - Portfolio Company and Fund Role and in the Operating Partner - Sourcing Role) and Consultants (collectively, "Operating Partner and Consultant Fees and Expenses"), are permitted to be paid and/or reimbursed by applicable portfolio companies and/or the Funds. Services provided by Operating Partners to portfolio companies or Funds may be services of the type that Operating Partners provide to Arsenal in their operating role on an investment team, and portfolio companies will bear the burden of the Operating Partners' compensation for such services where the General Partner determines that such services are in addition to the level of services that the operating role on an investment team is would normally provide (which may be based on the volume, scope, quality, or other character of such services). In instances where a Fund pays and/or reimburses Operating Partner and Consultant Fees and Expenses, limited partners of the Funds will bear the costs associated with the provision of such services. Such Operating Partner and Consultant Fees and Expenses do not offset Management Fees. Operating Partner and Consultant Fees and Expenses are expected to include, at the discretion of the relevant General Partner and taking into account the particular services, cash fees, profits participation or equity interests in a portfolio company, a share of proceeds upon sale of a portfolio company, discretionary bonuses (whether or not based on pre-determined milestones) and/or other incentive-based compensation to the Operating Partners or Consultants. Such compensation will be determined according to one or more methods, including, but not limited to, the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partners and Consultants, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, and amounts charged by other providers for comparable services and/or a percentage of cash flows from such portfolio company. Compensation in the form of profits or equity interests in a portfolio company has a dilutive impact on the Fund's investment, and has the potential to result in economic effects greater than the original amount of compensation, and the relevant Fund will bear their portion of such compensation related to the costs of such Operating Partners and Consultants. Operating Partners and Consultants also receive reimbursements of certain costs relating to their services, which are expected to be borne by portfolio companies and therefore indirectly by investors in the Funds. With respect to certain Arsenal Funds (but not all), certain Operating Partner Fees are subject to a cap as described in the Governing Documents of the relevant Arsenal Fund. Fees received by Consultants are not subject to a cap in any Fund.

Compensation paid to Operating Partners for services provided in the Operating Partner - Management Company Role are not considered Operating Partner Fees and Expenses and will be borne by the relevant General Partner and/or Arsenal and not by the relevant Fund or portfolio company.

### **Co-Investment Expenses**

As described above, in certain circumstances, Arsenal permits certain investors to invest in portfolio companies alongside one or more Arsenal Funds, subject to Arsenal's related policies and practices and the relevant Governing Document(s). In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed

necessary in order to consummate such transaction or would otherwise have been beneficial, ultimately is not consummated, any break-up fees relating to such proposed transaction will generally be borne by the Arsenal Fund(s), and not by any potential co-investors that were to have participated in such transaction. In a situation where a co-invest vehicle is formed, such entity will bear the expenses related to its formation and operation, many of which are similar in nature to those borne by the Arsenal Funds.

### **Other Information**

The Funds invest on a long-term basis. Accordingly, Management Fees and other fees are expected to be paid, except as otherwise described in the Governing Documents, over the terms of the Funds and investors generally are not permitted to withdraw or redeem interests in the Funds. The Senior Partners and employees of Arsenal receive salaries and other compensation derived from, and in certain cases include a portion of, the Management Fee, Carried Interest (as defined below) or other compensation received by Arsenal. Arsenal waives a portion of Management Fees to satisfy a portion of its capital commitments and reserves the right to waive or defer all or a portion of Carried Interest payable by Fund investors in order to satisfy its obligations.

As mentioned above, Arsenal is permitted to exempt certain “affiliated partner” investors in the Funds from payment of all or a portion of Management Fees and/or Carried Interest. Such “affiliated partners” may include Arsenal and any other person designated by Arsenal, such as “friends and family” of Arsenal or its personnel, or other investors based on consideration of certain factors. For the avoidance of doubt, the Management Fee offsets described above apply only with respect to the capital commitments of fee-paying investors. Arsenal retains flexibility to structure its compensation arrangements with investors in the Funds.

### **Incentive Fees (Carried Interest)**

Arsenal is entitled to 20% of the applicable Arsenal Funds’ distributions in excess of a limited partner’s (excluding affiliated partners) capital contributions and expenses, which is referred to as “carried interest” (“Carried Interest”), assuming the Arsenal Fund delivers a preferred return of at least 8% to the limited partners and subject to a General Partner catch-up provision, as more fully described in the applicable Governing Documents.

In addition, Arsenal is entitled to Carried Interest from ACP IO 2, ACP IO 3, Arsenal Revolution 2, ACP WCG 2-2020, ACP WCG 3-2020 and ACP VD 2 in accordance with the terms of (and as more fully described in) the applicable Governing Documents of such entities.

ACP Biospecimen Holdings, ACP IO 1, Arsenal Revolution 1, ACP WCG 1-2020, ACP WCG 4-2020 and ACP VD 1 do not pay Carried Interest.

See below, “Performance-Based Fees and Side-by-Side Management.”

### **Other Fees and Expenses**

In addition to any Management Fee and/or Carried Interest payable to Arsenal, the Funds bear certain expenses. As set forth in the applicable Governing Documents, the Funds bear all fees, costs, expenses, liabilities and obligations, to the extent not paid or reimbursed by portfolio

companies (or an intermediate entity), related or attributable to the Funds (including its respective subsidiaries and intermediate entities) and/or their operations (including, but not limited to brokerage, depository, legal, accounting, auditing, administration, tax compliance and reporting, insurance, communications, registration, web portals, data and information management, compliance and regulatory filings) or investment related activities (including, but not limited to identifying, sourcing, structuring, organizing, negotiating, consummating, financing, diligencing, research subscription, acquiring, bidding on, developing, operating, hedging, restructuring, trading, taking public or private, selling, winding up, liquidating, dissolving, or otherwise disposing of actual and potential investments), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful, as well as costs of implementing, monitoring and complying with investment guidelines and directives relating to the Fund's strategy, including in Side Letters relating thereto, and (where applicable) environmental, social, governance and other standards to which the relevant General Partner has committed to; the relative percentage of these expenses that are borne by various stakeholders (including the relevant Fund, any co-investors, portfolio company management and other persons) is expected to depend upon the level at which such expenses are charged or incurred.

In addition, the Funds bear expenses associated with the Advisory Board, the Advisory Board, meetings with limited partner(s), extraordinary expense and other similar fees and expenses. In general, expenses incurred are specifically related to individual Funds, however, to the extent expenses relate to a matter that is shared across Funds (e.g., annual meeting or insurance), Arsenal allocates such costs across the Funds in an equitable manner over time, as determined by the relevant General Partner(s). In certain circumstances, one Fund is expected to pay an expense common to multiple Funds and/or co-investors (including, without limitation, fees or expenses in connection with services for which the benefits are received by other Funds and/or co-investors over time) and be reimbursed by the other Funds for their share of such expense, without interest. While Arsenal believes such circumstances to be highly unlikely, it is possible that one of the other Funds could default on its obligation to reimburse the paying Fund. In certain circumstances, Arsenal is expected to advance amounts related to the foregoing and receive reimbursement from the Funds to which such expenses relate.

## **ITEM 6      PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

With exceptions for certain Co-Invest Vehicles, the Funds' General Partners receive performance-based compensation in the form of Carried Interest, as more fully described in Item 5 above, and in the applicable Governing Documents. If any General Partner receives Carried Interest distributions during the life of the applicable Fund or Co-Invest Vehicle which are, in the aggregate, in excess of the Carried Interest percentage of such Fund's or Co-Invest Vehicle's cumulative net profits (including a preferred return and subject to a General Partner catch-up provision, as more fully described in the applicable Governing Documents), then such excess Carried Interest distributions will be subject to repayment by such General Partner.

Performance-based compensation may cause Arsenal to engage in a higher risk, more speculative investment strategy than it would in the absence of such compensation arrangement. Additionally, to the extent that Arsenal has Funds with varying carried interest terms (including amount, timing, waterfall conditions, or other terms) and/or Arsenal personnel are assigned varying percentages of Carried Interest from the Funds, Arsenal and such personnel are subject to potential conflicts of

interest, to the extent they are involved in decision-making for multiple Funds from which they are entitled to receive a higher Carried Interest percentage.

Arsenal also manages Co-Invest Vehicles that are not charged performance-based compensation. This scenario presents a conflict of interest for Arsenal, as it would be beneficial for Arsenal to favor entities for which it receives performance-based compensation or a relatively higher level of performance-based compensation.

Arsenal seeks to address the potential for conflicts of interest in these matters with allocation policies (“Allocation Policy”) which provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund’s investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by Arsenal or any personnel.

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

Arsenal manages each Fund in accordance with the investment strategy disclosed in the Funds’ Governing Documents to help ensure that investors are aware of the investment strategy and the risks associated with the strategy. Arsenal engages in certain procedures to fair value securities in a manner deemed to establish the most accurate valuations possible based on information gathered by Arsenal.

Fund investors should review the respective Governing Documents for detailed information with respect to performance-based allocations and distributions and the allocation of investment opportunities.

## **ITEM 7        TYPES OF CLIENTS**

Arsenal provides investment advice solely to its Fund clients, and references throughout this Brochure to “clients” and to Arsenal’s related duties to and practices on behalf of its clients and/or investors should be construed accordingly.

Generally, only “accredited investors” that are also qualified clients (or qualified knowledgeable ACM personnel) or “qualified purchasers” as specified in the Funds’ Governing Documents are permitted to invest in the Funds. Fund investors generally include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations, corporations or business entities and generally include, directly or indirectly, principals or employees of Arsenal, as well as executives of portfolio companies.

Arsenal also generally is permitted, from time to time, to establish alternative investment vehicles in order to permit one or more certain investors to participate in one or more particular Fund investment opportunity in a manner desirable for tax, regulatory or other reasons. Alternative

investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the Governing Documents of such related Fund.

Details concerning applicable fees, minimum investment amounts, and suitability criteria are set forth in the respective Funds' Governing Documents. The General Partner of each Fund typically reserves the right, in its sole discretion, to waive the minimum investment amount requirement.

## **ITEM 8        METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Arsenal primarily makes control investments in growing middle market companies in which Arsenal believes there are opportunities to create value post-acquisition. More specifically, Arsenal principally seeks to invest within the Industrials and Healthcare sectors.

For over 20 years since the firm's inception, Arsenal has practiced and honed its "Strategic Company Building" investment strategy focused on identifying attractive market opportunities, developing high potential strategies, and building high-growth, technology-rich market leaders that buyers desire. Through deep market immersion in its sectors of focus, Arsenal continuously seeks to discern market needs and trends to identify what it believes are the most attractive sub-sectors in which to apply its strategy. The team looks ahead, typically five to ten years, to determine what it views as the most important trends in technology, innovation, and market demand, and craft strategies that provide a material benefit in the market. Leveraging the team's experience and networks in these markets, Arsenal often spends years meeting with business owners and management teams, before ultimately selecting and sequencing a combination of platform and strategic add-on acquisitions to construct companies that have the potential to be leaders in their market spaces. The firm believes its leading brand, reputation, and relationships give Arsenal access, relevance, and credibility that position it as a "partner of choice" and facilitate a high conversion rate on targeted investment opportunities.

Arsenal believes that transforming businesses into technology-rich market leaders requires intensive, high-impact company building. For each platform investment, Arsenal seeks to develop strategies with "multiple ways to win," which typically means identifying three to five significant value creation levers. After a thorough evaluation of these options, the team creates detailed operating plans to build and shape each company. The operating plans generally include strengthening, and in many cases, dramatically augmenting management teams (typically adding four to eight executives and senior managers), evolving growth strategies, building capabilities, and improving operations. These plans usually incorporate initiatives to achieve high organic growth and complete accretive acquisitions to assemble broader value-add solutions and grow market positions. In each portfolio company, Arsenal seeks to scale and compound growth, while intensively managing risk and promptly addressing underperformance. Throughout the life of each investment, the team seeks to build a strategically valuable business, or a "must-have" asset, with strong future growth prospects.



The “flagship” Arsenal Funds will typically invest in established businesses with an enterprise value greater than \$250 million, or which generate \$25 million to \$75 million of EBITDA. Arsenal’s Growth Fund will seek to execute a similar, consistent strategy to the flagship funds, although the Growth Fund is expected to pursue investments in businesses that are smaller than typical investments for other Arsenal Funds or which generate comparatively less EBITDA. However, the flagship funds will have the ability to make an initial platform investment in such smaller companies where the investment aligns with the flagship fund’s focus, for instance where Arsenal’s expectations are for substantial add-on opportunities and capital needs in the future. While control ownership investments will be highly preferred for the Arsenal Funds, the Growth Fund will consider minority ownership investments with strong alignment and thus may make initial platform investments in larger companies (i.e., greater than \$250 million enterprise value) similar to those considered in control transactions for the flagship funds. Arsenal seeks to invest for the Arsenal Funds in specific industry segments within the Industrials and Healthcare sectors that it has identified as attractive for long-term growth, cash flow generation, and sustainable profitability. Arsenal has a team of professionals with investment and transaction acumen, industry knowledge within the Industrials and Healthcare sectors, and operating capabilities that it leverages from investment sourcing to exit.

There can be no assurance that Arsenal will achieve the investment objectives of the Arsenal Funds and a loss of investment is possible.

### **Investment and Operating Strategy**

*Lower Middle Market Focus.* Arsenal is focused on sectors of the lower end of the U.S. middle market, which is composed of thousands of established companies with revenues between \$10 million and \$1.0 billion. Arsenal believes this segment of the market sustainably offers attractive opportunities to invest in companies to which Arsenal’s Strategic Company Building strategy is well-suited and, therefore, remains committed to investing in this segment. Arsenal believes that the lower end of the middle market is attractive for private equity market as it is deep, fragmented, and target-rich, and includes many businesses in need of strategic guidance, improved management capabilities, and additional resources.

*Targeted Industry Focus.* Arsenal carefully selected the Industrials and Healthcare sectors for what it believes are their sustainable and exploitable long-term trends, applicability of the Arsenal strategy and model, size and high degree of fragmentation, number of attractive niche markets with high value-add and technology-based differentiation and ability to support companies at the lower end of the middle market becoming niche market leaders. Because of these characteristics, Arsenal believes the Industrials and Healthcare sectors offer continuous and compelling long-term investment opportunities. Within these sectors, Arsenal believes that it has developed the requisite domain and technical expertise and established the networks and resources essential to function in a highly strategic and impactful manner. Arsenal believes that its depth of knowledge and insight enable it to operate like an industry insider and a strategic investor, capable of developing insightful forward-looking perspectives and strategies.

Arsenal believes that each of the Industrials and Healthcare sectors includes a multitude of sub-sectors with promising growth trends and is populated with companies possessing innovative technologies and advantaged business models. Arsenal regularly performs a rigorous review of

sector trends and conditions to identify sub-sectors and opportunities that are most attractive for Arsenal's Strategic Company Building strategy. Arsenal believes that these sub-sectors are target-rich, possess valuable intersections of technologies and attractive end markets, and contain many companies at the lower end of the middle market with barriers to entry, customer intimacy, and potential to broaden and better apply their product and service solution and global expansion opportunities. Arsenal believes that many of these companies have the potential for further differentiated solutions, consolidation of their market spaces and potential superior growth through add-on acquisitions.

*Investment Parameters.* Within its target sectors, Arsenal seeks companies that typically exhibit some or all of the following characteristics:

- Defensible market leading positions in niche segments,
- Significant growth potential through organic and strategic acquisition avenues,
- Options to expand the value-added component of the company's offering,
- Opportunities to improve efficiency, reduce costs and improve margins, and
- Global market and supply chain opportunities.

*Collaborative / Multidisciplinary Approach.* Arsenal believes that its team of investment professionals, Operating Partners and Consultants has the skills and experience necessary to create advantages throughout the investment process. This team combines industry-specific knowledge and relationships, experience in managing and improving businesses, and functional resources to support management teams. Arsenal strives to work in a coordinated manner designed to improve the efficiency and effectiveness of execution in all phases of the investment cycle.

*Source and Complete Investments.* Arsenal professionals engage in leveraging their broad network of relationships within Arsenal's targeted industries to access high-quality deal flow. In addition, industry expertise creates advantages in diligence, strategy formulation, and value assessment through an improved understanding of key business drivers, competitive and structural dynamics, and potential opportunities and risks. Arsenal incorporates this industry and operating knowledge into its disciplined valuation approach, carefully balancing the risks and opportunities identified with respect to a given investment and making sure they are appropriately reflected in a reasonable valuation.

*Employ a Prioritized Growth and Improvement Program.* Prior to acquisition, Arsenal identifies and prioritizes what it believes are the key value creators and holdbacks for a particular investment. Arsenal will not make an investment if it does not believe that there is an opportunity for Arsenal to create significant value post-acquisition. The Arsenal team works in active collaboration with the management teams of portfolio companies to address these value creators and holdbacks. This process is often enabled by an Arsenal assessment and strengthening of the management team and improvement of a company's business processes. In any given investment, Arsenal looks to: (i) accelerate growth, (ii) mitigate key risks, and (iii) fundamentally and strategically improve businesses.

*Capture Value on Exit.* Arsenal's realization process begins prior to acquisition with the development of an investment strategy to guide the business toward attractive exits. With its experience in its focus industries, Arsenal believes it is equipped to understand the acquisition interests and criteria of strategic buyers and strives to take a proactive approach to developing relationships with these buyers that could ultimately lead to attractive exits.

Arsenal seeks to take a conservative approach to the amount of leverage in the capital structures of its portfolio companies so that they can invest in growth and improvement initiatives that will fundamentally improve cash flow and build long-term value. Arsenal believes that conservative leverage also provides additional downside protection, allowing companies greater flexibility as well as an ability to address unforeseen issues. Once Arsenal determines that a company has sufficiently improved but still has significant upside, Arsenal often seeks to appropriately recapitalize the business and return capital to investors.

## **Risk of Loss**

Investing in securities involves risk of loss that investors in the Funds should be prepared to bear.

The risks involved with Arsenal's investment strategy and an investment in the Funds include, but are not limited to the following:

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

*Future and Past Performance.* While the General Partner intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that the Funds will achieve their performance objectives. On any given investment, and on an overall basis, loss of principal is possible. Furthermore, there can be no assurance that the Funds' investments will achieve results similar to those attained by previous investments of Arsenal or that the Funds will be able to avoid losses. In addition, the Funds' investments may differ from previous investments made by Arsenal in a number of respects.

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

*Concentration of Investments.* The Funds will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, the Funds' investment portfolios could become highly concentrated, and the performance of a few holdings or a particular industry may substantially affect aggregate returns. Furthermore, to the extent that the equity requirements per investment are greater than the targeted amounts, the Funds may invest in fewer portfolio companies and thus be less diversified.

The Funds may provide interim financing ("Bridge Financing") to facilitate portfolio company investments. It is possible that all or a portion of a Bridge Financing will not be recouped within the time period specified in the relevant Governing Documents, in which case the investment

would be treated as a permanent investment of a Fund. As a result, such Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under such Fund's investment limitations, certain of which exclude Bridge Financing investments.

*Lack of Sufficient Investment Opportunities.* It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, regardless of the extent to which commitments of the limited partners are invested (or drawn down to be invested), Fund investors will be required to pay annual Management Fees during the respective Funds' investment period based on the entire amount of their commitments.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest, health pandemics. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increase the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of the Funds and their portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by the Funds and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon the Funds' portfolio companies.

*Illiquidity; Lack of Current Distributions.* An investment in the Funds should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains, if any, on successful investments are realized. The Funds' ability to dispose of investments may be limited for several reasons. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual, or other restrictions on their resale by the Funds. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In view of these limitations on liquidity, the Funds generally will not be able to return capital or realize gains, if any, on an investment in a privately-held entity until the partial or complete disposition of such entity. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating the Funds (including the annual Management Fee payable to Arsenal or its designated affiliate) may exceed their income, thereby requiring the difference to be paid from the applicable Funds' capital, including unfunded commitments.

*Leveraged Investments.* The Funds are permitted and typically expect to make use of leverage by incurring or having a portfolio company or intermediate entity incur debt to finance a portion of an investment. Leverage generally magnifies both opportunity for gain and risk of loss from a particular investment, and the magnification of the risk of loss may be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage will also result in interest expense and other costs to the Funds that may not be covered by distributions made to the Funds or appreciation of investments. The use of leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and will constrain its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of the Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' investments in the leveraged portfolio companies in a down market. These risks generally are expected to increase as interest rates rise, including in circumstances where a portfolio company's creditworthiness is such that it must borrow at higher interest rates than are available to the relevant Fund. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, the Funds may suffer a partial or total loss of capital invested in such portfolio company, which could adversely affect the returns of the Funds. Additionally, lenders would typically have a claim that has priority over any claim by the Fund to the assets of such portfolio company in an insolvency event or proceeding. Should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, such Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. If a portfolio company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal amount of financial leverage, a Fund may hold a larger than expected equity investment in such portfolio company and may realize lower than expected returns from such portfolio company, which would adversely affect such Fund's ability to generate attractive returns for the Fund as a whole. Any failure by lenders to provide previously committed financing could also expose a Fund to potential claims by sellers of businesses which the Fund may have been contracted to purchase. Moreover, the companies in which the Funds invest generally will not be rated by a credit rating agency. Except where otherwise required by the relevant Governing Documents, a Fund will not be obligated to borrow on behalf of a portfolio company, even in circumstances where the Fund's creditworthiness would permit borrowing at a lower rate than is available to the portfolio company.

In addition, as discussed in Subscription Lines below, a Fund is also permitted to borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt, a letter of credit or other forms of promise to provide funding) or otherwise be liable therefor, and in such situations, it is not expected that such Fund would be compensated for providing such guarantee or exposure to such liability. The act of borrowing money or guaranteeing indebtedness by a Fund will result in fees, interest expense and other costs to such Fund that may exceed, or otherwise may not be covered by distributions made to such Fund or appreciation of its investments, and is also subject to governmental and regulatory oversight, and certain governmental bodies (including the U.S. Federal Reserve System, the U.S. Office of the Comptroller of the Currency and the U.S. Federal Deposit Insurance Corporation) may restrict or otherwise discourage lending that results in

companies carrying large amounts of debt. While Fund-level borrowings generally will be interim in nature, asset-level leverage generally will not be subject to any limitations, including with respect to the amount of time such leverage may remain outstanding. A Fund generally is permitted to incur borrowing on a joint, several, joint and several or cross-collateralized basis with one or more other Funds and entities managed by Arsenal or any of its affiliates, including through Fund subsidiaries and other intermediate entities, and/or unaffiliated co-investors and, in connection with incurring such indebtedness, Arsenal reserves the right, in its sole discretion, to cause the Funds (directly or indirectly) to enter into one or more agreement to obtain a right of contribution, subrogation or reimbursement from or against such entities. Arsenal likely will not have the contractual ability to require unaffiliated co-investors to enter into any such contribution agreement and does not expect to request portfolio company management and other non-institutional co-investors to enter into such contribution agreements. Depending on the circumstances, Arsenal is permitted to not seek any such contribution agreements. As a result, a Fund will likely be responsible for more than its *pro rata* share (based on ownership) of such guarantees or other financing arrangements. Further, it is possible that, if and when a Fund were to seek to enforce any such right, any such entity could default on its obligation and/or such right may otherwise be unenforceable. It is also possible that certain co-investors (including management, any roll-over investors and/or third-party co-investors) will not share in incurring such leverage and that the Fund will disproportionately bear the risk and/or costs of leverage arrangements. In addition, to the extent a Fund borrows (or provides such guaranty), such amounts are permitted to be secured by the commitments made by such Fund's investors and other Fund assets. The inability of a Fund to repay any leverage security by commitment of such Fund's investors could enable a lender to issue a capital call on behalf of Arsenal.

*Subscription Lines.* Fund III, Fund IV, Fund V, Fund VI and Growth Fund have a subscription line with a lender in order to help finance their operations (including the acquisition of the Fund's investments, the payment of Management Fees and reimbursement to Arsenal for expenses incurred on behalf of such Fund). Fund-level borrowing subjects limited partners to certain risks and costs. For example, calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund is also permitted to utilize Fund-level borrowing or provide guarantees when the General Partner expects to repay the amount outstanding through means other than limited partner capital, including as a bridge for equity or debt capital with respect to an investment, or wants to use the credit worthiness of the Fund to support a direct portfolio company borrowing. If the Fund or portfolio company is ultimately unable to repay the borrowings, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses. When using the credit worthiness of the Fund to guarantee a direct borrowing by a portfolio company, the Fund will seek a back-to-back guarantee from any co-investors that are not members of the management team. However, should the Fund be unable to enforce such guarantees, the Fund (and limited partners indirectly) would be liable for the entire obligation. Further, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors. Generally the executive funds associated with each applicable

Arsenal Fund are not parties to the subscription line agreement, though the executive funds benefit from the associated borrowing and guarantees. In such circumstances, the executive fund and its associated Arsenal Funds enter into a separate agreement requiring each such fund to bear its *pro rata* share of any liability incurred under the subscription line.

In addition, Fund-level borrowing will result in incremental additional partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, an upfront fee for establishing a subscription line, and other fees and/or expenses, including the legal fees relating to the establishment, structuring and negotiation of the terms of the borrowing facility as well as expenses relating to maintaining, renegotiating or terminating the facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns. Conflicts of interest also have the potential to arise with subscription lines in that the use of Fund-level borrowing typically delays the need for limited partners to make contributions to a Fund, or result in short-term gains to a Fund, which in certain circumstances enhances the relevant Fund's internal rate of return calculations and thereby may be deemed to benefit the marketing efforts of the relevant General Partner and its affiliates and increase the likelihood that any hurdle or preferred return component in the Fund's carried interest arrangements will be met. In other circumstances the use of Fund-level borrowing can increase the base of a Fund's Management Fee calculation, such as during periods where Management Fees are based in whole or in part on an acquisition cost that includes a borrowing component. The use of Fund-level borrowing arrangements, and the repayment or non-repayment thereof, can also influence the determination of the end of a Fund's investment period, and cause or defer a related change in the basis of the relevant Fund's Management Fee calculation under the Governing Documents. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors (including one or more co-investing Arsenal Funds) as, to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither the relevant Fund nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

A subscription line credit agreement or borrowing facility frequently will contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, certain lenders or facilities are expected to a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund or impose concentration or other limits on the Fund's investments, and/or financial or other covenants, that could affect the implementation of the Fund's investment strategy. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners. In certain circumstances, due to separate evaluations of creditworthiness by lenders or facility providers, a portfolio company or other Fund subsidiary is expected to bear higher rates under a borrowing

facility than are borne by the Fund, resulting in a potential net benefit to the Fund, or additional potential liquidity constraints or other burdens on the relevant portfolio company or Fund subsidiary.

*Distributions in Kind.* Generally, there will be no readily available market for the Funds' investments, and hence, most of the Funds' investments will be difficult to value. Although, under normal circumstances, prior to the termination, the Funds generally intend to make distributions in cash or marketable securities, it is possible that under certain circumstances (including the winding-up of the Fund), distributions of investments for which there is no readily available public market and/or which may be subject to substantial restrictions on sale or transfer may be made in-kind. It may be difficult for investors to liquidate the investments received at a favorable price or within a favorable time period, and significant administrative burden may be involved. After a distribution of investments is made, the recipients may decide to liquidate such investments within a short period of time, which could have an adverse impact on the price of such investments. Investors in receipt of a distributed investment will have no guidance from the Funds or Arsenal with respect to the disposition of such investment (including timing of such disposition). The price at which such investments may be sold by such investors may be lower than the value of such investments determined pursuant to the relevant Partnership Agreement, including the value used to determine the amount of carried interest accruing to Arsenal with respect to such investment. In addition, the direct holding of certain investments may subject the holder to suit or taxes in jurisdictions in which such investments are located.

*Reliance on Arsenal and/or Portfolio Company Management.* Control over the operation of the Funds will be vested entirely with Arsenal, and future profitability will depend largely upon the business and investment acumen of Arsenal. The loss or reduction of service of one or more of the Senior Partners and Approved Senior Officers (as defined in the Governing Documents) could have an adverse effect on the Funds' abilities to realize their investment objectives. In addition, these individuals currently, and may in the future, manage or advise other investment funds besides the Funds and may need to devote substantial amounts of their time to the investment activities of such other funds, which may pose conflicts of interest in the allocation of the time of the Senior Partners. Fund investors generally have no right or power to take part in the management of the Funds, and as a result, the investment performance of the Funds will depend entirely on the actions of Arsenal. In addition, certain changes in Arsenal or circumstances relating to Arsenal may have an adverse effect on the Funds or one or more of their portfolio companies including potential acceleration of debt facilities. Although Arsenal will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate such portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management, there can be no assurance that the existing management of such companies will continue to operate a portfolio company successfully.

*Risks in Effecting Operating Improvements.* In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of Arsenal to assist in sustaining the growth rates of, and/or effecting improvements in, the operations of certain portfolio companies. The activity of identifying and implementing operational improvements at portfolio companies entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key portfolio company personnel and disrupt normal business. There can be no assurance that Arsenal will be able to successfully assist in sustaining growth rates and/or identifying and



implementing such improvements, or that any such successfully implemented improvements will result in a return on invested capital with respect to such portfolio companies.

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

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

*Enhanced Scrutiny of Private Equity Industry; Potential Regulatory Changes.* Certain media, regulatory, and political discourse has been and continues to be focused on enhancing governmental scrutiny of and/or increasing regulation of the private equity industry. The combination of such discourse and the public perception that certain alternative asset managers (including private equity firms) contributed to the 2008 global financial crisis may negatively impact the Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competitors outside of the alternative asset space. As a result, the Funds may make fewer investments, incur greater expenses or delays in completing or exiting investments, and/or realize lower proceeds on the disposition of investments than it otherwise would have. Moreover, any such enhancement of scrutiny or increase in regulation may adversely impact the Funds' activities (including the Funds' ability to implement portfolio company operating improvements, comply with applicable laws, rules, and regulations in a manner not materially more burdensome than currently anticipated, or otherwise execute its investment strategy or achieve its investment objectives). In particular, the Funds may be required to incur additional costs and expenses in implementing structural changes in the conduct of the Funds' business, including to establish greater substance in certain jurisdictions in which the Fund invests or proposes to invest, and the Funds also may become directly or indirectly subject to additional tax liabilities (for example through restrictions on or denial of the deductibility of interest expenses against taxable profits). The foregoing may make it less attractive or impractical to continue to invest in one or more jurisdictions. Additionally, such additional scrutiny may divert the Arsenal's time, attention, and resources from portfolio management activities.

More recently, in connection with the outcome of recent U.S. federal elections, uncertainty has arisen regarding potential changes in law and regulation affecting the U.S. private equity industry, including the possibility of significant revision to U.S. financial laws, rules and regulations. The likelihood of occurrence and the effect of any such change is highly uncertain and could have an adverse impact on the Fund, the General Partner and/or the Limited Partners.

Additionally, the SEC has indicated that it intends to seek to enact changes to numerous areas of law and regulations that would impact the business of Arsenal and the Funds. In particular, the SEC has signaled an increased emphasis on investment adviser and private fund regulation and has proposed a number of new rules that, if adopted, would impose significant changes on private fund advisers and their management of private funds, and the SEC is expected to propose additional changes in the future. Any such changes are expected to materially impact Arsenal and its affiliates, the Funds and/or their investments, as well as increasing their expenses. Significant time and resources may be required to comply with new regulations, which potentially will detract from the time and resources dedicated to the Funds.

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

Additional risks of non-U.S. investments include: (a) economic dislocations in the host country; (b) less publicly available information; (c) less well-developed, rapidly changing and/or more restrictive laws, regulations, regulatory institutions and judicial systems; (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (e) civil disturbances; (f) political, social, economic or government instability; and (g) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Defaults by Limited Partners.* If a limited partner fails to pay installments of its commitment to a Fund when due, and the amount of capital contributions made by the non-defaulting limited partners and borrowings made by such Fund are inadequate to cover the defaulted capital contribution, the Fund could be unable to pay its obligations when due. As a result, a Fund could be subjected to significant penalties that could materially adversely affect the returns to the limited partners (including to non-defaulting limited partners).

*Recycling; Reinvestment.* Arsenal generally has the right to recall certain capital returned or distributed by the Funds to investors, including to make additional investments, as further set forth in the relevant Partnership Agreement of each Fund. Accordingly, during the term of a Fund, an investor could be required to make capital contributions in excess of its commitment (with certain limitations), and to the extent such recalled or retained amounts are reinvested in investments, an investor will remain subject to investment and other risks associated with such investments.

*Public Company Holdings.* The Funds' investment portfolios may contain securities and debt issued by publicly held companies (including the stock, warrants and other securities (including PIPEs) of special purpose acquisition companies ("SPACs") following their completion of a merger, combination, acquisition or similar transaction with a portfolio company). Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including Arsenal, and increased costs associated with each of the aforementioned risks.

*Limited Access to Information.* Limited partners' rights to information regarding a Fund, the relevant General Partner or Arsenal generally will be specified, and in many cases strictly limited, by the Governing Documents. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information from or relating to a Fund's investments that will not be disclosed to limited partners because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of Arsenal's control. Decisions by Arsenal or its affiliates to withhold information may have adverse consequences for limited partners in a variety of circumstances. For example, a limited partner that seeks to transfer its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for a limited partner to monitor Arsenal and its performance. Additionally, it is anticipated that limited partners that designate representatives to participate on a Fund's Advisory Board generally may, by virtue of such participation, have more or earlier information about a Fund and its investments in certain circumstances than other limited partners. Limited partners generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the relevant Fund succeeds in asserting confidentiality for requested documents and other materials, and Arsenal reserves the right to withhold certain information from investors subject to such laws for reasons relating to Arsenal's public reputation, business strategy or other reasons.

*Material Non-Public Information; Other Regulatory Restrictions.* Due to the nature of its operations, as well as in connection with officerships or directorships of its personnel, Arsenal frequently comes into possession of confidential or material, non-public information. Therefore, Arsenal may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Arsenal's internal policies and practices.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent Arsenal or the Funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC.

Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of Arsenal's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by Arsenal or may limit the ability of one or more portfolio companies to conduct their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Director Liability.* The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which they invest. Serving on the board of directors of a portfolio company exposes the Funds' representatives, and ultimately the Funds, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

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

*Cyber Security Breaches and Identity Theft.* The information technology systems of Arsenal, the Funds, the Funds' portfolio companies and/or their respective service providers may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. Although Arsenal intends to implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Arsenal, the General Partners, the Funds and/or a portfolio company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Arsenal's, the General Partners', the Funds' and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Arsenal's, the Funds' and/or a portfolio company's reputation, subject any such entity and its respective

affiliates to legal claims and/or regulatory actions or otherwise affect their business and financial performance. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company or a Fund to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Arsenal or one of its affiliates or service providers holding its financial or investor data, Arsenal, its affiliates or the Funds may also be at risk of loss.

*CFIUS and National Security Clearance Considerations.* Certain investments are expected to be subject to or require review and approval by the U.S. Committee on Foreign Investment in the United States ("CFIUS"), such as where CFIUS-related laws, regulations or guidance deem non-U.S. persons or entities under their control (such as a Fund, co-investors and/or rollover sellers) to be acquiring a U.S. business (including a business with assets, employees, facilities, and/or operations in the United States). CFIUS has the authority to review proposed or existing transactions or investments or to seek to impose limitations on or prohibit investments, and CFIUS filings and other considerations can materially impact transaction timing, feasibility, certainty and costs. In certain circumstances, CFIUS considerations have the potential to prevent a Fund from maintaining or pursuing investments, or limit the universe of available buyers for an existing investment. Any of these factors have the potential to adversely affect a Fund's performance, and the likelihood that CFIUS considerations will be implicated is expected to increase where non-U.S. limited partners comprise a substantial percentage of a Fund. Under the Governing Documents, the relevant General Partner generally is authorized, although not required, to excuse or otherwise limit non-U.S. limited partners' ability to invest in U.S. businesses (or to exercise voting or advisory committee rights with respect thereto) in order to anticipate or comply with CFIUS considerations. However, there can be no assurance that invoking any such excuse provisions or other limitations will allow a Fund to proceed with or maintain any investment, or to avoid losses relating thereto. Similar considerations are expected to apply with respect to reviews by non-U.S. national security or investment clearance regulators.

*Public Health Emergencies; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19, have and are resulting in market disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity in ways that are impossible to predict, all of which may result in significant losses to the Funds.

In an effort to contain such health emergencies, national, regional and local governments, as well as private businesses and other organizations, have taken or have the potential to take restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including "stay-at-home" and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. Any such measures have the potential to significantly diminish economic production and activity of all kinds and contribute to volatility in financial markets, demand across categories of

consumers and businesses, as well as in the credit and capital markets. Restrictive measures, whether on an initial or re-imposed basis, also have the potential to cause labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, increases in unemployment levels, and strain and uncertainty for businesses and households, with a particularly acute impact on industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment.

The ultimate impact of any such health emergency — and any resulting decline in economic and commercial activity — on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, but could have a significant adverse impact and result in significant losses to the Funds. The extent of the impact on the Funds' and their portfolio companies' operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of the Funds to source, diligence and execute new investments and to manage, finance and exit investments in the future, and governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Funds intend to pursue, all of which could adversely affect the Funds' ability to fulfill their investment objectives. They may also impair the ability of portfolio companies or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their portfolio companies, the General Partners and Arsenal may be significantly impacted, or even temporarily or permanently halted, as a result of any such health emergencies, or any measures, restrictions, remote-working requirements and other factors related thereto, including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Privacy, Data Protection and Information Security Compliance Risk.* The adoption, interpretation and application of consumer protection, data protection, privacy and/or information security laws and regulations (such laws and regulations, collectively, "Privacy Laws") in the United States, Europe and elsewhere could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned business activities of Arsenal, the General Partner, the Funds and/or their portfolio companies, and increase compliance costs and require the dedication of additional time and resources to ensure compliance for such entities. A failure to comply with such Privacy Laws by any such entity or its respective service providers could result in fines, sanctions, or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on the Funds' reputation and performance. As Privacy Laws are implemented, interpreted, and applied, compliance costs for Arsenal, the General Partner, the Funds and/or their portfolio companies are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

Certain jurisdictions, including U.S. states, have proposed, adopted or are considering similar Privacy Laws, which if enacted could impose significant costs, potential liabilities and operational and legal obligations. Such Privacy Laws and regulations are expected to vary from jurisdiction to jurisdiction, thus increasing costs, operational and legal burdens, and the potential for significant liability for regulated entities, which could include Arsenal, the General Partners, the Funds and/or their portfolio companies.

*United Kingdom (“UK”) Exit from the European Union (the “EU”).* The UK formally left the EU on January 31, 2020 (“Brexit”), and entered a transition period that ended on December 31, 2020. On December 30, 2020, the UK government and the EU Commission signed a trade and cooperation agreement governing their future relationship, which, following a ratification process, is expected to apply on a provisional basis through an additional transition period. However, this agreement does not include an agreement on financial services and, as a result, UK firms in the financial sector have more limited access to the EU market than prior to Brexit and EU firms similarly have more limited access to the UK, owing to the loss of passporting rights under applicable EU and UK legislation. Alternative arrangements and structures may allow for the provision of cross-border marketing and services between the EU and UK, but these are subject to legal uncertainty and the risk that further legislative and regulatory restrictions could be imposed in the future.

As a result of the onshoring of EU legislation in the UK, UK firms are currently subject to many of the same rules and regulations as prior to Brexit. However, the UK government has stated its intention to recast onshored EU legislation as part of UK legislation and regulation, which could result in substantive changes to regulatory requirements in the UK. It remains to be seen to what extent the UK may elect to implement or mirror future changes in the EU regulatory regime, or to diverge from the current EU-influenced regime over time. It is possible that the EU may respond to UK initiatives by restricting third-country access to EU markets. If the regulatory regimes for EU and UK financial services change or diverge further, this could have an adverse impact on any Fund and its investments, including the ability of a Fund to achieve its investment objectives in whole or in part (for example, owing to increased costs and complexity and/or new restrictions in relation to cross-border access between the EU and non-EU jurisdictions).

There can be no assurance that any renegotiated laws or regulations will not have an adverse impact on a Fund and its investments, including the ability of a Fund to achieve its investment objectives.

The legal, political and economic uncertainty generally resulting from Brexit may adversely affect both EU and UK-based businesses, including Arsenal and Fund portfolio companies, as applicable. Brexit has already led to disruptions in trade as businesses attempt to adapt cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers, and suppliers. Continuing uncertainty and the prospect of further disruption may also result in an economic slowdown and/or a deteriorating business environment in the UK and in one or more EU Member States.

*Environmental, Social and Governance Matters.* Arsenal maintains a Responsible Investment Policy that outlines the firm’s approach to managing environmental, social and governance (“ESG”) matters throughout the organization, including application of such policy to the Funds’ investment activities and during the periods of ownership of portfolio companies. There is no

guarantee that Arsenal will be able to successfully implement its ESG policy while achieving its investment strategy. While there are many other factors considered in the investment decision process, the Responsible Investment Policy has the potential to cause a Fund not to make an investment that it would have made or to make a management decision with respect to an investment differently than it would have made in the absence of its Responsible Investment Policy. Arsenal believes that ESG considerations are a fundamental component of market-leading businesses, and consequently the Responsible Investment Policy reflects Arsenal's approach to integrating ESG into its approach to responsible investing. Although Arsenal believes that its Responsible Investment Policy (and the application of such ESG considerations to investing) can potentially enhance the performance of the portfolio companies in which the Funds invest over the long-term, Arsenal cannot guarantee that its Responsible Investment Policy will positively impact the financial or ESG performance of any individual investment or the Funds as a whole. Further, ESG integration and responsible investing practices as a whole are evolving rapidly and there are different principles, frameworks, methodologies, and tracking tools being implemented by other asset managers and Arsenal's adoption and adherence to various such principles, frameworks, methodologies and tools is expected to vary over time. Therefore, from time to time, Arsenal's approach to ESG integration will not align with the approach used by other asset managers or preferred by prospective investors or with future market trends. Additionally, Arsenal does not independently verify certain of the ESG information reported by portfolio companies, some of which will be provided to investors. Further, Arsenal will have discretion to determine that it is not feasible or practical to implement or complete certain of its ESG initiatives based on cost, timing, or other considerations. Finally, there is also growing regulatory interest across jurisdictions, particularly in the UK, and the EEA (which can serve as models in growth markets), in improving transparency around how asset managers, amongst others, define, measure and disclose the impact of ESG factors on the performance of the Fund. Arsenal's Responsible Investment Policy could become subject to additional regulation in the future (including pursuant to the various legislative initiatives stemming from the European Commissions' action plan on sustainable finance announced in 2018 or the UK's Green Finance Strategy announced in 2019), and Arsenal cannot guarantee that its current approach will meet future regulatory requirements or predict the manner in which any such future requirements (including any enforcement with respect thereto) could affect a Fund or its investments, including with respect to future administrative burdens and costs.

*Russia-Ukraine Conflict.* The ongoing military conflict between Russia and Ukraine has caused disruption to global financial systems, trade and transport, among other things. In response, multiple other countries have put in place global sanctions and other severe restrictions or prohibitions on the activities of individuals and businesses connected to Russia. However, the ultimate impact of the Russia-Ukraine conflict and its effect on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the Funds or any particular industry, business or investee country and the duration and severity of those effects, is impossible to predict.

The Russia-Ukraine conflict may have a significant adverse impact and result in significant losses to the Funds. This impact may include reductions in revenue and growth, unexpected operational losses and liabilities and reductions in the availability of capital. It may also limit the ability of a Fund to source, diligence and execute new investments and to manage, finance and exit investments in the future. Developing and further governmental actions (military or otherwise)



may cause additional disruption and constrain or alter existing financial, legal and regulatory frameworks and systems in ways that are adverse to the investment strategy which any Fund intends to pursue, all of which could adversely affect the Fund's ability to fulfill its investment objectives.

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

*LIBOR and other Benchmark Rates.* To the extent that a Fund's investments, borrowing facilities, hedging activities, or other assets or structures are tied to interest rates based on the London Interbank Offered Rate ("LIBOR") or other benchmark or reference rates (each, a "Benchmark Rate"), the Fund may be subject to certain material risks, including the risk that a Benchmark Rate is terminated, ceases to be published or otherwise ceases to be broadly used by the market. Regulators, central banks, governments and other market participants are working to facilitate the transition of existing instruments and contracts away from LIBOR to new Benchmark Rates, and any such transition includes the potential to: increase volatility or illiquidity in markets; cause delays in or reductions to financing options for the Funds and their portfolio companies; increase the cost of borrowing; reduce the value of certain instruments or the effectiveness of certain hedges; cause uncertainty under applicable legal documentation; or otherwise impose costs and administrative burdens relating to factors that include document amendments and changes in systems. Future transitions to and from Benchmark Rates have the potential to have similar effects.

*Secondaries and other General Partner-Led Transactions.* There continues to be a significant market in the private fund sector for secondary sales, General Partner-led transactions, continuation funds, successor fund investments and other transactions for the disposition of investments, and Arsenal reserves the right to dispose of (or seek additional capital for) Fund investments through such means. Many of these transactions involve an auction process run by an investment bank and a buyer (or buyer group) that agrees to purchase a portion of one or more investments that will continue to be managed by Arsenal following the transaction. Such transactions are undertaken for various reasons, including, for example, to balance competing interests between offering liquidity to existing limited partners and maintaining exposure to an asset where Arsenal believes there is the potential for additional value generation. Where undertaken, existing limited partners typically are offered certain options relating to receiving liquidity from the transaction or continuing to maintain exposure to the asset, assets or a new portfolio of assets (including a portfolio that combines assets from multiple Funds sponsored by

Arsenal and its affiliates, often on different terms than the original investment). However, certain of such transactions are expected to require: a limited partner to invest additional capital in the existing Fund and/or other investment vehicles; a greater exposure to one or more particular portfolio company; and/or a delay in the full liquidation of its investment. In other circumstances, even limited partners that elect to continue to hold a direct or indirect interest in the relevant portfolio company will have their interest adjusted as if distributed (i.e., a portion of such interest will be allocated to the relevant General Partner to the extent of its right to receive carried interest, if any), effectively diluting their interests.

Each of these transactions has the potential for conflicts between the interests of a Fund or limited partner and those of Arsenal or any buyer group that typically are not applicable to more traditional investment sales. For example, in circumstances where Arsenal or an affiliate will continue to manage and receive fees and/or performance-based compensation relating to the subject assets following the transaction (potentially in addition to performance-based compensation earned by the relevant General Partner on the sale of an asset from an existing Fund in such transaction), their incentives are expected to diverge from those of limited partners who elect to sell their interests. Similarly, there are potential conflicts of interest among the selling Fund, Arsenal, the relevant General Partner and any buyer group relating to the valuation and consideration offered for the investment(s) subject to the transaction. To the extent Arsenal requires existing limited partners and/or new buyers to commit capital to a continuation fund or another Fund managed by Arsenal in addition to the purchase amount paid in a transaction, such requirement is expected to have a dilutive effect on the purchase price for the selling Fund and its limited partners. There can be no assurance that any such transaction will accurately reflect the fair market value of the Fund investment(s) being sold. Further, the relevant General Partner is expected to be incentivized to make investments in portfolio companies with the view of holding such investments for longer periods of time or to make investments that it would not otherwise have made if the possibility of liquidity through a secondary transaction did not exist. Where co-investors historically have been invested in an investment subject to such a transaction, there can be no assurance that they will receive the same liquidity or other options as limited partners in the relevant Fund, and in such circumstances, Arsenal reserves the right to compel co-investors to receive cash or continue to hold an interest in the relevant investment. In other circumstances, certain limited partners will not be permitted to continue to maintain exposure to the asset(s) due to a lack of eligibility to invest in a continuation vehicle under relevant securities, tax or other considerations. Although relevant potential conflicts of interest are disclosed to limited partners and/or the relevant Advisory Board prior to the closing of the transaction, there can be no assurance that Arsenal will successfully identify all conflicts of interest or resolve or mitigate all such conflicts of interest in favor of Fund or any individual limited partner or group of limited partners. However, Arsenal reserves the right, in its sole discretion, to determine to engage in such transactions, subject to any approvals required in the relevant Governing Documents. Arsenal is permitted to seek the consent of the relevant Fund's Advisory Board to approve conflicts associated with such transactions and accordingly not all limited partners will necessarily be able to approve or disapprove of such transactions. Similar to any prospective sale or disposition of Fund investments, to the extent such transactions are not consummated, the Fund is expected to bear all of the related costs in the absence of an agreement with other parties to bear a portion of such costs.

*Financial Institution Risk; Distress Events.* An investment in a Fund is subject to the risk that one of the banks, brokers, counterparties, clearinghouses, exchanges, lenders or other custodians (each,

a “Financial Institution”) of some or all of the Fund’s (or any portfolio company’s) assets fails to timely perform or otherwise defaults on its obligations or experiences insolvency, closure, seizure, receivership or other financial distress or difficulty, similar to that experienced by Silicon Valley Bank and Signature Bank in March 2023 (each, a “Distress Event”). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance, undercapitalization, market forces or accounting irregularities. If a Financial Institution experiences a Distress Event, Arsenal, any General Partner, the Funds and/or any of the portfolio companies may be unable to access deposits, borrowing facilities or other services, either permanently or for an indeterminate period of time. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation, in the case of banks, and the Securities Investor Protection Corporation, in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of total loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose potentially increased risk of loss. While in recent years governmental intervention has often resulted in additional protections for depositors and counterparties in connection with Distress Events, there can be no assurance that any intervention will occur, be successful or avoid the risks of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of Arsenal to manage the Funds and their investments, and on the ability of Arsenal, any Fund or any portfolio company to maintain operations, which in each case could result in operational burdens, significant losses and unconsummated investment acquisitions and dispositions. Such losses could include: a loss of funds; an obligation to pay fees and expenses in the event a Fund is unable to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of the Fund to access capital contributions or otherwise); the inability of the Fund to acquire or dispose of investments, including at prices that the relevant General Partner believes reflect the fair value of such investments; and/or the inability of Arsenal or portfolio companies to make payroll, fulfill obligations and/or maintain operations. If a Distress Event leads to a loss of access to a Financial Institution’s services, it is also possible that Arsenal will experience operational burdens and expenses, and a Fund or a portfolio company will incur additional expenses and/or delays in putting in place alternative arrangements and/or that such alternative arrangements will be less favorable than those formerly in place (with respect to economic terms, service levels, access to capital or otherwise). There can be no assurance that Arsenal will be able to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, or that such remedies will be successful or avoid losses, delays or other negative impacts. The Funds and their portfolio companies are subject to additional risks in the event a Financial Institution utilized by investors of a Fund or suppliers, vendors, service providers or other counterparties of a portfolio company become subject to Distress Events, which could have a material adverse effect on a Fund, its investors or such portfolio companies, including the risk of investor defaults.

Many Financial Institutions require, as a condition to using their services (including lending services), that Arsenal and/or the relevant Fund maintain all or a set amount or percentage of their respective accounts or assets with the Financial Institution, which heightens the risks associated with a Distress Event with respect to such Financial Institutions. Although Arsenal seeks to do business with Financial Institutions that it believes are creditworthy and capable of fulfilling their

respective obligations to the Funds, Arsenal is under no obligation to use a minimum number of Financial Institutions with respect to any Fund, or to maintain account balances at or below the relevant insured amounts.

## **Conflicts of Interest**

Arsenal and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of others, and providing transaction-related, investment advisory, management and other services to Funds and portfolio companies. Arsenal will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Arsenal conducting its activities, the interests of a Fund likely will conflict with the interests of Arsenal, one or more other Funds, portfolio companies or their respective affiliates in certain circumstances. Certain of these conflicts of interest are discussed herein. As a general matter, Arsenal will determine all matters relating to structuring transactions and Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the Advisory Boards of the participating Funds.

### General

During the commitment period of an Arsenal Fund, all appropriate investment opportunities generally will be pursued by Arsenal principals through such Arsenal Fund, subject to certain limited exceptions set forth in such Fund's Governing Documents and Arsenal's Allocation Policy. Without limitation, Arsenal principals may manage several other investments similar to those in which the Arsenal Funds may be investing, and for reasons set forth in the Governing Documents (e.g., no Arsenal Fund capital available to invest, etc.) expect to direct certain investment opportunities or resources to those investments. Arsenal personnel reserve the right to manage their own personal investments, whether or not through a formal family office or estate planning structure, to establish trusts, endowments, charitable programs, foundations, or similar arrangements, and to pay or receive compensation relating to the foregoing. Arsenal principals and investment staff will manage and monitor such investments until their realization. Such other investments that Arsenal principals expect from time to time to control or manage also generally have the potential to compete with companies acquired by the Funds. Arsenal principals expect to continue to spend time on other opportunities and areas unrelated to the Funds' investments, subject to limitations set forth in the Governing Documents. Where necessary, Arsenal consults and receives consent to conflicts from an Advisory Board consisting of limited partners of the applicable Arsenal Fund and/or other investment vehicles. To the extent an advisory opportunity is received that is unsuitable for a Fund, in Arsenal's sole discretion, Arsenal and its personnel reserve the right to refer such opportunity to third parties or to make personal investments in the relevant opportunity, but will not in such circumstances be required to share in or reimburse the relevant Fund for due diligence or other expenses (including broken deal expenses where permitted by such vehicle's Governing Documents) incurred by the Fund in connection with the Fund's consideration of the relevant investment opportunity. Unless restricted by the Governing Documents, Arsenal personnel are permitted to serve on boards or act in other roles unaffiliated with Arsenal, the Funds or their portfolio companies, including boards of charitable and

educational institutions, public companies and former portfolio companies, and receive compensation in connection with such services and roles, none of which will offset or otherwise reduce Management Fees.

### *Multiple Clients in Same Investment*

Investment opportunities may be appropriate for multiple Funds at the same, different or overlapping levels of a portfolio company's capital structure. Potential conflicts are expected to arise when and to the extent a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This likely will result in differences in price, terms, leverage and associated costs. There is a potential for conflicts to arise in determining the terms of each such investment, particularly where Funds invest in different types of securities in a single portfolio company. Investments by more than one Fund also have the potential to raise the risk of using assets of a client of Arsenal to support positions taken by other clients of Arsenal. Further, questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Arsenal and its affiliates reserve the right from time to time to express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Fund's investment will be the same as the returns obtained by other Funds participating in such transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to all relevant Funds. In that regard, actions taken for one or more Funds may adversely affect other Funds.

### *Investment Allocations*

As noted above, from time to time, Arsenal will be presented with investment opportunities that may be appropriate for multiple Arsenal Funds or which the applicable Arsenal Fund(s) cannot complete on their own. When such a situation arises, Arsenal applies its Investment Allocation Policy in determining which Arsenal Funds should participate in such investment opportunities and in determining whether and to whom to allocate co-investment opportunities. In making such determinations, Arsenal is subject to potential conflicts of interest. The Allocation Policy requires Arsenal to allocate investment opportunities first to Arsenal Funds in a fair and equitable manner to its clients under the circumstances over time, consistent with its fiduciary obligations and underlying documents, as applicable. Arsenal generally assesses whether an investment opportunity is appropriate for each relevant Fund based on the terms of such Fund's Governing Documents, as well as factors including: each Fund's investment restrictions and objectives (including those set forth in the relevant Fund's Governing Documents, where applicable), the expected capital needs of the target over the anticipated life of the investment (including to fund potential add-on acquisitions), the percentage ownership a Fund expects to have in the business

(e.g., a minority investment vs. a control position), portfolio construction principles (including concentration risk by type of investment and/or end-market), the potential for combining with another portfolio company in a particular Fund, the ability to succeed in a competitive process for a specific target, potential allocations for co-investment, strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, diversification limitation, cash level (if any), applicable tax and regulatory considerations, life cycle, conflicts considerations and any other factors deemed relevant by Arsenal and its affiliates. However, except as required by the relevant Governing Documents, Arsenal is not obligated to recommend any investment to any particular investment vehicle.

As a general matter, the Growth Fund will generally seek to make investments in companies for which the enterprise value is less than that generally targeted by the other Arsenal Funds (“Other Arsenal Funds”). When evaluating such opportunities Arsenal will consider its expectations at the time of the initial transaction of the ultimate investment opportunity and its associated portfolio company value enhancement strategy (taking into account expected add-on acquisitions, but not taking into account enterprise value increases due to organic growth of the business). However, in certain circumstances the Other Arsenal Funds will make an initial platform investment in smaller companies that are suitable for the mandate of the Growth Fund, including if Arsenal’s expectations are for substantial add-on opportunities and capital needs for such company in the future. Further, the Growth Fund will have the ability to make initial platform investments in companies with a larger enterprise value similar to those that the Other Arsenal Funds invest in, including if Arsenal’s expectations are that the ultimate investment opportunity will be limited (e.g., a minority interest). In determining investment allocations between the Other Arsenal Funds and the Growth Fund, Arsenal will also consider the size and structure of the market space in which the target competes, which affects capital needs and likely add-on acquisitions, the investment strategy, as well as the allocation factors set forth above. In other circumstances, during the period that a portfolio company is owned by a Fund, it could acquire size, revenue or other characteristics that would make it a suitable investment for one or more other Funds.

Following such determination of allocation among Arsenal Funds, Arsenal will determine if the amount of an investment opportunity in which one or more Arsenal Fund(s) will invest exceeds the amount that would be appropriate for such Arsenal Fund(s) and Arsenal reserves the right to offer any such excess to one or more potential co-investors (including Operating Partners, limited partners in the same or other Arsenal Funds, lenders, management teams, strategic investors with whom Arsenal has a relationship, service providers and/or other third parties, including those with investment or industry experience (who may pay Carried Interest)), as determined in accordance with the Arsenal Funds’ Governing Documents, Side Letters and Arsenal’s Allocation Policy. Arsenal does not guarantee any co-investors the right to invest in any particular transaction.

Arsenal’s procedures to allocate co-investments permit it to take into consideration a variety of factors, (some of which are expected to benefit Arsenal or its affiliates), including: (i) the ability of a potential co investor to react promptly to a co-investment opportunity and to otherwise execute the transaction, in a timely manner with respect to the timeframe in which Arsenal believes favorable transaction terms may be achieved (as determined by Arsenal in good faith); (ii) any strategic advantages that may result from a potential co investor’s participation in a co-investment opportunity; (iii) a potential co investor’s commitment to a Fund; (iv) the likelihood that a potential co investor may invest in a Fund and/or a future investment vehicles sponsored and/or managed

by Arsenal or its affiliates; (v) the potential co-investor's investable assets relative to the size of the co-investment opportunity; (vi) tax, regulatory and/or securities law considerations (e.g., qualified purchaser or qualified institutional buyer status); (vii) confidentiality concerns that may arise in connection with providing the potential co-investor with specific information relating to the co-investment opportunity; (viii) whether the potential co-investor's participation in an investment opportunity may subject the relevant Arsenal Fund to legal, regulatory, reporting or other burdens or could impair the ability of Arsenal to execute the relevant transaction in the desired time or on desired terms; (ix) the size of the investment allocation and practicality of dividing it among multiple potential co-investors; (x) lender requirements; (xi) the knowledge and sophistication of the prospective co-investor with respect to the issuer, segment, industry, geographic region or other characteristics that are relevant to the investment (as determined by Arsenal in good faith); (xii) whether Arsenal believes that allocating investment opportunities to the potential co-investor will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the Funds or Arsenal; (xiii) whether the potential co-investor will pay a carried interest or management fee to Arsenal; and/or (xiv) other factors that Arsenal considers important in connection with the specific transaction or investment, including expected investment holding period, services provided by the prospective co-investor to the issuer of the investment (or otherwise provided by the prospective co-investor with respect to the investment) and other factors. Although Arsenal reserves the right to consider a prospective co-investor's willingness to invest in future Arsenal Funds, such willingness generally will not be the sole determining factor considered by Arsenal in identifying co-investors. Arsenal permits Advisory Board members, Operating Partners and Consultants to co-invest alongside the Arsenal Funds. Specifically, to the extent that members of the Advisory Board elect to co-invest alongside the Arsenal Funds, such Advisory Board members must co-invest a predetermined and non-variable amount in all investments by that Fund in each such person's sector (i.e., specialty industrials or healthcare). It is possible that Arsenal would loan such persons a portion of the amount to make such co-investment.

The Arsenal Funds also reserve the right to co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments will potentially involve risks not present in investments where a third party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Arsenal Funds, or may be in a position to take action contrary to the investment objectives of the Arsenal Funds. In addition, an Arsenal Fund may in certain circumstances be liable for actions of its third-party co-venturer or partner. There can be no assurance that an Arsenal Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

In the event that one or more Arsenal Funds and one or more co-investors invest together through a holding company, the expenses related to the structuring, formation and operation of such holding company will generally be allocated *pro rata* amongst the relevant Arsenal Fund(s) and the co-investor(s) in such vehicle. For the avoidance of doubt, in the event that a transaction in which a co-investment was to be sought ultimately is not consummated, all obligations, liabilities and out-of-pocket fees, costs and expenses relating to such unconsummated transaction are expected to be borne by the relevant Arsenal Fund(s), and not by any potential or expected co-investors (including Operating Partners and Consultants).

Furthermore, Arsenal or its related persons expect to make decisions regarding whether and to whom to offer co-investment opportunities in consultation with other participants in the relevant transactions, such as a lender or co-sponsor. Co-investment opportunities typically will be offered to some and not to other Arsenal Fund investors, and the consideration of the factors set forth above likely will result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments have the potential to receive none. Allowing any co-investment generally reduces the amount of the relevant investment opportunity that theoretically could have been taken by the relevant Fund, and, Arsenal expects to be subject to potential conflicts of interest in determining the amount of investment opportunity that should be allocated to the relevant Fund because (i) co-invest opportunities generally appeal to Fund investors and third parties, (ii) to the extent co-investments made by Fund investors are not subjected to Management Fees and/or performance-based compensation, co-investments blend the effective rates of compensation paid by such persons and (iii) co-investors' proportionate share of a particular investment typically is not subject to the Management Fee offset provisions of a Fund's Governing Documents. In order to facilitate the acquisition of a portfolio company, a Fund reserves the right to make (or commit to make) an investment in the company with a view to selling a portion of the investment to co-investors or other persons prior to or following the closing of the acquisition. In such event, the relevant Fund will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms, including for example the risk that a portion of the investment will be syndicated at reduced cost, at cost, or at a lower amount at a time when the General Partner believes the value of such investment has appreciated or should be higher than that paid (or willing to be paid) by a co-investor. To the extent such a syndication is made, the General Partner's interest in limiting the Fund's exposure to a given investment while providing a potential benefit to co-investors investing at such lower values will give rise to a potential conflict of interest. As a consequence of a failed co-investment syndication process or a co-investment syndication on unattractive terms, the relevant Fund would be required to (i) bear the entire portion of any break-up, topping or other fees, costs and expenses related to such investment (including the proportionate share of such amounts that were expected to have been borne by co-investors), (ii) hold a larger-than-expected investment in such portfolio company, (iii) receive less-than-fair-market value for the syndicated portion of the investment and/or (iv) be diluted or realize lower than expected returns from such investment. When and to the extent that employees and related persons of Arsenal make capital investments in or alongside the Arsenal Funds, Arsenal is subject to potentially conflicting interests in connection with these investments.

When identifying potential add-on opportunities, Arsenal must determine the appropriate Arsenal Fund(s) or portfolio companies to participate in the applicable add-on opportunity and the amount of such add-on opportunity in which they will participate. A Fund is expected to, from time to time, compete with other Arsenal Funds and portfolio companies. Given these factors and the limited number of add-on opportunities, Arsenal likely will be subject to conflicts of interest in determining the allocation of add-on opportunities. Arsenal will determine the allocation among such Arsenal Fund(s) in such manner as the applicable general partners, in their sole discretion, determine in good faith to be fair and equitable, consistent with the relevant Governing Documents, Arsenal's Investment Allocation Policy, and the investment allocation factors described above.

Arsenal's allocation of investment opportunities among the Arsenal Funds may not always, and often will not, be proportional, based on available capital commitments or other factors. Therefore,



such allocations will at times be more advantageous to certain Fund(s) relative to other Arsenal Funds. While Arsenal will allocate investment opportunities among the Arsenal Funds in a way that Arsenal determines in good faith to be fair and equitable, the Governing Documents of such Arsenal Funds and Arsenal's Investment Allocation Policy, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or terms on which the allocation is made, will be as favorable as they would have been if the potential conflicts of interest did not exist. A Fund is permitted to invest with other Arsenal Funds, including in different securities of the portfolio company, in the manner set forth in the Governing Documents and Arsenal's Investment Allocation Policy.

#### *Allocation of Fees and Expenses*

The General Partner and its affiliates from time to time are expected to incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the Funds. Arsenal generally intends for any fees, costs and expenses that are incurred in connection with a consummated investment to be charged to the applicable portfolio company. To the extent such fees, costs and expenses are incurred for the account or for the benefit of a Fund and one or more other Funds, such Funds will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of the investment made or proposed to be made by each in respect of the entity to which the expense relates or in such other manner as Arsenal considers fair and equitable. Subject to any relevant restrictions or other limitations contained in the Governing Documents of the Funds, Arsenal will allocate fees, cost, and expenses in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering such factors as it deems relevant. In exercising such discretion, Arsenal expects to be faced with a variety of potential conflicts of interest. As a general matter, the Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Arsenal or its affiliates using their reasonable judgment, considering such factors as they deem relevant. The allocations of such expenses in certain circumstances will not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or Arsenal. The Funds generally have different expense reimbursement terms, including with respect to Management Fee offsets, which is expected from time to time to result in the Funds bearing different levels of expenses with respect to the same investment. Further, Arsenal reserves the right to consider relevant Fund's strategy as a component of its allocation of investment expenses.

#### *Conflicts Relating to Operating Partners and Consultants*

Arsenal will be subject to potential conflicts of interest in determining whether an Operating Partner's activities should be classified as Operating Partner - Management Company Role, Operating Partner - Portfolio Company and Fund Role, or Operating Partner - Sourcing Role. For example, Arsenal generally will not be allocated compensation and related expenses of an Operating Partner to the extent that such compensation and related expenses relate to activities classified as Operating Partner - Portfolio Company and Fund Role and Operating Partner -

Sourcing Role. However, these activities will also provide a benefit to Arsenal in its investment-related activities, in that the cost of performing such activities would be borne by a Fund or one or more portfolio companies (and therefore indirectly by a Fund) rather than by Arsenal. Therefore, Arsenal may have an incentive to classify a particular activity as Operating Partner - Portfolio Company and Fund Role or Operating Partner - Sourcing Role even though it may directly or indirectly benefit Arsenal, in whole or in part. In addition, the economic impact of such compensation and related expenses borne by a portfolio company may not be proportional between a Fund and the various other owners of the applicable portfolio company, and any determinations in respect thereof involve inherent matters of discretion by Arsenal. Arsenal generally intends to determine how compensation and expenses of Operating Partner are allocated among the Operating Partner - Management Company Role, the Operating Partner - Portfolio Company and Fund Role, or the Operating Partner - Sourcing Role based on time spent by such Operating Partner on the activities of such roles. While Arsenal requires its Operating Partners to track their time and activities and the General Partner of the applicable Fund to review and monitor such tracking, Arsenal may estimate or use other methods to approximate time spent serving in such roles or to otherwise allocate activities, compensation and expenses to such roles (and consequently the amount of compensation and expenses associated with particular Operating Partner activities will not in certain circumstances be directly proportional to time expended or activities conducted by the respective Operating Partner). Such estimates may not be accurate, and Arsenal will be subject to potential conflicts of interest in making such determinations.

Additionally, portfolio companies may provide opportunities for Operating Partners and Consultants to invest in such portfolio company and reimburse costs and expenses incurred by Operating Partners and Consultants. Operating Partners and Consultants also may receive remuneration from the General Partner of a Fund and/or a Fund or affiliates and/or be entitled to other forms of compensation, including equity grants in portfolio companies. Such investment opportunities, reimbursements and other compensation paid to Operating Partners (excluding Operating Partners to the extent serving in Operating Partner - Management Company Role) and Consultants will not be “Portfolio Company Fees” and will not offset the Management Fee except for the cap with respect to amounts received by Operating Partners (but not Consultants). Operating Partners and Consultants may have a limited partnership or profit interest in a Fund, the applicable General Partner, one or more Arsenal Funds or in an affiliate of a General Partner of a Fund. Although Arsenal intends to retain Operating Partners and Consultants with a view to reducing costs to portfolio companies (and, ultimately, the Arsenal Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. In addition, Arsenal intends to retain only such Operating Partners and Consultants which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at a lesser cost.

For the avoidance of doubt, Arsenal and its affiliates may utilize different titles and different roles for persons described herein as Senior Advisors, Consultants or Operating Partners without affecting such persons’ status as “Consultants” or “Operating Partners” as described herein or under the Funds’ Governing Documents.

### Joint and Several Liability to Lenders

If a Fund enters into any indebtedness with another Fund on a joint and several basis, the applicable General Partner is expected to enter into one or more agreements that provide each Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, Arsenal expects to be subject to potential conflicts of interest, for example between a Fund with a reimbursement obligation and a Fund seeking reimbursement. In certain circumstances, Funds are expected to be prohibited from exercising (or Arsenal may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investment(s) of one Fund or the other may be subject to creditor claims regarding subordination of interests. Arsenal intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each Fund to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

### Transfers of Fund Interests

In certain cases, Arsenal will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, is under no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, Arsenal will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors (similar to those employed in selecting co-investors), and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

### Transactions Between Funds

Arsenal reserves the right to cause a Fund to enter into a transaction whereby such Fund purchases securities from, or sells securities to, other Funds managed by Arsenal, or co-investors or co-investment vehicles. Such transactions may arise in the context of a portfolio company owned by one Fund being acquired by another Fund, or a Fund re-balancing of an investment among parallel investing entities. Certain of these transactions raise potential conflicts of interest, including where the investment of one Fund supports the value of portfolio companies owned by another Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represents what would ultimately be the underlying investment's fair value. Any incremental costs and expenses associated with any such transaction, including third-party valuations, legal, and other considerations related to the conflicts, generally will be borne by the relevant Funds on a *pro rata* basis. Further, Funds nearing the end of their term are expected from time to time to sell their interest in commonly held investments to other Funds with more time remaining in their term, which gives rise to the conflicts of interest discussed herein. Conflicts of interest are also heightened in the foregoing transactions to the extent the relevant General Partners are assigned varying percentages of carried interest from Funds in the same investment, or if economic terms, performance and/or the potential for carried interest vary between Funds, particularly when one Fund sells its portion of such investment to another Fund, which could cause a portion of such carried interest to become "crystallized." Arsenal intends to conduct such transactions in a manner that Arsenal believes to be fair and equitable to each Fund under the

circumstances over time, including a consideration of the potential present and future benefits with respect to each Fund. To the extent required by the relevant Funds' Governing Documents or otherwise in the sole discretion of Arsenal, Arsenal reserves the right to seek to mitigate such conflicts by seeking input from an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price, whether or not part of a formal fairness opinion, "request for proposal" process, or proposal or quotation provided exclusively for the benefit of Arsenal) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's Advisory Board) to such transactions. In certain circumstances, Arsenal reserves the right to determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction (including its value) to a Fund under then-current market conditions. Arsenal intends that any such transactions be conducted in a manner that it believes to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

In structuring co-investments, the Funds are permitted to initially invest in a portfolio company (including follow-on investments) and later sell a portion of such investment to a co-investor. In such circumstances, the relevant Funds will be responsible for the full purchase price of the investment and be required to fund capital, whether through a capital call to the Partners or via financing on a subscription line of credit, for the full investment amount. It is not guaranteed that any Fund will ultimately complete an expected sell-down to one or more co-investors, which would result in the relevant Funds owning a larger portion of the investment than desired, or that such Funds will be compensated by any co-investor for the cost of providing capital at the initial closing of the investment. Arsenal could benefit from such co-investments, including through carried interest or other fees paid to Arsenal by a co-investor or by making co-investment opportunities available to Operating Partners, Advisory Board members, and other affiliated persons, and as such, there will be conflicts of interest for Arsenal in determining the terms on which such co-investors acquire a portion of an investment initially made by the Fund.

#### Cross-Fund Guarantees

Although Arsenal generally structures Funds to avoid circumstances in which one Fund ultimately bears liability for all or part of the obligations of another Fund or any Arsenal's affiliate, in certain circumstances lenders and other market participants may negotiate for the right to face only select Fund entities, which may result in a single Fund being solely liable for other Funds' share of the relevant obligation and/or joint and several liabilities among Funds. In such case, Arsenal intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements. In other circumstances, lenders and other market participants are expected to seek "cross default" rights under which a Fund will be treated as in default under the relevant facility in the event of a default by another Fund or an Arsenal affiliate relating to their respective lending or other facilities; if any such provision were to be triggered, a Fund's limited partners could suffer adverse effects resulting from any default by any Fund or an Arsenal affiliate, whether or not related to the Fund in which such limited partners have invested.

### *Relationships with Portfolio Company Board Members*

As a result of the Funds' controlling interests in portfolio companies, Arsenal and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Arsenal personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Arsenal and/or its affiliates. Except to the extent such amounts are subject to the Governing Documents' offset provisions, they will be in addition to any Management Fees or Carried Interest paid by a Fund to Arsenal. Arsenal's authority to appoint or influence the appointment of portfolio company board members who may be involved in approving compensation payable to Arsenal and/or its affiliates subjects Arsenal and any such portfolio company board appointees to potential conflicts of interest.

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

In connection with its investment activities for a Fund and its investments, Arsenal expects to receive or have access to various kinds of information that provides it with material benefits, without compensation or other benefits accruing to such Fund or its limited partners. For example, in the course of Arsenal's operations, including research, due diligence, investment monitoring, operational improvements and investment activities on behalf of a Fund and its portfolio companies, Arsenal and its personnel expect to receive and benefit from information, "know-how," experience, analysis and data relating to Fund or portfolio company (as applicable) operations. Such information or experience will generally enable Arsenal to better understand a particular industry and execute investment strategies in reliance on that understanding for Arsenal and other Arsenal Funds that do not own an interest in such portfolio company. Although Arsenal expects its Funds and their portfolio companies to benefit from Arsenal's possession of such information, such benefits will be experienced by other or future Funds or portfolio companies (or by Arsenal and its personnel), and the Fund or portfolio company from which such information was originally received will not be compensated as a result.

### *Relationships with Service Providers*

Arsenal generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with certain service providers, and from time to time such service providers are expected to include, among others: (i) Arsenal (or an affiliate, which may include portfolio companies of the relevant Fund or other Funds) and at rates determined or substantively influenced by Arsenal; (ii) an entity with which Arsenal or its affiliates or current or former members of their personnel has a relationship or from which such person derives a financial or other benefit, including relationships with joint venturers or co-venturers, or relationships where Arsenal personnel are seconded, or from which Arsenal receives secondees; or (iii) a limited

partner (of the relevant Fund or another Fund) or its affiliates. For example, Arsenal may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This discretion subjects Arsenal to conflicts of interest, because although Arsenal selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Arsenal has a potential incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest.

There is a possibility that Arsenal, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Arsenal), would favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Arsenal will not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses. Although Arsenal generally seeks appropriate rates for services, it reserves the right to prioritize prior usage, perceived quality, sector competence or expertise, familiarity, onboarding speed or other factors in retaining or recommending service providers. In certain circumstances where Arsenal commits or has committed to seek "market" or "arms-length" rates or terms, Arsenal will do so in its sole discretion, seeking rates that it has determined in its sole discretion to be reflective of the range of rates in the applicable or related markets. Arsenal reserves the right to deem third-party investment in a transaction to be verification that the transaction was entered into at a value that is "arms-length." Consequently, Arsenal undertakes no minimum amount of benchmarking, and does not represent that any such benchmarking ultimately will be accurate, comparable or relate specifically to the assets, services, geographies or comparable markets to which such rates or terms relate. Where such rates or terms include hourly components, Arsenal reserves the right to rely on approximations or estimates of time spent for purposes of allocating or charging for services. Any methodology, or choice among methodologies, involves potential conflicts of interest. Whether or not Arsenal has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Arsenal and/or its affiliates reserve the right to employ personnel with pre-existing ownership interests in portfolio companies owned by the Funds or other investment vehicles advised by Arsenal and/or its affiliates; conversely, current and former personnel or executives of Arsenal and/or its affiliates are expected from time to time serve in significant management roles at portfolio companies or service providers recommended by Arsenal. Similarly, Arsenal, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including, but not limited to, managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Arsenal and/or its affiliates, and/or the Funds or other investment vehicles they advise. In other circumstances, these vendors are expected to provide personal banking, private wealth or lending arrangements (including lending

arrangements with respect to personal investments in or through Arsenal entities, whether or not relating to financing Arsenal personnel obligations to fund General Partner commitment obligations) to Arsenal personnel and their estate planning vehicles. Arsenal has a potential conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Arsenal information about markets and industries in which Arsenal operates (or is contemplating operations) or will provide other services that are beneficial to Arsenal or one or more other Funds. Arsenal has a potential conflict of interest in making such recommendations, in that Arsenal has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best or lowest cost option available to the portfolio companies held by a Fund. In most cases, the relevant Fund will not consent, participate in the negotiations or be directly involved in such arrangements.

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

Except to the extent prohibited by the Governing Documents, Arsenal and its personnel are permitted to market, organize, sponsor or act in other capacities (including as director, founder or manager) for other pooled investment vehicles, accounts or SPACs the investment or business strategy of which does not overlap with the Fund(s) and to receive compensation (including in the form of management fees, performance-based compensation, founders' equity or similar interests) relating thereto. Subject to any limitations imposed by the Governing Documents and anti-“assignment” provisions of the Advisers Act, Arsenal and its personnel are also permitted to offer, restructure and monetize interests in Arsenal.

The relevant liability standards under insurance coverage procured by Arsenal are expected to vary by carrier, and such standards are expected to vary from time to time depending on, for example, coverage features or limitations then-available from the carrier at the time of insurance contract renewal. As a result, insurance coverages from time to time are expected to vary from relevant liability and/or indemnity standards in the Governing Documents. Investors generally will be

responsible for insurance premiums, as set forth in the Governing Documents, regardless of whether the liability and/or indemnity standards in Arsenal's insurance coverage are higher or lower than that set forth in the Governing Documents.

### Side Letters

Arsenal and/or its affiliates reserve the right to enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures (including discounted or rebated compensation terms, none of which generally will be subject to the "most-favored-nation" provisions of a Fund's Governing Documents), information rights, specialized reporting, priority co-investment rights or targeted co-investment amounts, rights to serve on the Fund's Advisory Board, and liquidity or transfer rights. Side Letters may also relate to strategic relationships under which an investor agrees to make capital commitments to multiple Funds. Except where required by Governing Documents, other investors will not receive copies of Side Letters or related provisions, and as a general matter, the other investors have no recourse against a Fund, Arsenal, the relevant General Partner or any of their affiliates in the event that certain investors have received additional and/or different rights and/or terms as a result of such Side Letters. Side Letters subject Arsenal to potential conflicts of interest, including in circumstances where an investor's right to serve on the relevant Fund's Advisory Board results in the investor receiving additional information relative to other investors. To the extent an investor is subject to statutory or other limitations on indemnification, or otherwise negotiates rights relating thereto, other investors may be subject to increased losses, or be required to bear an increased portion of indemnification amounts. Other Side Letter rights are likely to confer benefits on the relevant limited partner at the expense of the relevant Fund or of limited partners as a whole, including in the event that a Side Letter confers additional reporting, information rights and/or transfer rights, the costs and expenses of which are expected to be borne by the relevant Fund.

As a consequence of one or more limited partners being excused or excluded, or from regulatory, tax, or other factors altering or limiting their participation in investments or ability to bear certain liabilities or obligations, the aggregate returns realized by participating or non-participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments; similar considerations apply in the event a limited partner defaults on a drawdown in respect of an investment. Although Arsenal believes it to be unlikely, excuse or other rights requested or received by one or more limited partners (or such regulatory, tax or other factors applicable to such limited partners) representing a substantial percentage of a Fund have the potential to create significant variations in limited partner investment returns or exposures to liabilities or obligations, or to influence or affect the investment strategy and pursuit of investment opportunities by the General Partner on behalf of the relevant Fund as a whole. A limited partner's voting rights for regulatory or other reasons can be limited in circumstances specified in the Governing Documents; conversely, a limitation on one or more limited partners' voting rights generally will increase the voting rights percentage of other limited partners in the relevant Fund. Further, limited partners with different domiciles or tax categorizations could receive different investment returns or amounts of tax basis and/or pay different levels of expenses, e.g., based on tax savings or ownership of alternative investment vehicle, "blocker" or other structures used to facilitate their investments in, through or below a Fund.



### Management Fees and Carried Interest

The fact that Arsenal's Carried Interest is based on a percentage of net profits may create an incentive for Arsenal to cause a Fund to make riskier or more speculative investments or to hold an investment longer than otherwise would be the case. In addition, because each Fund has a fixed investment period after which capital from investors generally may only be drawn down in limited circumstances, and because the Management Fee is, at certain times during the life of a Fund, calculated based upon the invested capital of such Fund, the Management Fee structure may create an incentive for Arsenal to deploy capital when it might not otherwise have done so. In certain circumstances, such as those relating to short- or long-term portfolio company cash or liquidity needs, and regardless of whether the portfolio company is undergoing financial stress, Arsenal reserves the right to accrue, defer or forego payments of Portfolio Company Fees, and reserves the right to charge interest at then-available rates with respect to such amounts. In such cases, in accordance with the Governing Documents, investors will not receive the benefit of Management Fee offsets with respect to such amounts until they are actually received.

### Conclusion

Any of these situations subjects Arsenal and/or its affiliates to potential conflicts of interest. Arsenal attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Arsenal's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a manner it believes to be fair and equitable to the Funds under the circumstances over time. To the extent that an investment or relationship raises particular conflicts of interest, Arsenal will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Arsenal consults with, receives counsel from, and when necessary, seeks consent of the Advisory Board, which consists of limited partners of the relevant Fund(s) and such other investment vehicles.

## **ITEM 9        DISCIPLINARY INFORMATION**

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

## **ITEM 10       OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

ACM's affiliates include the Funds' General Partners. These affiliated investment advisers operate as a single advisory business together with ACM and serve as managers or general partners of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions.

ACM has accepted a passive minority investment from vehicles sponsored by Goldman Sachs Asset Management, L.P. (collectively with its affiliates, the "Minority Investor"). The Minority Investor is a minority partner with an economic interest in a portion of carried interest proceeds and net fee income received by Arsenal, and the right to contribute a portion of capital commitments to certain Funds. The Minority Investor does not have any authority over the day-to-day operations or investment decisions of Arsenal or any Fund. The Minority Investor has

relationships with other advisers and investment vehicles that may give rise to potential conflicts, including sponsoring or investing in firms or vehicles that pursue investment strategies similar to those of a Fund and ultimately compete with a Fund for investment opportunities. The Minority Investor may also have relationships in the ordinary course with current or prospective portfolio investments, including providing services and/or financing to current or prospective portfolio investments. Although it intends to maintain operations, strategy and investment decisions separate from the Minority Investor, ACM generally will have incentives to conduct operations in a manner that benefits the Minority Investor.

## **ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Arsenal Capital Management has adopted a Code of Ethics and Securities Trading Policy and Procedures (the “Code”), which sets forth standards of conduct that are expected of Arsenal principals and employees and addresses conflicts that arise from personal trading. Among others, the Code requires employees to:

- Place the interest of the Funds above personal interests;
- Seek to identify conflicts of interest;
- Keep confidential all material nonpublic information;
- Not effect transactions based on material nonpublic information;
- Pre-clear transactions in initial public offerings and limited offerings of securities; and
- Report personal securities transactions and holdings.

Arsenal, its affiliates, principals and employees, expect to carry on investment activities for their own account, for personal or employee investment vehicles and, potentially, for family members, friends or others who do not invest in the Funds, as well as give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Funds, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Arsenal generally restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such vehicles or give priority with respect to investments to such vehicles or be subject to limitations (e.g., by time or percentage of capital deployed). Some of these restrictions could be waived by investors (or their representatives) in such vehicles.

From time to time, the General Partners advance funds on behalf of their respective Funds and contribute such amounts to their respective Funds as a special interim capital contribution for investment, to be redeemed at a later date. A yield amount in connection with such borrowing typically is borne by the limited partners consistent with the applicable Governing Documents. Similarly, Arsenal or an affiliate from time to time is expected to sign non-disclosure agreements or other deal documentation in view of future participation by one or more Fund(s), although this typically is done as a courtesy and without compensation from a Fund.

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

The General Partners will engage in such borrowings consistent with a Fund's Governing Documents and in a manner they believe to be fair and equitable under the circumstances to their respective Funds.

Employees must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understood the Code and have complied with it.

Employees who violate the Code are subject to disciplinary action including, but not limited to, written warnings and termination of employment.

A copy of the Code will be provided to any investor or prospective investor upon request made to the Chief Compliance Officer.

## **ITEM 12      BROKERAGE PRACTICES**

Arsenal typically does not utilize broker-dealers to effect transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions. However, the Funds reserves the right to receive portfolio company shares registered for sale as part of a portfolio company's general distribution or Arsenal reserves the right to buy or sell publicly traded securities. In these instances, Arsenal reserves the right to utilize a broker-dealer to effect these transactions.

Generally, Arsenal selects broker-dealers on the basis of best execution. "Best execution" does not mean effecting transactions at the lowest possible commission rate, transaction costs and best price, but includes a number of factors including, but not limited to, (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the broker

being considered; (iv) responsiveness to requests for trade data and other financial information; (v) experience in liquidating distributions from private equity funds; (vi) nature and size of the transaction; and (vii) willingness to commit capital, access to a particular trading market, and security conditions (e.g., liquidity, volatility, etc.).

Arsenal has discretion to determine without obtaining prior consent from the Funds the broker-dealer to execute transactions and the commission rates or commission equivalents charged for effecting the transaction.

*Research and Other Soft Dollar Benefits:* Arsenal does not obtain proprietary and third-party research services or products with the Funds' commissions or "soft dollars."

*Brokerage for Client Referrals:* Arsenal does not consider investor referrals in selecting broker-dealers.

*Directed Brokerage:* Arsenal does not accept instructions to effect Fund transactions with certain broker-dealers.

*Cross Trades:* From time-to-time, Arsenal reserves the right to effect a purchase of a security for one or more Funds at the same time as a sale of the same security for another Fund. Such transactions may be effected to rebalance the positions held in the Funds' portfolios in order to achieve uniform results among Funds, to take into account Funds' cash flows or to comply with investment guidelines and restrictions. Such transactions, at Arsenal's discretion, may generally be effected at a price and time as it deems appropriate under the circumstances.

*Principal Transactions:* "Principal transactions" are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. Arsenal is neither registered as, nor is affiliated with, a broker-dealer.

*Aggregation and Allocation:* Generally, aggregation of the purchase and sale of securities for the Funds does not apply as investments are primarily in private equity securities.

However, where practical and appropriate, Arsenal will generally aggregate orders for Funds transacting in the same publicly traded security and will generally allocate the purchase or sale of such security or proceeds to the Funds in the order based on an average price and on a *pro rata* basis if the order is partially filled.

## **ITEM 13      REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, ACM's investment professionals closely monitor companies in which the Funds invest. These reviews include, but are not limited to, reviewing the operational and financial performance as well as strategic direction of each portfolio company in that the respective Fund has invested.

The Arsenal Funds provide to their limited partners (i) annual GAAP audited financial statements and partner's capital statements, (ii) quarterly unaudited reports and partner's capital statements, (iii) annual tax information necessary for each limited partner's tax return, and (iv) annual and quarterly reports providing a narrative summary of the status of each portfolio company investment.

The Co-Invest Vehicles provide to their limited partners (i) annual GAAP audited financial statements and partner's capital statements, (ii) unaudited quarterly partner's capital statements, and (iii) annual tax information necessary for each limited partner's tax return.

## **ITEM 14      CLIENT REFERRALS AND OTHER COMPENSATION**

As discussed in Item 5 and Item 8, certain Operating Partners and Consultants (both Arsenal employees and outside contractors) provide and receive compensation for a broad range of support and services to and with respect to portfolio companies, the Funds, and/or Arsenal. These arrangements have the potential to create conflicts of interest, in that, as provided in the Governing Documents, except under certain limited circumstances described in Item 5, such compensation is not offset against Management Fees. See Item 5 "Fees and Compensation" and the discussion under "Conflicts Relating to Operating Partners and Consultants" in Item 8.

Arsenal has entered into placement agent arrangements pursuant to which it compensates placement agents for referrals that result in a potential investor becoming a limited partner in an Arsenal Fund. When Arsenal enters into such arrangements, any fees and expenses payable to placement agents will be paid by the applicable Arsenal Fund but borne by Arsenal indirectly through an offset against the Management Fee.

## **ITEM 15      CUSTODY**

ACM is deemed to have "custody" (within the meaning of Advisers Act Rule 206(4)-2 (the "Custody Rule")) by virtue of the fact that it or a related person serves as General Partner of certain private funds. The SEC's Custody Rule sets forth certain requirements for the safekeeping of client funds or securities, subject to certain exceptions set forth in the Custody Rule and related guidance.

ACM's policy is to have the Funds audited annually by an independent auditor registered with and subject to regular inspection by the Public Company Accounting Oversight Board, and to distribute copies of the audited financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") to Fund investors within 120 days of the end of a Funds' fiscal year.

In addition, upon the final liquidation of a Fund, ACM will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP to Fund investors in the liquidated Fund promptly after completion of the audit.

## **ITEM 16      INVESTMENT DISCRETION**

ACM has discretionary authority to manage investments on behalf of the Funds.

ACM assumes this discretionary authority pursuant to the terms of the Partnership Agreements and powers of attorney executed by the limited partners in the Funds. As a general policy, ACM does not allow clients to place limitations on this authority. The Funds' General Partner have entered, and expect to enter, into Side Letter agreements with certain limited partners whereby the terms applicable to such limited partner's investment in the applicable Fund are altered or varied including, but not limited to, the right to opt-out of certain investments for legal, tax, regulatory or other reasons.

## **ITEM 17      VOTING CLIENT SECURITIES**

Arsenal has discretionary authority to vote proxies on Fund securities.

Arsenal represents a Fund by its representation on the board of directors of a Fund's portfolio company. In such circumstance, Arsenal typically is involved in establishing the agenda and matters to be voted upon by shareholders. Accordingly, in these situations, Arsenal typically will vote with management. Arsenal exercises its discretion with respect to the voting of proxies in a manner that is intended to serve the best interests of the Fund.

In the event that there is or may be a conflict of interest in voting proxies, Arsenal may address the conflict using several alternatives including, but not limited to, seeking the approval or concurrence of the applicable Fund's Advisory Board on the proposed proxy vote or through other alternatives.

Fund investors may obtain a free copy of Arsenal's Proxy Voting Policy, as well as relevant proxy voting records, upon written request to the Chief Compliance Officer.

## **ITEM 18      FINANCIAL INFORMATION**

Arsenal Capital Management has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.