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Item 1: Cover Page



**New Heritage Capital, LLC**

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## **Form ADV Part 2A – Firm Brochure**

March 30, 2023

This brochure (the “Brochure”) provides information about the qualifications and business practices of New Heritage Capital, LLC (“Heritage”). If you have any questions about the contents of this Brochure, please contact us at (617) 439-0688. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Heritage is registered as an “investment adviser” with the SEC. Registration with the SEC does not imply any level of skill or training.

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

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**Item 2: Material Changes**

We are filing this annual amendment to our last Brochure, dated March 30, 2022. This annual update does not contain any material changes to the Brochure; however, it includes routine annual updates, clarifying changes, enhanced risk and conflict of interest disclosures and updated regulatory assets under management.

Except as otherwise specified, all information set forth or referenced in this brochure is as of the date hereof. Subject to the requirements of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and other applicable laws, Heritage is under no obligation to update any such information.

We recommend that you read this Brochure in its entirety.

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#### **Item 4: Advisory Business**

New Heritage Capital, LLC (collectively with its affiliates, as applicable, “Heritage”) acts as the investment adviser to private equity funds (collectively, the “Funds”) that invest in operating companies. Heritage, along with the general partner of each Fund, selects and manages the investments in each Fund, typically equity investments in primarily private, founder-owned, lower middle-market businesses for the purpose of providing existing shareholders with liquidity and/or growth capital to expand their businesses. Once identified, Heritage, along with the general partner of each Fund, participates in the acquisition, management, monitoring and disposition of investments in each Fund (each, a “Portfolio Company”). The Funds are closed-ended and generally have a term of 10 years. The Funds were marketed primarily to institutional investors and high net worth individuals. On a limited basis, Heritage also provides non-discretionary investment management to institutional accounts that invest directly in the operating companies in which the Funds invest. Collectively, the institutional accounts and the Funds are referred to as our “Clients”. Our only advisory clients are the Clients.

Certain Heritage funds were formed for the purpose of investing in a single Portfolio Company. These funds include Heritage-PT Fund, L.P. and Heritage-PT Fund-B, L.P. (collectively, the “Single Purpose Funds”). Other Heritage funds were formed for the purpose of investing in multiple Portfolio Companies. These funds include New Heritage Capital Fund, L.P., New Heritage Capital Fund-B, L.P., New Heritage Capital Fund III, L.P., New Heritage Capital Fund III-B, L.P. and New Heritage Capital Fund IV, L.P. (collectively, the “Pooled Investment Funds”). Lastly, Heritage-Continental Investors, LLC, NHC III GCM Co-Investors, LP, New Heritage Capital Fund III SPV, LP and New Heritage Capital Fund III SPV-2, L.P. (the “Co-Investment Funds”) were formed as pooled investment vehicles to make co-investments in specific Portfolio Companies alongside the Pooled Investment Funds.

Heritage was formed in 2006 and is solely owned by Mark Jroff, Managing Senior Partner. The Funds are structured as limited partnerships in which the investors are passive limited partners or members, and a Heritage affiliate serves as the general partner or managing member, respectively.

The primary focus of Heritage’s investment advisory services is researching and advising on privately negotiated transactions in operating entities. Investments are predominantly in non-public companies. In general, the senior principals or other personnel of the general partners or their affiliates serve on the board of directors (or equivalent) of each Portfolio Company held by the Funds.

The advisory services for each of the Funds are further described in each Fund’s respective offering memorandum, limited partnership agreement or operating agreement, and/or management or advisory agreement (the “Documents”). We do not vary our investment advice from the terms of the Documents. Additionally, these Documents also detail the various investment restrictions that govern the types of investments the Funds are permitted to make and remuneration Heritage and the general partners or managers of the Funds will receive for managing the Funds.

In accordance with common industry practice, one or more of the general partners of the Funds have, and may in the future, enter into “side letters” or similar arrangements with certain investors pursuant to which the general partner of the Fund grants the investor specific rights, benefits, or privileges that are not made available to investors generally. These arrangements typically clarify any regulatory, informational, and interpretational issues with the Documents. However, such rights, benefits, or privileges could be regarding

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economic terms, fee structures, excuse rights, information rights, co-investment rights, or transfer rights. Other side letter rights are likely to confer benefits on the relevant investor at the expense of the relevant Fund or of investors 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. For the most part, any rights established or any terms altered or supplemented will govern only the investment of the specific investor and not the terms of a Fund as whole.

***The information provided herein about the investment advisory services provided by Heritage is qualified in its entirety by reference to the Funds' Documents and subscription agreements.***

As of December 31, 2022, Heritage provided investment advisory services to Funds with approximately \$789.8 million in assets under management (approximately \$787.1 million in discretionary assets under management and \$2.7 million in non-discretionary assets under management).

## **Item 5: Fees and Compensation**

Heritage's fee and remuneration arrangements vary among the Funds. The specific terms of such arrangements are set forth in each Fund's Documents and are generally not varied thereafter. The below provides a general summary of Heritage's fees and remuneration.

### Management Fees

In exchange for the investment management and administrative services it provides to its Clients, Heritage typically assesses a management fee from each Fund. Generally, investors in a Fund pay management fees quarterly in advance until the termination of the respective Fund. However, different Heritage Clients in certain cases will have different fee arrangements. Heritage's Single Purpose Funds charge an annual management fee equal to 1% of the original cost basis of any Portfolio Company securities then held by the Clients and are billed semiannually in advance to investors (but never six months or more in advance). Heritage's Pooled Investment Funds charge an annual management fee equal to 2% of the Fund's committed capital and are billed quarterly in advance to investors. The management fee for the Pooled Investment Funds will subsequently "step down" to 2% of the cost basis of existing Portfolio Companies after the investment period ends. Heritage's Co-Investment Funds do not charge management fees. To obtain cash for the payment of management fees, the general partner of the Fund has authority to draw down investors' capital commitments. Management fees will not be reduced (in whole or in part) in the case of partial distributions or partial sales of investments.

The Funds generally invest on a long-term basis. Accordingly, management and other fees are expected to be paid, except as otherwise described in each Fund's Documents, over the terms of the Funds, and investors generally are not permitted to withdraw or redeem interests in the Funds.

For its Pooled Investment Funds, and in accordance with the terms of the Documents, Heritage in its sole discretion has in the past and may in the future waive or reduce its management fee, and any waived portion of such management fee is contributed to the Funds and is treated as a deemed capital contribution by the general partner. Any such contribution reduces the amount of capital contributions the general partner would otherwise be required to contribute to the Funds.

### Performance Fees

Heritage affiliates which serve as general partners have entered into performance-based fee arrangements

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with its Clients. Such fees entitle Heritage to a share of the capital appreciation of the Client's assets, or "carried interest," and is contingent on achieving certain investment performance hurdles. Performance fees are subject to individualized negotiation with the limited partners investing in each Fund and are set forth in the Documents. Heritage's Co-Investment Funds do not charge a carried interest. Please refer to Item 6 – *Performance Fees and Side-by-Side Management*.

#### Portfolio Company Fees

Heritage and its employees serve on boards of directors and perform advisory, transaction-related, and other services. Subject to each Fund's Documents, Heritage receives remuneration for these services and the remuneration typically includes Portfolio Company monitoring fees and transaction/advisory or diligence fees paid by the Portfolio Company. Other potential fees will from time to time include director fees, topping fees, organizational fees, set-up fees, break-up fees, investment banking, underwriting, syndication and other similar fees in connection with the consummating, monitoring or disposition of investments or from unconsummated transactions, including warrants, options, derivatives and other rights, in each case valued as of the grate date, or other fees from Portfolio Companies and prospective Portfolio Companies of the Funds. For its Pooled Investment Funds, management fees paid by the Funds are offset, or reduced, by a portion of such fees as set forth in such Fund's Documents. For Heritage's Co-Investment Funds, there is no management fee to offset, and any Portfolio Company fees allocated to those funds are not offset and are retained by Heritage. If more than one Pooled Investment Fund and/or Co-Investment Fund is invested in a Portfolio Company, any Portfolio Company fees are typically allocated pro rata based on the capital invested from the various funds. Those Portfolio Company fees are offset as set forth in such Pooled Investment Fund's Documents or retained by Heritage for any Co-Investment Fund.

Consistent with the applicable Fund's Documents, Heritage incurs certain expenses (including travel expenses, lodging, and other direct expenses), and a Portfolio Company reimburses Heritage for those expenses incurred in connection with its performance of services for a Portfolio Company. Such reimbursements are not subject to the offset provision described above. Such travel expenses include economy class, business class or first class airfare, ground transportation, accommodations, meals, travel agency fees and other direct reimbursable expenses.

#### Other Fees and Expenses

As provided in each Fund's Documents, Heritage pays out of its management fees all normal overhead expenses, including compensation for its employees, rent, utilities and other such expenses. Each Client will bear certain other fees, expenses and costs related to the Funds, such as: legal, consulting, accounting and auditing expenses; taxes or filing fees; interest expense; fund accounting software; expenses related to limited partner reporting and meetings; insurance, indemnity or litigation expenses related to the Fund's activities; investment banking, consulting and other professional fees related to acquisition or sale of the Fund's assets that are not paid by Portfolio Companies, including broken deal expenses for transactions not consummated. In addition, in certain instances, a Fund will bear expenses in respect of an existing or prospective portfolio company that will not be borne by other owners or investors in such portfolio company (including co-investors or Co-Investment Funds), where Heritage has determined such arrangement to be in the best interest of such Fund (e.g., a fund engages or pays for a consultant for services in respect of a portfolio company without reimbursement by other owners of the portfolio company).

Heritage exercises and continues to reserve the right to exempt past or present principals and employees from payment of all or a portion of management fees and/or carried interest. Such determination is set forth

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in each respective Fund's Documents.

#### **Item 6: Performance Fees and Side-by-Side Management**

As discussed in Item 5 – *Fees and Compensation*, an affiliate of Heritage, as the general partner of a Fund, is eligible to receive performance-based compensation, sometimes referred to as “carried interest.” The specific terms of such performance-based compensation vary among the Funds and are set forth in each Fund's Documents. Generally, carried interest is equal to a percentage of the Fund's net profits. Before carried interest is charged, 100% of a Fund's proceeds are distributed to limited partners until each investor has received, first, a return of its capital, costs and share of any write-downs, and second, a preferred return, generally an 8% per annum cumulative annually compounded rate of return. Heritage's Co-Investment Funds do not charge a carried interest.

Performance-based fee arrangements, in some contexts, can create an incentive for an adviser such as Heritage to recommend investments which may be riskier or more speculative than those which would be recommended under a different arrangement. However, Heritage is generally of the position that the long-term nature of private equity fund investing mitigates such risk because “carried interest” is calculated based on realized, not unrealized gains. The method of calculating the carried interest poses potential conflicts of interest between the applicable General Partner and a Fund with respect to the management and disposition of investments, as well as the determination of the timing, method, and amount of distributions by a Fund, and the use of Fund-level credit facilities

The general partner for each Fund is affiliated with Heritage through common ownership and control. The general partner of each Fund participates in the Fund's investments by investing assets directly in the Fund. In addition, Heritage has made and expects to continue to make co-investment opportunities available to its current or prospective investors. Heritage is also permitted to make co-investment opportunities available to its employees. To date, these co-investments do not have fees or carried interest associated with them. Allocation of such opportunities will from time to time create a conflict of interest as they are, by nature, limited and participation is not possible for all or even most investors in the Funds. As such, Heritage has the sole discretion to allocate available co-investment opportunities per its Co-Investment Policy and in the manner that it determines to be in the best interest of the Funds.

#### **Item 7: Types of Clients**

Heritage provides investment advice to Funds generally organized as limited partnerships or limited liability companies in which an affiliate of Heritage serves as the general partner or managing member and to a limited number of non-discretionary institutional accounts. Investors include public pension plans, fund of funds, corporate pension plans, universities, foundations, family offices, insurance companies, other financial institutions and accredited investors.

Investment advice is provided directly to the Funds, subject to the direction and control of the general partner or managing member of such Fund, and not individually to the investors in the Fund. Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act of 1933, as amended (the “Securities Act”), and the Investment Company Act of 1940, as amended (the “1940 Act”).

Generally, the minimum investment for its Pool Investment Funds that Heritage accepts is \$5.0 million. In its sole discretion, Heritage is permitted to accept (and has in the past accepted) an investment of a lesser amount. Prior to investing in a Fund, an investor is required to complete a subscription agreement and

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investor qualification statement containing industry-standard representations. Heritage requires that each investor in a Fund be an “accredited investor” as defined in Regulation D under the Securities Act and, in many instances, a “qualified purchaser” or a “knowledgeable employee” of Heritage as defined under the 1940 Act. Heritage also requires that each investor that is a U.S. resident in a Fund that pays us a performance based fee be a “qualified client” as defined under the Advisers Act, or a “knowledgeable employee” of Heritage.

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

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

Heritage invests equity capital in primarily private, founder-owned, lower middle-market businesses for the purpose of providing shareholders with liquidity and/or growth capital to expand their businesses. Clients are permitted to hold either a majority or minority of the voting equity of the businesses they invest in. The investment strategies used by Heritage in formulating investment advice to Clients include: selecting and investing in privately held operating companies with the objective of achieving positive long-term investment returns; monitoring such investments; reporting on ongoing progress; and assisting in the realization of returns over the life of such investments.

Potential investment opportunities are subject to a rigorous due-diligence process. Due-diligence procedures typically include financial and operating reviews, industry and competitive analysis, legal diligence, other technical reviews, in-person management meetings and key management background checks. Heritage's principal sources of information with respect to investments in privately held operating companies typically include private offering memoranda prepared by the companies, company financial statements, personal interviews and visits with company management, industry reports and publications, diligence and consulting reports, other publicly available information, and a detailed review of the companies' documents and records. The due diligence process is designed to verify Heritage's investment thesis by thoroughly understanding the Portfolio Company's strategy, market position, operations and management expertise.

### **Risk of Loss**

Investing in privately held operating companies involves significant risks, including risk of loss that Clients should be prepared to bear. These risks include but are not limited to:

#### ***An Investment in a Fund Will Not be Suitable for All Investors***

An investment in a Fund requires a long-term commitment with no certainty of return. Portfolio Company investments have the potential to not generate current income. Therefore, the return of capital and the realization of gains, if any, from a Portfolio Company investment generally will occur upon the partial or complete realization or disposition of such Portfolio Company. While a Portfolio Company could be realized or disposed of at any time, it is generally expected that the ultimate realization or disposition of most Portfolio Companies will not occur for a number of years after such Portfolio Company investments are made. There can be no assurances that purchasers of, or realization opportunities for, a Fund's Portfolio Companies will be found. Further, the terms of any disposition or realization transaction will necessarily be affected by economic and other market conditions at the time. Similarly, a Fund generally will not be able to sell securities of a Portfolio Company publicly unless the issuer has gone public and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, a Fund will be prohibited or limited by contract from selling certain Portfolio



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Company securities for a period of time and, as a result, will not be permitted to sell a Portfolio Company at a time it might otherwise desire to do so.

An investment in a Fund is suitable only for certain sophisticated investors that have no need for immediate liquidity in their investment, who understand that they could lose all or a significant portion of their invested capital and who have the wherewithal to fund amounts due over time in respect of their capital commitments. Investors must be willing to bear the economic risk of an investment in a Fund for an indefinite period of time. Any investor interested in an investment in a Fund should conduct its own investigation and analysis and consult its own professional advisers as to the risks involved in making such an investment.

#### *Restrictions on Transfer and Withdrawal; Lack of Liquidity for Interests*

The interests in the Funds (collectively, the “Interests”) have not been, nor will they be, registered or qualified for sale under the Securities Act, the securities laws of any state of the United States or the securities laws of any other jurisdiction; and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. There is no public or private market for the Interests, and none is expected to develop. In addition, the Interests are not transferable and are not permitted to be sold, transferred, pledged, mortgaged, charged, assigned, hypothecated or otherwise encumbered except with the prior written consent of the general partner or managing member of the relevant Fund (the “General Partner”) (which can be withheld by the General Partner in its sole discretion), and subject to the terms and conditions of the relevant limited partnership agreement or operating agreement (each, a “Fund Agreement”). Investors in a Fund (collectively, “Limited Partners” or “investors”) are not permitted to withdraw capital from the Fund. Consequently, Limited Partners are not able to liquidate their investments prior to the end of a Fund’s term.

#### *Dependence on Key Personnel*

The success of a Fund depends in substantial part upon the skill and expertise of certain principals of Heritage (collectively, the “principals”) and the other individuals employed to assist them. There can be no assurance that the principals or such other personnel will continue to be members of, employed by or available to Heritage. The loss of service to a Fund of one or more principals or such other personnel could have a material adverse effect on the success of the Fund. In addition, although the principals will devote such time and attention to the business of a Fund as they reasonably consider necessary to carry out the operations of the Fund effectively, subject to the terms of the applicable Fund Agreement, the principals may continue to be involved in certain activities other than the management of the Fund.

#### *Possible Future Activities*

Heritage and its affiliates from time to time could expand the range of services it provides over time, as well as the number and types of funds it sponsors. Except as provided herein and in a Fund’s Documents, Heritage and its affiliates will not be restricted in the scope of their business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether such conflicts are described herein.

To the extent a former Heritage employee becomes employed by a portfolio company, no compensation earned by such former Heritage employee from such portfolio company will offset the management fee notwithstanding that such former employee has a remaining interest in the relevant fund’s general partner of affiliated entity.

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### *Prior Investment Performance Not Indicative of Future Results*

The performance of prior investments made by Heritage or any of its affiliates is not indicative of any Fund's future results. While the General Partner intends to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurance that the historical internal rate of return ("IRR") generated by prior investments made by Heritage will be achieved by any Fund. On any given investment, total loss of the investment is possible.

A Fund is a newly formed entity and has no prior operating history on which an investor can base its prediction of future success or failure. Although Heritage has had significant experience and success in making investments in portfolio companies, the past performance of these investments is not indicative of the future results of any Fund's investments.

### *Risks in Effecting Operating Improvements*

In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of the Fund to restructure and effect improvements in the operations of a Portfolio Company. The activity of identifying and implementing restructuring programs and operating improvements at Portfolio Companies entails a high degree of uncertainty. There can be no assurance that Fund will be able to successfully identify and implement such restructuring programs and improvements.

### *Growth Company Investments*

Certain Funds' strategies include investing in early stage or potential high-growth platforms and companies. Such companies are generally more volatile due to their limited product lines or services, markets or financial resources, or their susceptibility to major setbacks or downturns. As a result, such companies are generally more vulnerable to general economic trends and to specific changes in markets. In addition, future growth is typically dependent on additional financing, which may not be available on acceptable terms when required. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investments in lower- and middle-market companies, could make it difficult for a Fund to react quickly to negative economic or political developments.

### *Risks of Early-Stage Investments*

A Fund is permitted to invest in the securities of smaller, less-established companies. These types of companies often experience unexpected problems in the areas of operations, marketing and general management, which, in some cases, cannot be adequately solved. In addition, these companies generally require substantial amounts of financing which may not be available through institutional private placements or the public markets. The percentage of companies that survive and prosper can be small. In addition, the securities of such companies are typically subject to more abrupt and erratic market price movements than larger, more-established companies, because trading volumes for their securities are generally quite low. Less-established companies tend to have less capital and fewer resources and, therefore, are often more vulnerable to financial failure. Such companies often have shorter operating histories on which to judge future performance.

### *Available Opportunities and Competitive Marketplace*

The success of the Fund depends on the availability of appropriate investment opportunities and the ability of Heritage to identify, select, close and exit those investments. There can be no assurance that there will

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be a sufficient number of suitable investment opportunities to enable a Fund to invest all of its committed capital or that such investment opportunities will lead to completed investments by the Fund. The Funds will be competing with other private equity funds, as well as institutional investors and strategic investors for investments in prospective Portfolio Companies. As a result of this competition, there can be no assurance that a Fund will be able to locate suitable investment opportunities, acquire them for an appropriate level of consideration, achieve its targeted rate of return or fully invest its committed capital.

### *Leverage*

A Fund's investments could include companies whose capital structures utilize significant amounts of leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. Although the General Partner will seek to use leverage in a prudent manner, the leveraged capital structure of such investments will increase the exposure of the Portfolio Companies to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of the Portfolio Companies or their respective industries. Additionally, the securities acquired by a Fund could be the most junior and thus subject to the greatest risk of loss. Furthermore, although it presents many of the same risks as Fund-level borrowing, indebtedness of entities other than a Fund will not be treated as Fund-level borrowing for purposes of the Funds' Documents, even if the special purpose vehicles or other entities incurring such leverage engage in borrowings that are cross-collateralized with or among multiple investments such that multiple investments and a substantial portion of a Fund's value are at risk. As a result, these borrowings will not be subject to any limitations on Fund-level borrowing in the relevant governing documents. Since Heritage has more flexibility to engage in these structures, Heritage has an incentive to incur significant leverage at the level of holding companies beneath a Fund. The negative performance of one asset has the potential to materially and adversely affect the performance of other investments or a Fund as a whole.

### *Failure to Make Capital Contributions*

The interests of a Fund could be materially and adversely affected by the failure of a Limited Partner to meet its contribution or other payment obligations to the Fund (whether arising through a Limited Partner's default, its excuse or exclusion from one or more investments, or a permitted withdrawal or removal from the Fund). If a Limited Partner makes no contribution or payment to a Fund for any reason, the other Limited Partners could be required to fund the shortfall, with the consequence that the non-defaulting Limited Partners have greater exposure to a Fund's investments or liabilities than they otherwise would. A Limited Partner's failure to make any contribution or payment to a Fund for any reason could also cause the Fund to be unable to meet the Fund's obligations when due, which could materially and adversely impair the Fund's ability to execute on its investment strategy or to otherwise continue operations. In such event, a Fund could face significant liabilities or penalties that could materially reduce the returns to the participating Limited Partners (including non-defaulting Limited Partners). A substantial default by (or discontinued participation of) one or more Limited Partners would leave a Fund with less available capital commitments and would limit opportunities for investment diversification and likely reduce returns to the Fund.

### *Consequences of Failure to Pay Contribution in Full*

If a Limited Partner pays no installment of its commitment, a general partner reserves the right to subject such defaulting Limited Partner to certain adverse consequences, including, but not limited to, causing the defaulting Limited Partner to (i) forfeit all or a portion of its interest in a Fund, including any future profits that otherwise would have been allocable to the defaulting Limited Partner, and, (ii) while the default amount

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remains outstanding, lose its voting rights for any matter to come before the Limited Partners. A general partner is permitted to require that the rest of the defaulting Limited Partner's commitment be cancelled and could designate a person or entity to assume the entire unpaid balance of the defaulting Limited Partner's commitment and succeed to all the rights of the defaulting Limited Partner's interest. A general partner will retain the discretion to employ any available legal or equitable remedies for a Limited Partner's default as it determines case-by-case in its sole discretion. There is no requirement that remedies be applied consistently among defaulting Limited Partners, and a general partner could determine for various reasons to apply different remedies to different defaulting Limited Partners.

#### *Credit Support*

A Fund could make contingent funding commitments to its Portfolio Companies and provide credit support for such obligations ("Credit Support"). Such Credit Support could take the form of guarantees, letters of credit or pledges of a portion of the investors' capital commitments to a lender or other counterparty. Such funding commitments could be secured by an assignment of the General Partner's right to draw down capital from the Limited Partners. It is possible that the Limited Partners will be required to acknowledge and consent to any such pledge or Credit Support and provide certain information and/or legal opinions as required by the lender or other counterparty. Utilization of Credit Support will result in fees, expenses and interest costs to a Fund, and potentially result in an under-utilization of the Fund's capital. In the event that one or more Limited Partners fail to satisfy a drawdown or otherwise default on their contribution obligations pursuant to any such Credit Support, such amount would be drawn from non-defaulting Limited Partners.

#### *Bridge Financing; Over Commitment*

A Fund is permitted to, in connection with or in anticipation of any Portfolio Company investment, make additional investments intended to be of a temporary nature and refinanced, repaid, assigned, redeemed, sold, or disposed of within twelve months (any such short-term investment, a "Bridge Financing"). For example, in order to facilitate the acquisition of investments, Heritage will from time to time make (or commit to make) or cause a Fund to make (or commit to make) an investment in a potential Portfolio Company with a view to selling a portion of such investment to co-investors or other persons or obtaining financing prior to or within a period after the closing of the acquisition. In such event, such Fund will bear the risk that any or all of the excess portion of such investment will not be sold or will only be sold on unattractive terms, or that financing will not be available, and that, as a consequence, the Fund would bear the entire portion of any break-up fee or other fees, costs and expenses related to such investment, or be required to hold a larger than expected investment. Additionally, if such Portfolio Company were unable to complete a refinancing, such Fund could have a long-term investment in a junior security, and the interest rate on such Bridge Financing may not adequately reflect the risk associated with the unsecured position taken by the Fund. This could result in the Fund having a variety of unintended long-term investments or reduced diversification.

#### *Risks Relating to Due Diligence and Conduct at Portfolio Companies; Fraud*

Before a Fund makes an investment, Heritage will conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to the investment. Due diligence can entail marketing studies, business plan development, evaluation of important and complex business, financial, tax, accounting and legal issues as well as background investigations of individuals and feasibility and technical studies. Outside professionals, experts, consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. The involvement of such third parties presents a number of potential risks primarily relating

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to reduced control of the functions that are outsourced and could entail significant third party expenses, which will be borne by the relevant Fund. In addition, if a Fund is unable to timely engage third-party providers, its ability to make investments could be adversely affected. Due diligence investigations with respect to any investment opportunity may not reveal or highlight all relevant facts that would be necessary or helpful in evaluating the investment opportunity. Moreover, there can be no assurance that attempts to identify risks associated with an investment will achieve their desired effect. Prospective investors should regard an investment in a Fund as being speculative and having a high degree of risk.

Instances of fraud, material misrepresentations or omissions, professional negligence and other deceptive practices committed by any seller of securities or assets of a Portfolio Company or such seller's representatives, by a Portfolio Company or any of its affiliates, members of senior management, employees, officers or directors, or by any other third party have the potential to undermine Heritage's due diligence efforts with respect to such companies and, if such fraud or other action or omission occurs, the relevant Fund could suffer a material loss of capital and the value of the Fund's investments could be adversely impacted. The Funds will rely upon the accuracy and completeness of representations made by various persons in the due diligence process and cannot guarantee such accuracy or completeness.

#### *Reliability of Third-Party Information*

Heritage will likely select investments for the Funds, in part, on the basis of information and data made available directly or indirectly by potential Portfolio Companies' management and other third parties or filed by third parties with various government regulators. In such cases, Heritage is often not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information will not be available. In particular, a Fund in certain cases will invest in early-stage companies, which can be family-owned or closely held by founder-owners, and in such cases, information would likely be incomplete, inaccurate or unavailable.

#### *Expedited Transactions*

Investment analyses and decisions by Heritage could at times be undertaken on an expedited basis in order for a Fund to take advantage of investment opportunities. In such cases, the information available to such Fund at the time of an investment decision is often limited, and the Fund may not have access to the detailed information necessary for a full evaluation of the investment opportunity.

#### *Uncertain Exit Strategies*

Due to the illiquid nature of the investments which the Funds make and expect to make, there can be no assurances as to what, if any, exit strategy will ultimately be available for any given investment position. Exit strategies which appear to be viable when an investment is initiated could be precluded when the investment is deemed to be ready for realization due to economic, legal, political or other factors. The larger the transaction, the greater the risk to a Fund's total returns and success if there is uncertainty around the Fund's exit strategy.

#### *Minority Investments*

A Fund will, under certain circumstances, make minority investments in entities where the Fund does not participate in the management or otherwise control the business or affairs of such entities or has only limited participation in the management of such entities. The General Partner will monitor the performance of each investment and maintain an ongoing dialogue with each Portfolio Company's management team. However,

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it will be primarily the responsibility of the management of the Portfolio Company to operate such Portfolio Company on a day-to-day basis. Although it is the intent of Heritage to invest in Portfolio Companies with strong operating management that has a successful track record and with significant minority governance, there can be no assurance that a Portfolio Company's management team will be able to operate the Portfolio Company successfully or that a Fund can exercise affirmative controls to effect decisions without the support of management.

#### *Board Participation*

Principals or other members of New Heritage Capital's investment team will act as directors of the Portfolio Companies and, as such, may have duties to persons other than the Funds. Although such positions could be important to our investment strategy and could enhance our ability to manage the investment, they could also impair the ability to sell the investment when, and upon the terms, desired. It could also subject Heritage and the Funds to claims they would not otherwise be subject to, including claims of breach of fiduciary duty, securities claims and other director-related claims. In general, the Funds will indemnify Heritage from such claims.

#### *Distributions in Kind*

Although, under normal circumstances, a Fund intends to make distributions in cash, cash equivalents or marketable securities, it is possible that under certain circumstances (including upon the dissolution of the Fund) distributions will be made in kind and consist of securities for which there is no readily available public market. It could be difficult for Limited Partners to liquidate the securities received at a price or within a time period that is determined thereby to be ideal. The risk of loss and delay in liquidating such assets will be borne by the Limited Partner, with the result that the Limited Partner receives less cash than was reflected in the fair value of such assets as determined by the General Partner pursuant to the applicable Fund Agreement.

#### *Indemnification*

The applicable General Partner, Heritage, the Principals and their respective members, partners, managers, officers, directors, shareholders, employees, agents, representatives, investors, affiliates, advisors or other personnel and the members of the applicable advisory committee and any Limited Partner represented by a member of such advisory committee in connection with any involvement with the advisory committee, will be entitled to indemnification from a Fund except in certain circumstances set forth in the applicable Fund Agreement. All of the assets of a Fund will be available to satisfy these indemnification obligations and partners could be required to return distributions to satisfy such obligations. Such obligations will survive the dissolution of a Fund.

#### *Special Risks Associated with Non-U.S. Investments*

A Fund is permitted to invest in Portfolio Companies that are organized and operating primarily outside of United States. These investments involve special risks not typically associated with investments in securities of U.S. issuers, including: (a) economic and political factors, such as the risk of expropriation, restrictions on repatriation of profits, and political and social instability; (b) differences among U.S. and foreign practices, including the absence of uniform accounting, auditing, and financial reporting standards in foreign markets, the relatively greater price volatility and illiquidity of foreign securities markets; (c) currency exchange risks, including the cost of converting investment cash flows from one currency into another; and (d) tax-related

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issues, including the possibility of withholding taxes, confiscatory foreign taxes, and double taxation of income earned overseas.

### *Exclusion*

Under certain circumstances, the relevant General Partner has authority to prohibit a Limited Partner from participating in an investment. Exclusion of any Limited Partner's participation in one or more investments would reduce the diversification for both the excluded Limited Partner and the other Limited Partners and could magnify the adverse impact on the Limited Partners of any investment's underperformance.

### *Need for Follow-On Investments*

Following its initial investment in a given Portfolio Company, a Fund in certain cases will decide to provide additional funds to such Portfolio Company or may have the opportunity to increase its investment in a successful Portfolio Company. There is no assurance that such Fund will make such follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments could have a substantial negative effect on a Portfolio Company in need of such an investment or could result in a lost opportunity for the Fund to increase its participation in a successful operation.

### *Limited Access to Information*

Limited Partners' rights to information regarding the Funds will be specified, and strictly limited, in the relevant Fund Agreement, although certain Limited Partners have the right to additional information pursuant to rights in side letters or similar agreements. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information related to the relevant Fund's investments and prospective investments that will not be disclosed to Limited Partners because such disclosure is prohibited by contractual, legal or other obligations or the General Partner determines not to disclose such information for other reasons. Decisions by the General Partner to withhold information could have adverse consequences for Limited Partners in a variety of circumstances. Decisions to withhold information also present challenges for Limited Partners to monitor the General Partner and its performance. Additionally, it is expected that Limited Partners who designate representatives to participate on a Fund's advisory committee will, by virtue of such participation, have more information about the Fund and investments in certain circumstances than other Limited Partners generally and could be disseminated information in advance of communication to other Limited Partners generally.

### *Difficulty in Valuing Investment Portfolio*

A Fund's General Partner will value the Portfolio Company investments of the Fund from time to time at their fair market values. Fund assets that are publicly traded securities for which market prices are readily available will be valued based on their trading prices; however, for almost every Portfolio Company, there will likely be no public market for its securities. Thus, the valuation of Portfolio Company investments inherently is highly subjective and imprecise and requires the use of techniques that are costly and time consuming and ultimately provide no more than an estimate of value. In establishing the value of a Fund's Portfolio Company investments, the General Partner could consult with accounting firms, investment banks and other third parties when needed, to assist with the valuation of the Fund's investments. There is no guarantee that the value set by the General Partner (or such third party) will reflect the price at which the Fund could dispose of its interests in a particular Portfolio Company at any given time.

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### *Effects of Bankruptcy*

A Fund could make investments in portfolio companies that are or could become the subject of voluntary or involuntary bankruptcy proceedings under applicable bankruptcy laws. Certain risks that are faced in bankruptcy cases that must inform the investment decision include, for example, the potential total loss of any such investment. Upon confirmation of a plan of reorganization under applicable bankruptcy laws, or as a result of a liquidation proceeding, a Fund could suffer a loss of all or a part of the value of its investment in a Portfolio Company. A bankruptcy filing is generally expected to adversely affect a portfolio company. The Portfolio Company could lose market position and key employees, and the liquidation value of the Portfolio Company will likely not equal the liquidation value that was believed to exist before the investment was made by a Fund. In general, bankruptcy laws are expected to have many adverse impacts on the value of a Fund's investments and the timing and amount of any distributions a Fund can receive. In addition, investments in restructurings could be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made as debt as equity contributions.

### *Dilution from Subsequent Closings*

Investors subscribing for Interests in a Fund at subsequent closings will participate in existing investments, diluting the Interest of existing investors therein. Although new investors will contribute their pro rata share of previously made capital contributions (plus an additional amount thereon as further described herein), there can be no assurance that this payment will reflect the fair value of such Fund's existing investments at the time such additional investors subscribe for their Interests.

### *Cybersecurity; Information Technology; Disaster Recovery*

Heritage, the Clients, their affiliates, service providers, other market participants and the Funds' Portfolio Companies increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect Heritage, a Fund and its investors, despite the efforts of Heritage and the Fund's service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and its investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of Heritage, a Fund's service providers, counterparties or data within these systems. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Heritage's, a Fund's 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).

Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Heritage's systems to disclose sensitive information in order to gain access to Heritage's data or that of the Funds' investors. A successful penetration or circumvention of the security of such systems could result in the loss, theft or corruption of an investor's data, a loss of Fund data, a loss of funds, the inability to access electronic systems, overall disruption in operations systems, loss, theft or corruption of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. These threats could also indirectly affect the Funds through cyber incidents



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with third-party service providers or counterparties. Data taken in such breaches could be used by criminals in identity theft, obtaining loans or payments under false identities, and other crimes that could affect a Fund's investors directly as well as affect the value of assets in which the Fund invests. These risks can disrupt the ability to engage in transactional business, cause direct financial loss and reputational damage, lead to violations of applicable laws related to data and privacy protection and consumer protection or incur regulatory penalties, all or part of which may not be covered by insurance. Cybersecurity risks also result in ongoing prevention and compliance costs. In addition, Heritage and/or the Funds could incur substantial costs related to forensic analysis of the origin and scope of a cybersecurity breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information and adverse reputational reaction or litigation.

Similar types of operational and technology risks are also present for the Portfolio Companies in which the Funds invest, which could have material adverse consequences for such companies, and could cause a Fund's investments to lose value and negatively impact returns to investors.

#### *Data Privacy and Protection Laws and Regulations*

Heritage, the Funds, and their respective affiliates receive, store, handle, transmit, use and otherwise process information related to their Portfolio Companies and prospective Portfolio Companies, including from and about actual and prospective investors (and the beneficial owners of investors), as well as our employees, job applicants, contractors and representatives of companies we do business with (collectively, "confidential information"). As a result, Heritage, the Funds and their respective affiliates is, and could in the future become subject to further U.S. federal and state laws, rules and regulations related to data privacy, data protection and information security which could apply to personal information provided by, or on behalf of, any investor. For instance, in the United States, the federal Gramm-Leach-Bliley Act of 1999 ("GLBA") and Regulation S-P adopted by the SEC pursuant to the GLBA, imposes certain privacy obligations on covered financial institutions that offer financial products or services, including to notify customers of their privacy policies and establish sufficient safeguards of its confidential information. Moreover, at the state level, the California Consumer Privacy Act, as amended by the California Privacy Rights Act introduces individual privacy rights for California residents and increases the privacy and security obligations of covered entities handling certain information. For example, the CCPA gives California residents rights to access, delete or correct their personal information; opt out of certain personal information use and disclosure, and receive detailed information about how their personal information is used. Failure to comply creates additional risks including enforcement by the California Attorney General or the California Privacy Protection Agency, limited private rights of actions for certain data breaches and damage to reputation. Since the CCPA went into effect, comprehensive privacy statutes that share similarities with the CCPA have been enacted in Virginia, Colorado, Connecticut, and Utah, all of which go into effect in 2023. Similarly, many other states are currently reviewing or proposing the need for greater regulation of the collection, sharing, use and other processing of information about individuals and there remains increased interest at the federal level.

Heritage could be required to modify our data collection or processing practices and policies and incur substantial costs and expenses in an effort to comply with such laws, and increase our potential exposure to regulatory enforcement and/or litigation. Additionally, these requirements, and their application, interpretation and amendment are constantly evolving and developing. Compliance with existing and emerging data privacy and security laws, regulations and industry standards could result in increased compliance costs and/or lead to changes in business practices and policies. Any actual or perceived failure to protect the confidentiality of client or other personal information could adversely affect our reputation, lead

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to private litigation against us, and require additional investment in resources, impact strategies and availability of previously useful data, any of which could materially and adversely cause Heritage, each Fund, and their respective affiliates to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

#### *Regulatory Status*

Heritage is registered as an investment adviser under the Advisers Act and, as such, is subject to the Advisers Act. Failure to comply with the requirements imposed on us could have a material adverse effect on Heritage's ability to perform its duties to the Funds. Heritage's ability to source and execute transactions for the Funds could also be adversely affected by negative publicity arising from any regulatory compliance failures or other inappropriate behavior attributed to or any other publicity related to Heritage, any affiliate of Heritage or any of their respective investment professionals.

#### *Limited Partners Will Not Participate in Management of a Fund*

Limited Partners will not have the right to participate in the management of a Fund or in decisions made by any general on the Funds' behalf. As a result, Limited Partners will have almost no control over their investments in a Fund or their prospects with respect.

#### *Unspecified Use of Proceeds*

Prospective investors will not have a chance to evaluate for themselves the relevant economic, financial and other information on the investments to be made by a Fund and therefore will depend on the judgment and ability of the Heritage in investing and managing the capital of such Fund. No assurance can be given that a Fund will be able to obtain suitable investments, or that if such investments are made, the objectives of such Fund will be achieved.

#### *Effect of Fees and Expenses on Returns*

A Fund will pay certain fees and will bear all expenses related to its operations. Such fees are expected to reduce the actual returns to investors. Most of the fees and expenses will be paid no matter if a Fund produces positive investment returns. If a Fund does not produce significant positive investment returns, these fees and expenses could reduce the amount of the investment recovered by a Limited Partner to an amount less than the amount invested in the Fund by such Limited Partner.

#### *Internal Controls and Employee Misconduct*

Heritage has developed internal procedures and practices with the intention of detecting and preventing unauthorized trading, the misappropriation of the Funds' property, and other misconduct and violations of law by employees of Heritage and other agents of Heritage. There can be no assurance, however, that such procedures and practices will be effective. Any violation of such procedures and practices, including acts of fraud and dishonesty by employees or agents of Heritage, or even unsubstantiated allegations of such misconduct, could result in material losses or costs, which generally will be borne by the relevant Fund(s).

#### *Natural Disasters, Terrorist Acts and Similar Dislocations*

Upon the occurrence of a natural disaster such as flood, hurricane, or earthquake, or upon an incident of war, riot or civil unrest, the impacted country may not efficiently and quickly recover from such event, which

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can have a materially adverse effect on Portfolio Companies and other developing economic enterprises in such country. Also, geopolitical events and the fear of a prolonged global conflict can result in increased short-term economic volatility. Current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises, major disruptions in credit markets and uncertainties relating to sovereign debts and economic stability or other sources of political, social or economic unrest could have significant adverse effects on U.S. and other economies and securities markets. The effects of geopolitical events, military action or similar events on global and domestic economies and securities markets cannot be predicted. Such disruptions of the global financial markets could affect interest rates, ratings, credit risk, inflation and other factors relating to a Fund's investments.

#### *Disease and Epidemics*

The impact of disease and epidemics has the potential to have a negative impact on our business, our funds and their performance and financial position. Coronavirus, renewed outbreaks of other epidemics or the outbreak of new epidemics could result in health or other government authorities requiring the closure of offices or other businesses and could also result in a general economic decline. For example, such events could adversely impact economic activity through disruption in supply and delivery chains. Moreover, our operations and those of our Funds or Portfolio Companies could be negatively affected if personnel are quarantined as the result of, or in order to avoid, exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses could have a material adverse effect on business and results of operations. A resulting negative impact on economic fundamentals and consumer confidence could negatively impact market value, increase market volatility, cause credit spreads to widen, and reduce liquidity, all of which could have an adverse effect on our business, our funds and underlying Portfolio Company investments. The duration of the business disruption and related financial impact caused by a widespread health crisis cannot be reasonably estimated

#### *Global Economic Conditions; Market Dislocation*

General global economic conditions could affect a Fund's activities. Interest rates, general levels of economic activity, fluctuations in the market prices of securities and participation by other investors in the financial markets have the potential to affect the value of investments made by the Fund. Instability in the securities markets could increase the risks inherent in Portfolio Company investments made by a Fund and instability in the fixed income markets could cause significant dislocations, illiquidity and volatility in the structured credit, leveraged loan and high yield bond markets, as well as in the wider global financial markets. To the extent a Fund's Portfolio Companies participate in such markets, the results of their operations could suffer. In addition, certain market events have the potential to have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect the financial resources of a Fund's Portfolio Companies and their ability to make principal and interest payments on, or refinance, outstanding debt when due. In the event of such defaults, such Fund could lose both invested capital in and anticipated profits from such Portfolio Companies.

In addition, current global economic conditions could materially and adversely affect (i) the ability of a Fund, its Portfolio Companies or their respective affiliates to access credit markets on favorable terms or at all in connection with the financing or refinancing of investments, (ii) the ability or willingness of certain counterparties to do business with a Fund or its affiliates, (iii) a Fund's exposure to the credit risk of others in its dealings with various counterparties (for example, in connection with joint ventures or the maintenance

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with financial institutions of reserves in cash or cash equivalents), (iv) consumer spending and demand for the products and services offered by a Fund's Portfolio Companies, (v) growth opportunity for a Fund's investments, (vi) a Fund's ability to exit its investments at desired times, on favorable terms, or at all, (vii) availability of reliable insurance on favorable terms or at all, and (viii) the ability of a Fund's investors to meet their obligations to a Fund promptly or at all.

### *Business Continuity Plan*

In the event of unforeseen catastrophic events such as natural disasters, terrorist attacks and epidemics, Heritage will initiate its business continuity plan to safeguard that its employees have the resources and technology necessary to continue their responsibilities and meet Portfolio Company and investor needs. Heritage is not able to predict the level of disruption that such catastrophic events could have on its operation or the ability of its plan to succeed in a time of crises. Thus, its business continuity plan could be insufficient to continue operating Heritage's business as usual in light of such unforeseen circumstances. Any insufficiency in the business continuity plan could cause interruption in the operations of Heritage, a Fund and its Portfolio Companies, and/or each of their respective affiliates. Similar types of operational risks are also present for the Portfolio Companies in which a Fund invests and the vendors, third-party suppliers or counterparties with whom a Fund or its Portfolio Companies transact, which could have material adverse consequences for such companies and could cause a Fund's investments to lose value.

### *Russia-Ukraine Conflict*

The Russian Federation invaded Ukraine on February 24, 2022. Geopolitical tensions have mounted in response and the U.S., the United Kingdom, European Union ("EU") member states, and other countries have imposed economic sanctions on the Russian Federation, parts of Ukraine, as well as various designated parties. As further military conflicts and economic sanctions continue to evolve, it has become increasingly difficult to predict the effect of these events or how long they will last. Depending on direction and timing, the Russian Federation-Ukraine conflict could significantly exacerbate the normal risks associated with a Fund and lead to adverse changes to, among other things: (i) general economic and market conditions; (ii) shipping, energy and transportation costs and supply chain constraints; (iii) interest rates, currency exchange rates, and expenses associated with currency management transactions; (iv) demand for investments; (v) available credit in certain markets; (vi) import and export activity from certain markets; and (vii) laws, regulations, treaties, pacts, accords and governmental policies. Economic and military sanctions related to the Russian Federation-Ukraine conflict, or other conflicts, could affect markets, global supply and demand, import/export policies, and the availability of labor in certain markets. There is no guarantee that such sanctions and economic actions will abate or that more restrictive measures will not be put in place in the near term. It is also expected that the Russian Federation-Ukraine conflict could spark further sanctions or military conflicts which will impact other regions. The foregoing could seriously impact each Fund's operations and its ability to realize its investment objectives timely.

### *Inflation*

Certain countries have experienced and could in the future experience substantial, and in some periods extremely high, rates of inflation. Inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets (both public and private) of certain countries in which the Funds could invest. Inflation rates could continue to increase in the future, and government measures to control inflation, adopted presently or in the future, remain uncertain. Measures taken by the governments to control inflation potentially include maintaining a tight monetary policy with high

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interest rates, thereby restricting the availability of credit and hindering economic growth. Inflation, measures to combat inflation and public speculation about possible additional actions have contributed materially to economic uncertainty in many countries. Inflation could significantly increase the Funds' costs of operations, adversely impact the availability of suitable investments or the performance thereof, and otherwise impact the Funds' financial condition. There can be no assurance that high rates of inflation will not have a material adverse effect on the investments of the Funds.

### *Banking System Volatility*

As of March 2023, the U.S. banking system has experience, and could continue to experience, significant volatility. The closing of Silicon Valley Bank ("SVB") and Signature Bank will negatively impact the availability of certain financial services to their respective former clients, which could include the Heritage the Fund, portfolio companies or service providers and could require former clients to establish new bank relationships. These closures, and any additional closures that could occur within the banking system, could significantly increase the Heritage's and the Fund's costs, negatively impact the Fund's ability to execute on pending transactions, including with respect to the ability to draw down amounts under credit facilities, and divert the Heritage's time, attention and resources away from the pursuit of the Fund's investment strategy. Furthermore, these closures, and any additional closures that could occur within the banking system, could also increase counterparty risk, including raising the likelihood of defaults or bankruptcies by counterparties and their major customers that rely on such bank relationships. Depending on ongoing developments, regulatory guidance and timing, the closing of SVB and Signature Bank could significantly exacerbate the normal risks associated with the Fund and result in adverse changes to, among other things: (i) general economic and market conditions; (ii) interest rates, currency exchange rates, and expenses associated with currency management transactions; (iii) demand for investments; (iv) availability of credit in certain markets; and (v) laws, regulations and governmental policies. Furthermore, the closing of SVB and Signature Bank could lead to financial system and participant regulatory reform, and such increased regulatory oversight could impose additional administrative burden on the Heritage and the Fund. The foregoing could materially adversely impact the Fund's operations and its ability to realize its investment objectives in a timely manner, and it is currently unclear what the ultimate effect of the situation will be on the private equity industry and global markets as a whole.

### *Access to Deposits*

Heritage maintains the majority of its and its Funds' cash and cash equivalents in accounts with major U.S. and financial institutions, and Heritage's and its Funds' deposits at these institutions often will exceed insured limits. Market conditions can impact the viability of these institutions. In the event of failure of any of the financial institutions where Heritage maintains its and its Funds' cash and cash equivalents, there can be no assurance that Heritage would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect Heritage's or its Funds' business and financial position.

### *Legal, Tax and Regulatory Risks*

Legal, tax and regulatory changes could occur during the term of a Fund that have the potential to adversely affect the Fund. For example, from time to time, the market for private investment fund transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. In addition, private investment funds and their investment advisers may

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be subject to increased regulation, taxation or other scrutiny by regulators or other market participants. There can be no assurance as to whether any such scrutiny or initiatives will have an adverse impact on the private investment fund industry generally or on the Funds or Heritage, including the ability of a Fund to take the measures necessary to effect operating improvements or restructurings of Portfolio Companies or otherwise achieve its objectives.

#### *Increased Scrutiny of Private Fund Advisers*

The regulatory environment for private funds and other financial entities is evolving. Changes in law or regulations could adversely affect the value of instruments held (directly or indirectly) by a Fund, could affect the ability of such Fund to pursue its investment strategies, or could restrict or prevent Heritage from continuing to perform services for a Fund in the manner currently contemplated. The SEC has recently increased its scrutiny of the private equity industry, including conducting several examinations and bringing several enforcement actions against private fund managers. The effect of any regulatory changes or regulatory scrutiny of Heritage, any Fund, or any investor, could be substantial and could adversely affect the Funds, their investments, or Heritage, or result in material amendments to the terms of the Funds' Documents.

#### *United Kingdom Exit from the European Union*

The United Kingdom (UK) left the European Union (EU) on January 31, 2020 (commonly referred to as "Brexit"). In connection with Brexit, the United Kingdom and the European Union agreed to the EU-UK Trade and Cooperation Agreement, which took effect on January 1, 2021 and governs the future trading relationship between the United Kingdom and the European Union in specified areas. The uncertainty surrounding the implementation of the EU-UK Trade and Cooperation Agreement and the outcome of ongoing negotiations may have economic, tax, fiscal, legal, regulatory and other implications for the asset management industry, the broader European and global financial markets generally and private funds such as the Funds and its Portfolio Companies. Notably, the EU-UK Trade and Cooperation Agreement does not include an EU-wide cooperation arrangement for financial services, with UK firms instead having to negotiate individual EU member state regulations and cooperation/recognition arrangements. There can be no assurance that any negotiated laws, taxation and/or regulations will not have an adverse impact on a Fund and its investments. The ongoing effects of Brexit could result in significant market dislocation, heightened counterparty risk, an adverse effect on the management of market risk and, an adverse effect on the ability to manage, operate and invest a Fund and increased legal, regulatory or compliance burdens for Heritage or a Fund, each of which could have a negative impact on operations, financial condition, returns or prospects.

#### *Environmental and Climate Change Laws and Considerations*

Environmental laws, regulations and regulatory initiatives play a significant role in certain industries and can have a substantial impact on investments in these industries. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments of the industry. Certain industries will continue to face considerable oversight from environmental regulatory authorities and significant influence from non-governmental organizations and special interest groups. The Funds in certain cases will invest in Portfolio Companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements, and there can be no

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guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or the investments therein. Compliance with such current or future environmental requirements does not ensure that the operations of a portfolio company will not cause injury to the environment or to people under all circumstances or that portfolio companies will not be required to incur additional unforeseen environmental expenditures.

Although it is not possible at this time to predict how legislation or new regulations that could be adopted to address changes in climatic conditions would impact the Funds' investment program, and any such laws or regulations could have an adverse effect on the operations of Heritage, the Funds and the Funds' Portfolio Companies.

Prolonged changes in climatic conditions could have a significant impact on the revenues, expenses and conditions of certain Portfolio Companies. While the precise future effects of climate change are unknown, it is possible that climate change could affect precipitation levels, cause droughts, affect wind levels, annual sunshine levels, sea levels and the severity and frequency of storms and create or substantially contribute to other severe weather events. In the event that climate change causes sea levels to rise, certain portfolio companies might be forced to incur expenses to prevent assets from being damaged or rendered unusable by such rising sea levels. If any such effects or conditions were to occur, they could have an adverse effect on the operations of the Heritage, the Funds and the Funds' Portfolio Companies.

#### *Environmental, Social and Governance ("ESG") Matters*

ESG matters have been the subject of increased focus by regulators in the U.S. and Europe, among other jurisdictions. While Heritage strives to implement ESG practices, there can be no assurance that Heritage will be able to identify all ESG issues or that its ESG policies will achieve their goals. The use of ESG metrics in the investment process will likely be subjective and are not subject to uniform standards, and, as such, there is no guarantee that Heritage will be able to accurately assess and measure the ESG risks and ESG compliance of the Funds' investments and/or potential investments. ESG-based criteria could result in the Funds foregoing opportunities to make certain investments when it might otherwise be advantageous to do so, selling certain investments due to their ESG characteristics when it might be disadvantageous to do so, or otherwise impacting other actions taken or refrained from. Heritage's ESG practices could cause the Funds not to make an investment it otherwise would have made or impact other actions taken or refrained from. While Heritage believes a focus on ESG criteria will ultimately lead to better investment outcomes, Heritage could take into account considerations other than the maximization of investment returns and pricing when entering into financing and other arrangements, and it is possible that the Funds participate in similar financing arrangements, or other arrangements or transactions where the stated objective is not necessarily the maximization of investment returns. The use of ESG criteria has the potential to affect the Funds' investment performance and, as such, a Fund could perform differently compared to similar funds that do not use such criteria. Additionally, it should not be assumed that any ESG practices or standards will apply to every investment in which the Funds invest or that they have applied to all of the Funds' prior investments. ESG is only one of many considerations that Heritage takes into account when making investment decisions, and other considerations can be expected in certain circumstances to outweigh ESG considerations. Any ESG information provided is intended solely to provide an indication of ESG initiatives and standards that Heritage applies when seeking to evaluate and/or improve the ESG characteristics of an investment as part of the larger goal of maximizing financial returns on investments. Accordingly, certain

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investments could exhibit characteristics that are inconsistent with the practices or standards described herein.

Enacted or proposed “anti-ESG” legislation in certain states require that relevant state entities or the administrators of state investments base their investment decisions solely on financial factors or investment returns without consideration of certain ESG factors. In addition, other potential investors could voluntarily implement strategies to limit their investments in such funds. To the extent such state laws apply to prospective investors in the Funds or a significant number of such prospective investors adopt strategies to limit their investments in private funds that consider ESG factors in their investment process, Heritage may be required to modify its ESG policies to the extent Heritage targets such investors for investment in the Funds, or limit its investor base to exclude such investors, which could materially affect the amount of capital a Fund has available for implementing its investment objectives. In addition, the evolving nature of ESG and sustainability-related regulations and practices means that there is likely to be in the future a degree of divergence as to the regulatory and market meaning of such terms, as well as the divergent views on the degrees to which such matters contribute to long-term performance.

*The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in a Fund. Prospective investors should read the Private Placement Memorandum for each Fund and consult their own counsel and advisors before deciding to invest in a Fund.*

#### **Item 9: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no disclosures applicable to this Item.

#### **Item 10: Other Financial Industry Activities and Applications**

We are a registered investment adviser with the SEC. We act as investment adviser to the Funds, and the General Partners of the Funds are our affiliates. These affiliated entities operate as a single advisory business together with Heritage and serve as general partners or managers of private investment funds and other pooled vehicles and share common owners, officers, partners, and employees. All of these affiliated entities are under common control and subject to the code of ethics (“Code”) and compliance programs adopted by Heritage pursuant to the requirements of the Advisers Act.

#### **Item 11: Code of Ethics**

Heritage has adopted the Code designed to comply with Rule 204A-1 under the Advisers Act. The Code establishes rules of conduct for employees and addresses employee personal securities trading, misuse of confidential information, misuse of material non-public information and political contributions. Our Code includes policies and procedures for the periodic review of personal securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Heritage’s “Supervised Persons” (as defined in the Code). Among other things, our Code also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code provides for oversight, enforcement and recordkeeping.

Certain employees of Heritage invest in Funds either through their General Partners, as limited partners or otherwise. We or our related parties share in the profits and losses generated by those investments. A Fund is permitted to, in the sole discretion of its General Partner, reduce all or a portion of the management fee



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and performance allocation related to investments held by such persons.

This and other operating relationships among our affiliates and Funds create certain conflicts of interest. In situations where actual or potential conflicts of interest between us and our affiliates and the Funds are identified, procedures contained in the Documents of the affected Funds generally provide for submission of the proposed transaction to an investor committee for review and resolution. The specific procedures for each Fund we advise are set forth in the Documents of the Fund.

The following factors alleviate, but do not eliminate, conflicts of interest between and among Funds:

- A Fund will not make any investment unless Heritage and the Fund's General Partner believe that such investment is an appropriate investment considered solely from the viewpoint of such Fund;
- Many important conflicts of interest could be resolved pursuant to set procedures, restrictions or other provisions contained in the relevant Documents for the Funds; and
- With respect to the Funds, the advisory committees for a Fund, whose members are not affiliated with the General Partner of such Fund, play an important role in resolving conflicts of interest by approving or disapproving decisions that involve certain conflicts of interest referred to it by such Fund's General Partner in accordance with the relevant Documents for the Fund.

In connection with its investment activities, Heritage anticipates encountering situations in which it must determine how to allocate investment opportunities among various Funds and other persons, which include, but are not limited to, the following:

- One or more of the Funds;
- Any parallel investment entities that have been formed to invest side-by-side with one or more Funds;
- Any alternative investment vehicles that have been formed to address, for example, specific tax, legal, business, accounting or regulatory-related matters that could arise in connection with a transaction or transactions;
- Any co-investment entities that have been formed to invest side-by-side with one or more Funds (the investors in such co-investment entities include, but are not limited to, individuals and entities that are also investors in one or more Funds (collectively, for purposes of this Item, "Heritage Investors") and/or individuals and entities that are not investors in any Funds (collectively, "Third Parties")); and
- Heritage Investors and/or Third Parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more Funds in particular transactions entered into by such Funds.

For each such Fund or other person discussed above, subject to applicable legal, contractual or similar restrictions, Heritage decides, in its sole discretion, whether Heritage or a related person could seek to charge any fees or to receive any performance-based compensation or allocations in connection with such

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investment opportunities.

Subject to any restrictions contained in the Documents of the relevant Fund or any side-letter or other terms negotiated with respect to such Fund, in general, (i) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of Heritage and in line with Heritage's Co-Investment Policy, (ii) co-investment opportunities may, and typically will, be offered to some and not other Heritage investors, in the sole discretion of Heritage, and (iii) certain persons (e.g., Third Parties) could be offered co-investment opportunities, in the sole discretion of Heritage.

From time to time, Heritage will likely come into possession of material, nonpublic information. In such cases, Funds could be restricted indefinitely in transactions involving a particular issuer. Consequently, the possession of material, non-public information by Heritage could limit the ability of a Fund to buy and sell investments. In addition, Heritage could be restricted by contract from using confidential information that it has for the benefit of a Fund.

It is expected that most or all of the employees responsible for advising a Fund will have responsibilities with respect to other Funds advised by Heritage including funds that could be raised in the future. Conflicts of interest arise in allocating time, services or functions of these employees.

Generally, Heritage does not affect cross transactions between Funds (a "cross-fund transaction"). In the event that Heritage does effect cross-fund transactions between Funds, Heritage shall seek to ensure that such transactions and any related disclosures are made consistent with applicable laws and agreements (including obtaining any requisite approvals thereunder) and Heritage's policies and procedures. Neither Heritage nor any of its affiliates are permitted to receive compensation for effecting a cross-fund transaction.

The General Partners of the Funds are entitled to a carried interest under the terms of the Documents of such Funds. Such General Partners are affiliates of Heritage. The existence of the General Partners' carried interest creates an incentive for the General Partners to cause such Funds to make more speculative investments than they would otherwise make in the absence of carried interest.

The Funds have tax-exempt, taxable, foreign and other investors, whereas most members of the General Partners are taxable at individual U.S. rates. Potential conflicts exist with respect to various structuring, investment and other decisions because of divergent tax, economic or other interests, including conflicts among the interests of taxable and tax-exempt investors, conflicts among the interests of domestic and foreign investors, and conflicts between the interests of investors and the members of the General Partners. For these reasons, among others, decisions could be more beneficial for one investor than for another investor, particularly with respect to investors' individual tax situations.

Heritage's reputation for fair and honest dealing has taken considerable time to build. The Code reminds employees of the ethical standards maintained by Heritage and its affiliates. All employees are required to acknowledge receipt of the Code of Ethics annually. A copy of the Code of Ethics is available to existing investors in the Funds upon request.

#### Conflicts of Interest

The following discussion addresses certain potential conflicts of interest but does not describe all of the

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conflicts that will from time to time face a Fund.

#### *Generally*

Heritage and its affiliates will likely encounter conflicts of interest in connection with the Funds' interests, assets or activities (including certain conflicts of interest as among the interests of different Fund vehicles). On any issue involving conflicts of interest, the Heritage will be guided by its good faith judgment. In certain circumstances, a Fund's General Partner will present potential conflicts of interest to the Fund's advisory committee for approval.

#### *Transactions between Portfolio Companies*

Heritage has an incentive to use or to recommend products or services of one Portfolio Company to another, which could involve fees, commissions, servicing payments or other compensation. Conflicts of interest arise in making such recommendations, as Heritage has an incentive to maintain goodwill between it and its former, existing and prospective Portfolio Companies.

#### *Broken Deal Expenses*

In connection with pursuing investment opportunities in furtherance of a Fund's investment strategy, Heritage, the Fund, the General Partner and their respective affiliates expect to incur fees, costs and expenses in connection with prospective investments and other transactions that are not consummated, including, without limitation, all due diligence fees, costs and expenses, legal and accounting fees, costs and expenses, fees, costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for such prospective investment or other transaction, deposits or draw-down payments that are forfeited in connection therewith, and reverse break-up fees or termination fees, expense reimbursement amounts or other amounts payable to the sellers, targets, advisors, service providers or other counterparties or third-parties, related to such transaction, or other liabilities or obligations in respect of such unconsummated transactions or investment opportunities, and travel costs and ancillary expenses (which could include first or business class commercial airfare) in connection therewith (including, without limitation, airfare, ground transportation, accommodations, meals and travel agency fees), and costs and expenses of any representation and warranty insurance and/or other similar insurance (collectively, "Broken Deal Expenses"). Broken Deal Expenses could be significant, and accordingly, such Fund could incur substantial costs and expenses with no opportunity for a return.

Heritage and its affiliates have the discretion to require a Fund to pay 100% of the amount of any Broken Deal Expenses whether or not there are co-investors that are committed or expected to participate in such investment or transaction or a potential co-investment opportunity or a syndication to third-parties or other transaction participants (including, without limitation, the target company management) are contemplated in connection with such investment or transaction. In the event that any potential investment or transaction of a Fund results in Broken Deal Expenses and all or a portion of such Broken Deal Expenses are not paid or reimbursed by any potential co-investment vehicles, co-investors or other third-parties or transaction participants, as applicable, a Fund (together with any parallel funds and alternative investment vehicles, as applicable) will be required to bear 100% of the amount of any such Broken Deal Expenses; provided that, in connection with any co-investment opportunity, if any prospective co-investor has contractually agreed to bear a portion of any Broken Deal Expenses in connection with such co-investment opportunity, a Fund shall not be required to bear the portion of such Broken-Deal Expenses that such prospective co-investor has contractually agreed to bear. In addition, no prospective co-investor shall be entitled to any portion of

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any topping and break-up fees with respect to any co-investment opportunity unless such prospective co-investor has contractually agreed to bear a portion of the Broken Deal Expenses in respect of such co-investment opportunity. While certain of such Broken Deal Expenses will in certain cases be reimbursed by offsetting certain amounts payable to Heritage or one or more of its affiliates, there can be no assurance that sufficient offsetting fees will be generated to reimburse all such Broken Deal Expenses.

#### *Use of Subscription Lines*

A Fund is permitted to fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities (the collateral for which can be, for example, the undrawn capital commitments of investors, i.e., subscription lines) prior to calling capital commitments. The interest expense and other costs of any such borrowings will be borne by the applicable Fund and, accordingly, could decrease net returns of such Fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the applicable fund. In light of the foregoing, we have an incentive to cause such vehicle to borrow in this manner in lieu of drawing down capital commitments, subject to the operating and offering documents of each Fund. In addition, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the Limited Partners, such Limited Partners could be obligated to contribute capital on an accelerated basis if a Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder.

#### *Sell Down Activity*

From time to time, for strategic and other reasons, a co-investment vehicle will purchase a portion of an investment from a Fund after such Fund has consummated its investment in the Portfolio Company. Any such purchase from a Fund by a co-investment vehicle generally would occur shortly after the Fund's completion of the investment (also known as a post-closing sell down or transfer) to avoid any changes in the valuation of the investment. The participants in the co-investment vehicle (other than the Funds) could be charged interest on the purchase to compensate the applicable Funds for the applicable holding period.

#### *Certain Risks and Costs of Leverage Below a Fund*

Indebtedness of entities other than a Fund, including, without limitation, entities owned in whole or in part by a Fund, whether existing or newly-formed for the purposes of entering into such indebtedness, will not be treated as Fund-level indebtedness for purposes of the applicable Fund Agreement, even if the special purpose vehicles or other entities incurring such borrowing are doing so on a cross-collateralized basis with or among multiple (including potentially all) investments and assets of a Fund. As a result, this indebtedness or "back-leverage" generally will not be subject to any limitations on Fund-level borrowings that are set forth in the applicable Fund Agreement. Accordingly, the negative performance of any one investment is likely to materially and adversely impact the performance of other investments or a Fund taken as a whole.

In connection with any such financing, a Fund could (i) create a special purpose investment vehicle, transfer or contribute Fund assets to such investment vehicle (or make investments directly through such investment vehicles), and cause such investment vehicle to incur indebtedness or other obligations, or (ii) cause multiple new or existing investment vehicles to incur indebtedness on a joint and several or cross-collateralized basis. Unless a Fund is a borrower thereunder, any such arrangements entered into by such investment vehicles, will not be considered indebtedness by a Fund for purposes of the limits on indebtedness set forth

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in the applicable Fund Agreement. Any such investment vehicles will not be treated as a single investment for purposes of the investment limitations (including any single-investment diversification requirement) applicable to a Fund under the applicable Fund Agreement even though multiple (or all) Portfolio Companies are pledged and charged to, and at risk with respect to, indebtedness of any such investment vehicles. Any proceeds received by any such investment vehicles or a Fund can be used to repay any such outstanding indebtedness or other credit obligations notwithstanding anything to the contrary set forth in the applicable Fund Agreement. The use of this type of financing potentially enhances the return profile of the applicable investments and a Fund overall, but also increases the risk of the applicable investments, including the risks associated with cross-collateralized investments.

In addition, certain other types of indebtedness or other obligations or liabilities incurred by a Fund or its subsidiaries or investment vehicles will not be subject to or counted toward the limits on indebtedness that are set forth in the applicable Fund Agreement, including, without limitation, entering into arrangements with obligations of other persons for which a Fund is liable on a joint and several and/or cross-collateralized basis, equity commitment letters, equity contribution agreements or other similar agreements to make equity investments. A Fund is also permitted to enter into contractual arrangements, including deferred purchase price payments, staged funding obligations, earn outs, milestone payments, equity commitment letters, equity contribution agreements or other similar agreements to make equity investments, and other contractual undertakings such as indemnification obligations that obligate it to fund amounts to special purpose vehicles, Portfolio Companies or other third parties. Such arrangements are not treated as Fund indebtedness that are subject to limitations under the applicable Fund Agreement even though these arrangements pose many of the same risks and conflicts associated with the use of leverage that such provisions intend to address.

### *Secondary Transactions*

Heritage is permitted to propose to a Fund's advisory committee or investors one or more transactions that would enable such investors to monetize or restructure all or a portion of their interests in a Fund, including through the use of a continuation fund (each such transaction, a "Secondary Transaction"). The sale of an investment to a continuation fund could result in certain investors, the applicable General Partner and/or members of Heritage (including employees and affiliates) disposing of their investments in the underlying assets at a different time than some or all investors of such Fund and otherwise taking actions with respect to such investments that are different than the actions taken by other investors. Heritage could be subject to other conflicts of interests in connection with a Secondary Transaction, including with respect to investment valuations, allocation of fees and expenses and the offering of investment opportunities to the Funds and co-investors.

### *Conflicts Related to the Withholdings of Certain Information*

In some cases, Heritage withholds information from certain investors in a Fund for regulatory or other reasons. For example, information could at times be withheld from investors that are subject to the Freedom of Information Act or similar requirements. Heritage will also from time to time elect to withhold certain information for reasons relating to overall business strategy, despite the potential benefits to investors of receiving such information.

### *Carried Interest*

The existence of the carried interest creates an incentive for a Fund's General Partner and Heritage to make

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riskier or more speculative investments on behalf of a Fund than would be the case in the absence of these arrangements. In addition, the terms applicable to carried interest distributions could incentivize a Fund's General Partner and its affiliates to make decisions regarding the timing and structure of realizations of investments that are not in the best interests of a Fund. Further, a Fund's General Partner or its affiliates could be incentivized to hold on to investments that have poor prospects for improvement to potentially receive a more likely or larger carried interest distribution if such asset's value appreciates in the future.

For gains that are attributable to the carried interest to qualify as long-term capital gain for U.S. federal income tax purposes, the holding period for the asset giving rise to such gains generally must exceed three years. For Limited Partners, gains in respect of assets held for more than one year will generally qualify as long-term capital gain. Long-term capital gain recognized by non-corporate U.S. taxpayers is generally subject to U.S. federal income tax at preferential rates. These disparate holding period requirements give rise to conflicts of interest. A General Partner has an incentive to take actions intended to maximize the amount of gains from assets held for more than three years, even though Limited Partners will not necessarily derive any additional U.S. federal income tax benefit from the longer holding period. For example, the General Partner will have an incentive to (i) refrain from making investments expected to generate gains within three years, (ii) refrain from selling or engaging in other transactions with respect to investments that would give rise to capital gain if the investment has not been held for more than three years or (iii) structure follow-on investments in a manner intended to maximize the amount of gain attributable to a Fund's existing interests in such investments. Such actions could reduce the amount realized from a Fund's investments and adversely affect the amount and timing of distributions to a Fund's Limited Partners.

In certain limited circumstances, the amount of carried interest could be calculated based on the fair market value of non-cash distributions, which could result in a valuation for purposes of determining the carried interest that exceeds any cash value ultimately achieved. The carried interest can be distributed prior to the final liquidation of all of a Fund's investments and prior to returning all of the capital invested by the Fund partners. If a Fund experiences significant losses after having made distributions of the carried interest to a general, then it is possible that the aggregate cumulative amount distributed to all of a Fund's Limited Partners upon final liquidation of a Fund would be less than the Limited Partners' aggregate capital contributions plus the cumulative unpaid amount of the preferred return thereon. In such a case, a Fund's General Partner could be required to contribute to a Fund all or a portion of the carried interest distributions previously received to restore the deficiency; however, such clawback obligations will be computed on an "after-tax" basis. Accordingly, such calculated amounts would not be sufficient to return to a Limited Partner its capital contributions or any return thereon.

#### *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 could be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that could be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a Fund, its General Partner, or Heritage 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,

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attract and retain individuals to perform services for a Fund. This creates potential incentives for Heritage 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.

#### *Material Non-Public Information*

From time to time, a Fund or its affiliates or certain personnel of the applicable General Partner or Heritage will acquire confidential or material non-public information concerning an entity in which the Fund has invested, or proposes to invest, or be restricted from initiating transactions in certain securities. A Fund will not be free to act upon any such information. Due to these restrictions, a Fund in certain cases will not be able to initiate a transaction that it otherwise might have initiated and in certain cases will not be able to sell an investment that it otherwise might have sold.

#### *Side Letters*

Heritage and/or its respective affiliates have entered and expect to continue to enter into a side letters or other similar agreements with certain Limited Partners in connection with their investments without the approval of any other Limited Partner. Side letters subject Heritage to certain actual and potential conflicts of interest. This will generally have the effect of establishing rights under or supplementing the terms of the relevant Fund Agreement with respect to such Limited Partner in a manner beneficial to such Limited Partner and more favorable to such Limited Partner than those applicable to other Limited Partners. Such rights or terms in any such side letter or other similar agreement can include, without limitation, (i) rights to designate a member of a Fund's advisory committee; (ii) excuse rights applicable to particular investments (which could increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, such investments); (iii) reporting obligations of a General Partner; (iv) waiver of certain confidentiality obligations; (v) consent of a General Partner to certain transfers by a Limited Partner; (vi) rights or terms necessary in light of particular legal, regulatory or public policy characteristics of a Limited Partner; (vii) adjustments to fees or other economics (including, without limitation, the management fee, carried interest, or distributions); (viii) access to certain information; (ix) consent rights of a Limited Partner; (x) co-investment rights including priority co-investment rights; (xi) tax and structuring matters; and (xii) other representations, warranties or diligence confirmations. Heritage and/or its respective affiliates will enter into such side letters with any party as Heritage determines, in its sole and absolute discretion, at any time. Except where required by the relevant Fund Agreement, Heritage will generally not be required to disclose to or otherwise notify the other Limited Partners of any such side letters or of any of the rights or terms or provisions thereof, and some or all of the other Limited Partners will generally not be entitled to receive such additional benefits or other rights. In addition, Heritage will not be required to offer such additional or different rights or terms to any or all of the other Limited Partners, and Limited Partners will not necessarily have most-favored-nation rights in respect of all or any of the more favorable terms provided to others. Limited Partners will have no recourse against the Fund, Heritage or any of its respective affiliates in the event that certain Limited Partners receive additional benefits or other rights pursuant to side letters that are more favorable than the terms received by other Limited Partners.

As a result of certain side letters, Limited Partners holding the same Interests have the potential to have different returns or receive different information, depending on any arrangements applicable to a given Limited Partner's Interest in the Fund. In addition, if Heritage enters into a side letter entitling a Limited Partner to be excused or excluded from a particular investment or withdraw from the Fund, (a) any election to be excused or excluded or to withdraw by such Limited Partner will increase the percentage interest of

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other Limited Partners in, and contribution obligations of other Limited Partners with respect to, future investments, and reduce the overall size of the Fund and/or (b) the Fund's ability to consummate certain investments could be inhibited. Co-investment rights granted to a Limited Partner in a side letter or other similar agreement will, in certain cases, result in fewer co-investment opportunities (or reduced or no allocations) being made available to other Limited Partners.

It is also expected that Heritage will from time to time confirm factual matters to incoming Limited Partners, make statements of intent or expectation to such Limited Partners or acknowledge statements by such incoming Limited Partners that relate to the Fund and/or Heritage's activities pertaining thereto in one or more respects. As a result, side letters or other similar agreements could enable such Limited Partners to take actions on the basis of information not available to other Limited Partners that do not have the benefit of such agreements. Any such statements, confirmations agreements or acknowledgements will not involve the granting of any legal right or benefit, and therefore generally will not be subject to any "most-favored-nations" process or election by the Limited Partners, and as a result Limited Partners will not typically receive notice thereof or copies of the documentation (if any) in which they are contained. There can be no assurance that any such arrangements will not have an adverse effect on the Fund or that such arrangements will not influence Heritage's activities or the operation of the Fund.

#### *Allocation of Shared Expenses*

Heritage and its affiliates expect that a number of resources will be shared among a Fund and one or more Portfolio Companies, the predecessor funds and successor funds to, among other things, enhance efficiency and reduce the cost for each Fund, Portfolio Company and predecessor funds. Heritage takes into account a variety of considerations when allocating such expenses, both between Heritage and a Fund, the Portfolio Companies, the predecessor funds and successor funds. Heritage uses methods that it believes, at the time such determinations are made, are fair and reasonable in making the allocations in its discretion. These methods vary depending on the type of expense, including, without limitation, allocations based on assets under management, net asset value, holdings percentages, number of positions held by different funds and accounts, number of funds and other investment vehicles, number of users of such resource, relative benefits of such resource and time spent. Despite Heritage's good faith judgment to arrive at a fair and reasonable expense allocation methodology, the use of any particular methodology could lead a Fund to bear relatively more expense in certain instances and relatively less in other instances compared to what a Fund would have borne if a different methodology had been used. However, Heritage seeks to make allocations that are equitable on an overall basis in its good faith judgment. From time to time, Heritage in its good faith judgment is permitted to revise or change previously determined allocation methodologies in an effort to ensure that such expenses remain fairly and reasonably allocated among a Fund and one or more Portfolio Companies, the predecessor funds and successor funds.

#### *Allocation of Investment Opportunities*

Subject to the obligations of Heritage, its affiliates and the principals in respect of any predecessor funds during its investment period and except as otherwise set forth herein or as may be approved by the advisory committee, during the investment period, any investment opportunity within a current Fund's investment guidelines that is presented to a General Partner, Heritage or the principals will first be offered to such Fund. Notwithstanding the foregoing, any follow-on or add-on investment opportunities in respect of investments made by a predecessor fund will be first offered to such predecessor fund, subject to available capital, including reasonable reserves, or other investment limitations on the Fund and such predecessor fund, in



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the reasonable discretion of the General Partner.

In addition, without the prior approval of either the advisory committee or a majority in interest of the Limited Partners a Fund will not invest in any securities issued by, acquire investments from, sell investments to, or enter into any transaction with the General Partner, Heritage, the principals or their respective affiliates, any predecessor fund or any successor fund; provided, that the Fund is permitted to invest in Portfolio Companies in which its parallel funds, alternative investment vehicles, co-investment partnerships, predecessor funds or successor funds invest; provided, further, that the foregoing restrictions will not apply to purchases, sales or transfers of interests in any investment from or to or transactions with any entities formed to hold any co-investment permitted to be allocated to co-investors, or otherwise in connection with the organization or operation of any parallel funds or alternative investment vehicles.

In addition, as further described below, the principals and Heritage is permitted to participate in such other activities as further described in the applicable Fund Agreement. A General Partner's, Heritage's, the principals' or their respective affiliates' pursuit of certain other permitted investment activities as described in the applicable Documents and as further described in the applicable Fund Agreement could create conflicts of interest for a Fund. In such instances, each of Heritage, the principals and the applicable General Partner will be free, in their discretion, to make recommendations and decisions with respect to the origination or disposition of such investments, independent of the recommendations and decisions made by the other. All such recommendations and decisions will be made for a Fund in a manner that Heritage, the principals and the applicable General Partner in their good faith judgment deem, based upon their fiduciary duties and contractual obligations, to be appropriate given the investment objective, liquidity, diversification and other limitations of the Fund.

#### *Management Team Expenses*

A Fund could in certain circumstances recruit a management team to pursue a new or "platform" opportunity expected to lead to a future portfolio investment. Typically, the expenses associated with the activities of such a team, including their overhead and due diligence and related expenses incurred in pursuing acquisition opportunities, will constitute Fund expenses and be borne by a Fund. There can be no assurance that such management team will lead to a new platform or other Portfolio Companies. Any expenses in connection with such "platform" opportunities will not offset the management fee.

#### *Other Benefits*

Heritage and its respective affiliates and their respective personnel can be expected to receive certain benefits, rebates and/or discounts and/or perquisites arising or resulting from their activities on behalf of a Fund that will not offset or reduce the management fee or otherwise be shared with the Limited Partners and/or Portfolio Companies. For example, airline travel or hotel stays incurred as Fund expenses could result in "miles" or "points" or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not *de minimis* or difficult to value, inure exclusively to Heritage and/or its respective affiliates and/or their respective personnel (and not the Fund and/or Portfolio Companies) even though the cost of the underlying service is borne by the Fund and/or its Portfolio Companies. Heritage, its personnel and other related persons also could receive discounts on products and services provided by Portfolio Companies and/or customers or suppliers of such Portfolio Companies. Such other benefits or fees could give rise to conflicts of interest in connection with a Fund's investment activities, and while Heritage will seek to resolve any such conflicts in a fair and equitable manner, there is no assurance that any such conflicts will be resolved in favor of the Fund.

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Additionally, as a result of their relation to the Fund and its Portfolio Companies, including in the course of Heritage's operations, including research, due diligence, investment monitoring, operational improvements and investment activities, Heritage, and its respective affiliates expect to accumulate and benefit from information, "know-how", knowledge, experience, analyses and data relating to the operations, business models and strategy, agreements, trends, market insights, customer data, vendors and service providers of the Fund or its Portfolio Companies (collectively, "Investment Intelligence"), including models, plans, and other resources associated with Heritage's development of Investment Intelligence. In many cases, Investment Intelligence will include tools, procedures and resources developed by Heritage to organize or systematize Investment Intelligence for ongoing or future use. Although Heritage expects its Funds and their Portfolio Companies generally to benefit from Heritage's possession of Investment Intelligence, it is possible that any benefits will be experienced solely by other or future Funds or Portfolio Companies (or by Heritage and its personnel) and not by the Fund or Portfolio Company from which Investment Intelligence was originally received. In some cases the Fund or its Portfolio Companies will bear the cost of developing Investment Intelligence even though that Investment Intelligence ultimately provides a greater benefit to Heritage and its affiliates (including other accounts and their respective Portfolio Companies) than to the Fund or its Portfolio Companies. Investment Intelligence will be the sole intellectual property of Heritage and solely for the use of Heritage. Heritage reserves the right to use, share, license, sell or monetize Investment Intelligence, without offset to management fees, and the relevant Fund or Portfolio Company will not receive any financial or other benefit of such use, sharing, licensure, sale or monetization.

#### *Other Private Equity Vehicles*

Certain past or present principals and other employees of Heritage are permitted to invest (directly or indirectly) in other private equity investment vehicles (including single investor-co-investments) managed by other advisers. In some cases, Heritage, its affiliates or the Funds could purchase portfolio companies that are owned by such other investment vehicles, which could indirectly benefit any such past or present principals or employees.

#### **Item 12: Brokerage Practices**

As a general matter, Heritage does not engage in brokerage transactions as the Clients primarily invest in private securities. In the limited circumstances where the Clients purchase public securities as part of a private equity transaction or have such securities as a result of a Portfolio Company going public, Heritage intends to follow applicable SEC guidelines and seek to obtain best execution in completing such transactions.

Heritage generally hires or engages investment banks to assist with certain potential Portfolio Company transactions, primarily in connection with the potential acquisition or sale of a Portfolio Company.

In selecting brokers, Heritage's main consideration is to obtain the most favorable net result for the Clients under the circumstances, which may not involve the lowest possible commission cost. If, consistent with our goal of seeking best execution, Heritage determines that it will engage a broker to assist with the structuring of a particular transaction, such broker could be selected on the basis of some of the following, as applicable:

- expertise in the particular market;
- market reach, financial stability, and liquidity;
- history of similar transactions;
- the fees and other cost associated with its services;

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- its reputation;
  - our past experience with the firm;
  - willingness and ability to commit capital to complete the deal, if necessary; and
  - responsiveness of staff.

We do not take the availability of soft dollars into consideration as it is our policy not to accept research or services in exchange for soft dollars.

#### **Item 13: Review of Accounts**

Heritage provides ongoing supervision and review of its Clients' accounts. Heritage professionals continually review and analyze existing investments to attempt to identify issues early on and to take action when necessary. Heritage's management group meets monthly to review the financial and operating performance of each operating company. In addition, the management group gathers weekly to discuss any major activities in the operating company.

The General Partner of each Fund distributes quarterly and annual written reports to the investors in the Funds as established in each Fund's Documents. The quarterly reports typically contain financial and business reviews, including valuations, of the Portfolio Company investments. Annual reports for institutional accounts generally include a listing of investments and the audited financial statements of the operating company by a Public Company Accounting Oversight Board registered accounting firm. Annual reports for investors in the Funds include individual capital account statements as of the end of such fiscal year, a listing of investments held by the Fund, the audited financial statements of the Fund by a Public Company Accounting Oversight Board registered accounting firm, and tax information necessary for the completion of tax returns.

In addition to the information provided to all investors, Heritage occasionally provides certain investors with additional information or more frequent reports that other investors will not receive.

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

From time to time, Heritage engages one or more persons to act as a placement agent for a Fund in connection with the offer and sale of interests to certain potential investors. If engaged, a legal agreement is executed describing the terms of the engagement and includes, among other requirements, that the placement agent abide by federal securities laws in discharging activities on behalf of Heritage. Such persons generally will receive a fee in an amount equal to a percentage of the capital commitments for interests made by such potential investors to such Fund that are subsequently accepted. Any fees and expenses payable to any such placement agents will be borne by Heritage directly.

#### **Item 15: Custody**

Due to our access to funds and authority to deduct fees and other expenses from a Client's account and services by our affiliates as general partners of our Funds, we are deemed under Rule 206(4)-2 of the Advisers Act (the "custody rule") to have custody of our Clients' funds. Heritage's policy is to safeguard all Client funds, securities or assets and comply with the custody rule. We utilize the services of a bank or other qualified custodian (as defined under the custody rule) to hold all funds and securities of any of our Clients, to the extent required by the Advisers Act and SEC guidance. We also ensure that the qualified custodian maintains these funds in accounts that contain only Clients' funds and securities, under our name as agent or trustee for the clients.

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While the custody rule generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement because Heritage's Funds are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each of the Funds' respective investors. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of Fund's fiscal year end. In addition, upon the final liquidation of any such Fund, Heritage will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

#### **Item 16: Investment Discretion**

Heritage provides investment advisory services to each of the Funds pursuant to the Documents of the Fund. Investment advice is provided by Heritage directly to the Funds, subject to the direction and control of the affiliated General Partner of such Fund. Any restrictions on investments in certain types of securities are established by the General Partner of the applicable Fund and are set forth in the Documents received by each investor prior to investment in such Fund.

As a general policy, Heritage does not allow limited partners to place limitations on this authority. Pursuant to the terms of the applicable Documents and as previously described, however, Heritage has entered, and may in the future enter, into side letters with certain Limited Partners whereby the terms applicable to such Limited Partner's investment in a Fund could be altered or varied, including, in some cases, to provide for reduced fees or the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

#### **Item 17: Voting Client Securities**

Because the Funds transact primarily in privately issued securities, Heritage rarely is required to vote proxies. However, because Heritage has the authority to vote proxies for a Client, Heritage has adopted policies and procedures designed to ensure that it votes proxies in the best interest of the Clients, including when there could be material conflicts of interest in voting proxies.

Heritage believes its interests are aligned with its Clients through the General Partners' ownership interest in the Funds and therefore does not generally seek investor approval or direction when voting proxies. If, however, there is or could be a conflict of interest between the General Partner and the Fund in voting proxies, Heritage will address the conflict by seeking guidance and approval from a Fund's advisory committee or its investors, as appropriate.

If you are a Client or investor in the Funds and would like to obtain a copy of Heritage's proxy voting policies or additional information on how proxies have been voted, please contact Nicole Norris (CCO) at 617-428-3616.

#### **Item 18: Financial Information**

Currently, there is no known financial condition that is reasonably likely to impair Heritage's ability to meet its contractual commitments with its Clients. Heritage does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure. Heritage has not been the subject of any bankruptcy petition.