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This brochure provides information about the qualifications and business practices of American Discovery Investment Advisors LLC and its affiliated funds (“ADIA I”), American Discovery Investment Advisors II LLC and its affiliated funds (“ADIA II”) and other affiliated entities (collectively, “American Discovery Investment Advisors” or “the Firm”). If you have any questions about the contents of this brochure, please contact us at (310) 481-8700. 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. Registration as an investment adviser with the SEC does not imply a certain level of skill or training of American Discovery Investment Advisors or its personnel.

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

**Item 2. Material Changes**

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This brochure serves to update American Discovery Investment Advisors' initial brochure which was filed on August 24, 2022. As of the date of the filing, there are no material changes to report.

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

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ADIA I and ADIA II, each a Delaware limited liability company, are Los Angeles-based investment advisers that provide strategic private equity services focused on lower-middle market companies, particularly founder-led and family-owned businesses, in a multitude of industries, including business and technology services, healthcare, financial technology, and software. The Firm began its advisory services in 2019. American Discovery Investment Advisors is principally owned by the Webber Trust, the Joliet Family Trust, the Degryse Family Trust, the McMahon Family Trust, the Elizabeth W. Shoemaker Separate Property Trust, and the Michael and Tracey Denbeau Living Trust.

American Discovery Investment Advisors LLC serves as an investment adviser to American Discovery Fund, L.P. (“ADF I”) and a co-invest vehicle, American Discovery Co-Invest, L.P. (“AD Co-Invest”). An affiliate, American Discovery Investment Advisors II, LLC, is listed as a relying adviser on the Firm’s Form ADV and serves as an investment adviser to American Discovery Fund II, L.P. (“ADF II” and together with ADF I and AD Co-Invest, the “Funds”). The Funds are exempt from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”), pursuant to Section 3(c)7 of the Investment Company Act.

Pursuant to the position expressed in the American Bar Association SEC No-Action Letter (January 18, 2012) (“ABA No-Action Letter”), this brochure describes the advisory services provided by American Discovery Investment Advisors, LLC, as a filing adviser, American Discovery Investment Advisors II, LLC, as relying adviser, and the general partners, American Discovery Fund GP, LLC (“ADF I GP”) and American Discovery Fund II GP, LP (“ADF II GP”), which collectively operate as a single advisory business together.

Individuals and entities may invest in the Funds as limited partners (“Investors”). Investment advice is provided directly to each Fund itself and not to the individual Investors in the Funds. American Discovery Investment Advisors tailors its advisory services to the individual needs of each Fund but not to the individual needs of underlying Investors. American Discovery Investment Advisors manages all of the Funds in accordance with the investment objectives and limitations set forth in each Funds’ offering memoranda, limited liability company agreement, limited partnership agreement, governing documents, subscription agreements, side letters, and any investment management agreement between American Discovery Investment Advisors and the Fund (“Operative Documents”). Any capitalized terms used herein without definition are defined in the Operative Documents. The advice provided by the Firm and its employees is limited to the types of investments described in the Operative Documents.

The Firm does not participate in wrap fee programs.

As of December 31, 2022, the Firm managed approximately \$260,634,000 of regulatory assets on a discretionary basis. The Firm does not manage any investments on a non-discretionary basis.

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

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American Discovery Investment Advisors receives compensation from a combination of management fees, carried interest allocations, and other fees payable by or in respect to portfolio or prospective portfolio companies. The fees payable to American Discovery Investment Advisors varies from fund to fund and could be different from the fees and compensation of any prior or successor fund. The Operative Documents set forth in detail each Fund's fee and expense structure, and Investors should consult these documents for further information on fees and expenses.

### **Management Fees**

The Firm generally receives a management fee, calculated as a portion of assets under management by the Firm, from each Fund. The specific fee percentage, timing of payments, and calculation of the management fee basis varies amongst the Funds. Investors should consult the Operative Documents of a particular Fund prior to investing to understand the specific management fee calculations pertaining to such Fund.

ADF I will pay to the Firm a management fee, quarterly in arrears, an amount equal to two percent (2%) of the aggregate capital commitment of Investors prior to the end of the Investment Period. Subsequent to the close of the Investment Period, ADF I will pay to the Firm quarterly in arrears an amount equal to two percent (2%) of the sum of the remaining Cost Basis of each investment held by the Fund on the last day of the calendar quarter calculated pro rata for each Investor based upon such Investor's commitment to such investment.

ADF II will pay to the Firm a management fee, quarterly in advance, equal to two percent (2%) of the aggregate Commitments of Investors, including any Commitments made by Investors later admitted or any increase in Commitments by Investors, during the Investment Period. Following the close of the Investment Period, ADF II will pay to the Firm an amount equal to two percent (2%) per year of the unrecouped Bridge Financing Contributions, Investment Contributions for investments which have not been fully exited, and any outstanding borrowings made in anticipation or lieu of Investor Contributions.

Neither the General Partners of the Funds, the Firm, its affiliates nor any of its respective directors, officers, managers or employees are expected to bear any portion of the Management Fee.

### **Management Fee Offset**

The Management Fee will be reduced pursuant to a formula described in the Funds' Operative Documents in exchange for structuring a portion of the General Partner's Commitment as a profits interest. The Management Fee shall be further reduced by an amount equal to 25% of Transaction Fees received by an affiliate of the Firm. In the event that a fee reduction exceeds the payable Management Fee for a given period, the Funds' Operative Documents provide for a carry forward of such reduction to a subsequent period or reimbursement of the amount owed by the Firm to Investors' accounts.

### **Carried Interest**

As described in Item 6 below, the General Partners are entitled to be allocated carried interest ("Carried Interest") with regard to the Funds, which generally equals twenty percent (20%) of realized profits net of all expenses and is subject to preferred return and catch-up provisions. Each Fund's Carried Interest arrangement differs and each calculation is described in the relevant Fund's Operative Documents.

Certain Operative Documents permit American Discovery Investment Advisors or the General Partners to waive or agree to reduce the Carried Interest.

### **Expenses**

Generally, all organizational expenses and certain enumerated partnership expenses (as defined below) shall be paid by the Funds. To the extent that the General Partners, the Firm or any of their affiliates pays any organizational expenses or partnership expenses on behalf of the Funds, the Funds shall reimburse the General Partners, the Firm or such affiliate, as the case may be, upon request. All Firm overhead and similar expenses shall be paid by the General Partners or the Firm. For avoidance of doubt, the Firm will pay normal operating overhead, including salaries of its employees and rent and other expenses incurred in maintaining its place of business.

American Discovery Investment Advisors will allocate fees and expenses to be borne by the Funds in accordance with the Operative Documents or, to the extent the Operative Documents do not expressly provide for a method of allocation, as determined by the Firm in good faith and in its fair and reasonable discretion in accordance with its internal policies and procedures.

Please refer to the Funds' Operative Documents for further information regarding the fees and expenses of the Firm and the Funds.

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

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When certain performance hurdles are met, the General Partners of such Fund is entitled to receive a distribution of the investment proceeds as performance-based incentive compensation.

American Discovery Investment Advisors will allocate a portion of the net proceeds of each Fund to the capital account of the Funds' respective General Partner as Carried Interest. Generally, the Funds shall distribute net proceeds from investments to Investors until such Investors have recouped certain costs as described in the Operative Documents and have received a preferred return of 8% as described in more detail in the Operative Documents. Subsequent to such distribution, the General Partners are entitled to receive a catch-up allocation of net proceeds followed by a 20% allocation of net proceeds as carried interest. The specific provisions and calculation methods for the calculation, distribution, and allocation of carried interest are described in detail in the Funds' Operative Documents.

The General Partners may, in their discretion, designate an Investor as an affiliate of the General Partner and waive some or all of the Carried Interest allocable to such Investor. In addition, neither the General Partners, the Manager, its affiliates nor any of its respective directors, officers, managers or employees are expected to bear any portion of Carried Interest.

Performance-based fees such as carried interest allocations create an incentive for the Firm to make more speculative portfolio investments on behalf of the Funds than the Firm may make in the absence of such compensation arrangements. American Discovery Investment Advisors subjects each prospective investment to a comprehensive due diligence process to ensure that any prospective investment is suitable for a Fund and in line with the Fund's risk and investment parameters as described in the Fund's Operative Documents.

For more information regarding the specific terms of the Carried Interest, please consult the Operative Documents for the Funds.

Carried Interest is structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the "Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 of the Advisers Act. Accordingly, American Discovery Investment Advisors seeks to ensure that Investors in the Funds that are directly or indirectly assessed Carried Interest satisfy the qualifications of Rule 205-3 and have been advised of the terms of such performance-based fees and the associated risks.

## **Item 7. Types of Clients**

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American Discovery Investment Advisors provides discretionary investment advice to the Funds, which are private investment vehicles that are exempt from registration under the Investment Company Act.

Investors in the Funds come from a diverse base of qualified investors and includes employees of the Firm, their family members, and affiliated entities.

Each Investor is required to meet certain suitability requirements. Additionally, the Funds generally require a minimum investment of \$5,000,000, although such minimum investment may be reduced or waived at the discretion of the General Partners. Interests in the Funds are sold only to Investors who meet qualification requirements under applicable securities laws. An investment in one or more Fund should be based on a prospective Investor's careful analysis of its overall portfolio and its own objectives and needs in the areas of diversification, liquidity, return on investment and risk management.

The Funds generally limit Investors to (i) "accredited investors" as defined in the Securities Act, (ii) "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act and (iii) "qualified clients", as defined in the Advisers Act. Investors in the Funds must meet certain suitability and net worth qualifications prior to making an investment in the Funds. The Funds are not registered or required to be registered under the Investment Company Act; the Funds' securities are not registered or required to be registered under the Securities Act and are privately placed to qualified investors in the United States and elsewhere.

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

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The Funds seek to achieve capital appreciation by investing in lower-middle market companies which American Discovery Investment Advisors believes offers significant opportunities for value creation. The Firm generally defines lower-middle market as companies with \$10 million to \$100 million in revenue with a strong customer base and large addressable markets. American Discovery Investment Advisors focuses on family-run or founder-led companies which are often seeking or receiving their first round of institutional equity investments. The Funds' investment strategy and methods of analysis, and the risks associated with an investment in the Funds, including the risk of total loss of capital, are disclosed in the Operative Documents for each Fund.

Investment in a private equity fund, such as the Funds, involves a significant degree of risk, including the risk of financial loss, and may not be suitable for all investors. Any Investor or potential Investor should be capable of evaluating the merits of an investment in the Funds and bearing the risk of loss of the entire investment. There can be no assurance that American Discovery Investment Advisors will achieve the investment objectives or returns of the Funds.

Set forth below, as well as in other items in this brochure, is a summary of some of the investment risks disclosed in greater detail in each of the Funds' Operative Documents. Please refer to each of the Funds' Operative Documents for more information on these and other risks relating to American Discovery Investment Advisors' business and investments in the Funds.

### **General Investment Risks**

***Business and Market Risk.*** The Funds' investment portfolios are expected to consist primarily of securities issued by privately held companies for which there may be little to no operating history available. Operating results of a particular portfolio company will be difficult to predict. Such investments in privately held companies involve a high degree of business and financial risk which can result in substantial losses. There can be no assurance that the Firm or the Funds will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors and events that are inherently difficult to predict, such as changes in law or domestic or international economic and political developments, may significantly affect the results of the Funds' activities.

***Competition for Investments.*** The Funds will likely encounter competition from entities having similar investment objectives. Potential competitors include other investment funds, business development companies, strategic industry acquirers, family offices and other financial investors investing directly or through affiliates. Certain of these entities may possess competitive advantages over the Funds in bidding for investments, including greater financial, technical, marketing and other resources, higher risk tolerances, different risk assessments, lower return thresholds, lower cost of capital and access to funding sources unavailable to the Funds as well as an ability to achieve synergistic cost savings in respect of an investment.

***Illiquidity; Lack of Current Distributions.*** An investment in the Funds should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. While it may be possible for a portfolio company to be sold at any time, it is generally expected that such a sale will not occur until a number of years after the Funds' initial investment in such portfolio company, and the Funds generally will not be able to realize a profit on an investment in a portfolio company until its sale. Before such time, there may be no current return on such investment, and the expenses of operating the Funds (including the Management Fee) may

exceed the Funds' income, thereby requiring that the difference be paid from the Funds' capital (including the aggregate unfunded capital commitments).

The Funds' ability to dispose of investments may be limited for several reasons. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Fund. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. In view of these limitations on liquidity, the Funds generally will not be able to return capital or realize gains, if any, on an investment in a privately held entity until the partial or complete disposition of such entity.

***Availability of Financing.*** The Funds' ability to invest in companies depends on the availability and terms of any borrowings that are required or desirable with respect to such investments. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior or subordinated financings for transactions. A decrease in the availability of financing (or an increase in the interest cost) for leveraged transactions, whether due to adverse changes in economic or financial market conditions or a decreased appetite for risk by lenders, would impair the Funds' ability to consummate these transactions and would adversely affect the Funds' returns.

***Enhanced Scrutiny and Additional Regulatory Risks.*** Following global market volatility and dislocations, financial institution failures and financial frauds in recent years, governmental authorities in the United States and elsewhere have called for financial system and participant regulatory reform, including additional regulation of investment funds (which could include the Funds), their managers (such as the Firm) and their activities, including compliance, risk management and anti-money laundering procedures; restrictions on certain types of investments; restrictions on the provision and use of leverage; implementation of capital requirements; and books and records, reporting and disclosure requirements. The ultimate effect of government actions cannot be predicted, but these regulatory reform measures could cause the Funds to incur significant expense to comply with such measures.

Regulation generally, as well as regulation more specifically addressed to the private equity industry, including tax laws and regulation, whether in the United States or outside of it, could further increase the cost of acquiring, holding or divesting investments and the cost of operating the Fund, as well as harm the profitability of enterprises and interfere with the ability of the Funds to engage in certain transactions.

***Cyber Security.*** The information technology systems of the Firm, the Funds and/or their respective affiliates (including the Funds' portfolio companies) may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events (including fires, tornadoes, floods, hurricanes and earthquakes). To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company could be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or apparent failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company or the Funds to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the General Partners or one of their affiliates or service providers holding its financial or investor data, the General Partners, their affiliates or the Funds may also be at a risk of loss despite efforts to prevent and mitigate such risks under the Firm's related policies.

***Business Continuity and Disaster Recovery.*** American Discovery Investment Advisor's business operations could become vulnerable to disruption in the case of catastrophic events such as fires, natural disaster (e.g., tornadoes, floods, hurricanes and earthquakes), epidemics and pandemics (as further detailed below), terrorist attacks or other circumstances resulting in property damage, network interruption and/or prolonged power outages. Although the Firm has implemented various measures to manage and mitigate risks relating to these types of events, there can be no assurances that all contingencies are accounted for. If such business operations are disrupted or suspended for extended periods of time, the Funds may be adversely affected.

***Public Health Emergency Risks.*** Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola, or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on investments held by the Funds and could adversely affect the Firm's ability to fulfill the Funds' investment objectives. The extent of the impact of any public health emergency on a Fund's investments—and operational and financial performance—will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, unemployment levels, consumer confidence and spending levels, and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency could materially and adversely impact the value and performance of a Fund's investments, the Firm's ability to source, manage and divest investments on behalf of a Fund, and the ability to achieve investment objectives, all of which could result in significant losses to Investors. In addition, the operations of the Funds and the Firm could be significantly impacted, or temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings, and other factors related to a public health emergency, including its potential adverse impact on the health of the personnel of the Firm or the personnel of any of the Firm's or the Funds' key service providers.

### **Risks Related to the Fund**

***Future and Past Performance; Loss of Principal.*** The performance of the Firm's prior investments is not necessarily indicative of the Funds' future results. While the General Partners intend for the Funds to make investments that have estimated returns commensurate with the expected risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

***Potential Lack of Diversification.*** The Funds will make a limited number of investments which are likely to be concentrated in specific business sectors and geographic regions. Concentration in limited business sectors, geographic regions, and investments may involve risks greater than those generally associated with diversified acquisition funds, including significant fluctuations in returns based on market perception of the sector or region or the performance of any single investment. Instability, fluctuation or an overall decline within such industries or geographic regions will likely not be balanced by investments in other industries and regions not so affected. The performance of one or more holdings may substantially affect a Fund's aggregate return. To the extent that the amount of capital raised for a Fund is less than the targeted amount, the Fund may invest in fewer portfolio companies and thus be less diversified.

***Dependence on Key Personnel.*** The Funds are highly dependent on the diligence, skill, and network of business contacts of the senior personnel of the firm and the information and deal flow generated by such professionals in the course of their investment and portfolio management activities. The Funds' success will

depend on the continued service of these investment professionals. The departure of investment professionals or of one or more of the senior personnel of the Firm could have a material adverse effect on the Funds' ability to achieve its investment objectives.

**Management by General Partners.** All decisions with respect to the management of the Funds' assets and the operation of the Funds are made exclusively by the General Partners. Investors have no right to participate in the management of the Funds or to make any decisions with respect to the investments to be made by the Funds. Consequently, Investors must rely entirely on the General Partners and the Firm with respect to the selection of investments and management of the Funds.

**Use of Leverage.** Some of the Funds' investments will involve leveraged acquisitions, which by their nature require companies to undertake a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Leverage generally magnifies the Funds' opportunities for gain and its risk of loss from its investment activities. Leverage increases the exposure of the Funds to adverse economic factors, such as rising interest rates, economic downturns or deteriorations in the condition of its portfolio companies or the industries in which they operate. The leverage provided will result in interest expense and other costs incurred in connection with such borrowings, which may not be covered by available cash flow. The use of leverage also often imposes restrictive financial and operating covenants on a company, in addition to the burden of the debt, and can impair the ability of a company to operate its business.

While leverage may enhance total returns to Investors, if investment results fail to cover borrowing costs, returns to the Investors will be lower than if there had been no such borrowings. Further, the Funds' portfolio companies may enter into loan agreements that generally impose a number of operating and financial restrictions on such companies. Such restrictions could affect, among other things, the ability of a company to incur additional indebtedness, pay dividends, issue stock, repay indebtedness prior to stated maturity, create liens, sell assets or engage in mergers or acquisitions, make certain capital expenditures and make investments in operating subsidiaries.

**Bridge Financing and Fund-level Borrowing.** The Funds are permitted to provide bridge financing to facilitate portfolio company investments. Such bridge financing is expected to be unsecured and will typically be convertible into an equity security. For reasons which may be outside of the Funds' control, such financing may not be converted to equity securities and the bridge loans may remain outstanding. In such an event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Funds.

The Funds are permitted to enter into a subscription line with one or more lenders in order to finance the Funds' operations, including the acquisition of investments and payments of expenses. Fund-level borrowing subjects Investors to certain increased risks and costs. Amounts borrowed under a subscription line are expected to be secured by pledges of the General Partners' right to call capital from Investors or from Fund assets. Investors could be obligated to contribute capital directly to the Funds' lenders or contribute capital on an accelerated basis in the event the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default. Further, a claim by an Investor against the Fund is expected to be subordinate to the Fund's obligations to a subscription line creditor's.

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

***Lack of Transferability of Fund Interests.*** The interests in the Funds will not be registered under the Securities Act and therefore are subject to restrictions on transfer. In addition, the Operative Documents contain significant restrictions on the ability of any of the Investors to assign, sell, exchange or transfer any of its interests, rights or obligations with respect to its interests in the Funds without the prior written consent of the General Partners, whose consent may be given or withheld in the sole and absolute discretion of the General Partners. No market exists for the interests in the Fund, and none is expected to develop. Consequently, an Investor should not expect to liquidate its investment in the Funds readily and must be able to bear the economic risk of its investment in the Funds for a substantial period of time.

***Contingent Liabilities on Dispositions.*** In connection with the disposition of an investment in a portfolio company, the Funds may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business. The Funds may also be required to indemnify the purchasers of such investment to the extent that any such representation turns out to be inaccurate or for other matters. These arrangements may result in contingent liabilities for which the General Partners may establish reserves or escrows or which might ultimately have to be funded by the Investors making contributions to the Funds out of previous distributions from the Fund.

***Investments Longer than Term.*** Certain of the Funds' investments may not be disposed of prior to the Funds' dissolution. Although the General Partners generally expect that investments will be disposed of prior to the Funds' dissolution or will be suitable for in-kind distribution at the time of the Funds' dissolution, the General Partners have a limited ability to extend the term of the Fund, and the Funds may be required to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of its dissolution. To the extent that such investments are held in trust in connection with the Funds' dissolution, such trusts may incur operating and formation expenses. In addition, there can be no assurance with respect to the timeframe in which the Funds' winding up and final distribution of proceeds to the Investors will occur.

***Indemnification.*** The General Partners, the Firm and their members, partners, employees, agents and affiliates will be entitled to indemnification from the Fund, except in certain circumstances. The assets of the Funds will be available to satisfy these indemnification obligations, and Investors may be required to return distributions to satisfy such obligations. Such obligations will survive the dissolution of the Fund.

***Director Liability.*** The Funds expect to take an active role in the management of its portfolio companies. The Funds expect to designate one or more representatives to serve on the board of directors, or similar governing body, of most portfolio companies. Where the Funds are not the sole shareholder of an applicable portfolio company, the representatives selected by the Funds will owe fiduciary duties to persons or entities other than the Funds. The designation of directors could expose the assets of the Funds to claims by a portfolio company, its security holders and its creditors. Portfolio companies may not obtain sufficient insurance, or any insurance, with respect to director liability. While the General Partners intend to manage the Funds in a way that will minimize exposure to these risks, including seeking insurance against such risks, the possibility of successful claims cannot be precluded. Co-Investors and co-investment vehicles may indirectly benefit from the General Partners' appointment of representatives to the board of directors of a portfolio company although such co-Investors and co-investment vehicles will not typically bear the cost of liability insurance related to such appointments to the extent liability insurance is purchased by the Funds.

***Dilution from Subsequent Closings.*** Investors admitted to, or that increase their respective capital commitments to, the Funds at subsequent closings generally will participate in then-existing investments of the Fund, thereby diluting the interest of existing Investors in such investments. Although any such new

Investor will be required to contribute its pro rata share of previously made capital contributions, there can be no assurance that this contribution will reflect the fair value of the Funds' existing investments at the time of such contributions.

***Consequences of a Default.*** If an Investor fails to pay when due installments of its capital commitment to the Funds, and the contributions made by non-defaulting Investors and borrowings by the Funds are inadequate to cover the defaulted Capital Contribution, the Funds may be unable to pay its obligations when due. As a result, the Funds may be subjected to significant penalties that could materially adversely affect the returns to the Investors (including non-defaulting Investors). If an Investor defaults, it may be subject to various remedies as provided in the Operative Documents, including, without limitation, reductions in its capital account balance, preclusion from further investment in the Fund, forced sale of its Fund interest at a discount to actual value and forfeiture of its Fund interest.

***Need for Follow-On Investments.*** Following its initial investment in a given portfolio company, the Funds reserve the right to determine to provide additional funds or otherwise increase its investment in such portfolio company (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There can be no assurance that the Funds will make any follow-on investments or that the Funds will have sufficient funds to make all or any of such investments. Any determination by the Funds to not make a follow-on investment or its inability to make a follow-on investment may have a substantial negative effect on a portfolio company in need of such follow-on investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such determination or inability may result in a lost opportunity for the Funds to increase its participation in a successful portfolio company or the dilution of the Funds' ownership in a portfolio company to the extent that a third party invests in such portfolio company.

***Side Letter Variation of the Operative Documents.*** The General Partners have entered into, and intend to enter into in the future, "side letters" or similar agreements with certain Investors pursuant to which the General Partners grant to such Investors specific rights, benefits or privileges that are not made available to Investors generally, including, without limitation, arrangements with respect to waivers or reductions of the Management Fee and/or carried interest, the circumstances under which exclusion from investments in portfolio investments in portfolio companies or involuntary withdrawals from the Funds may be required, "most favored nation" rights (i.e., the right to receive favorable rights or economic arrangements, including co-investment arrangements, that may be afforded to other Investors) and the right to receive reports from the Funds on a more frequent basis or to receive reports that include information not provided to other Investors. Such arrangements will generally be based on such factors as the size and timing of an Investor's capital commitment, an Investor's existing relationship with the Firm, or any particular regulatory or legal considerations applicable to an Investor; provided that the General Partners and/or the Firm may enter into such arrangements for any reason it deems necessary, advisable, desirable or convenient. Subject to applicable laws and regulations, including applicable provisions of the Operative Documents, such agreements will be disclosed only to those actual or potential Investors that have separately negotiated with the General Partners for the right to review such agreements. The General Partners are permitted to enter into side letters without any further act, approval, or vote of any Investor. Investors will generally have no recourse against the Funds, the General Partners, or their affiliates in the event that certain Investors receive additional or different rights or terms as a result of side letters.

***Fees and Expenses.*** The Funds will pay and bear all expenses related to its operations, including the Management Fee and the costs of holding, monitoring, maintaining and disposing of investments in portfolio companies, including investment banking fees and consulting fees, whether or not the Funds makes any profits. While it is difficult to predict the future expenses of the Fund, such expenses may be

substantial and may surpass the Funds' operating income. In addition, such expenses will reduce the actual returns realized by Investors on their investments in the Funds and can, under certain circumstances, reduce the amount of capital available to be deployed by the Funds for investments. Such expenses include recurring and regular items, as well as extraordinary items for which it may be difficult to budget or forecast. As a result, the aggregate amount of such expenses over the life of the Funds and/or the amount called at any one time by the General Partners in respect of such expenses may exceed expectations. Although certain enumerated organizational expenses of the Funds are separately categorized and subject to a limit under the Operative Documents, with all organizational expenses in excess of the limit being borne ultimately by the General Partners or the Firm, there are ongoing operating expenses to be borne by the Investors that are not classified as organizational expenses under the Operative Documents, including, for example, the costs and expenses of administering side letters entered into with Investors (including the process of distributing and implementing applicable elections pursuant to the "most favored nations" rights contemplated by the Operative Documents) and other expenses incurred in connection with Fund compliance.

***Carried Interest and Management Fee.*** The General Partners' carried interest provision being allocated based upon a percentage of the profits of the Funds creates an incentive for the General Partners, and their affiliates, to cause the Fund to make riskier and/or more speculative investments or to hold an investment longer than otherwise would be the case. Certain tax regulations applicable to Investors and the General Partners can create an incentive for the General Partners to cause the Funds to hold investments for at least three years or to defer or waive the allocation or distribution of carried interest in exchange for an interest in future carried interest as permitted in the Operative Documents.

The Management Fee is calculated based upon the life cycle of the Funds as described in detail above and in the Operative Documents. The Management Fee structure creates an incentive for the General Partners to deploy capital when it might not otherwise have done so.

***Recycling; Reinvestment.*** The General Partners generally will have the right to recall certain capital returned or distributed by the Funds to the Investors, including to make additional investments. Accordingly, during the life of the Fund, an Investor may be required to make capital contributions in excess of its capital commitment (with certain limitations), and to the extent such recalled or retained amounts are invested, an Investor will be subject to the risks associated with such investments.

***Hedging Arrangements.*** The General Partners are authorized to manage the Funds' currency exposures, interest rate exposures, and other exposures using hedging techniques where available and appropriate. The Funds will incur costs related to such hedging techniques which may be undertaken in exchange-traded or over-the-counter markets, including futures, forwards, swaps, options, and other instruments. There can be no assurance that adequate hedging arrangements will be available or that such hedging arrangements will achieve the desired effect. In some cases, hedging arrangements may result in losses greater than if the hedging arrangements had not been used.

***Interest Rate Fluctuations.*** General interest rate fluctuations can have a substantial negative impact on the Funds' investments and investment opportunities and, as a result, may have a material adverse effect on the Funds' investment objectives and the rate of return on invested capital. Interest rate fluctuations will effect the Funds' ability to obtain financing on favorable terms which will further impact the ability of the Funds to make certain investments in portfolio companies or to obtain financing to support portfolio companies.

***American Discovery Advisors.*** American Discovery Advisors, LLC ("American Discovery Advisors") is a registered broker-dealer and an affiliate of the Firm. American Discovery Advisors provides a range of services to its clients, some of which present a conflict of interest between the Funds and American

Discovery Advisors, or certain of its clients. American Discovery Advisors are expected to earn and retain customary transaction, investment banking, structuring, financing, capital markets, advisory, consulting, and other similar fees and reimbursements for related expenses for services provided in connection with restructurings, mergers, acquisitions, borrowings, offerings of securities, and other transactions, including with respect to transactions involving portfolio companies of the Funds. Certain fees paid by the Funds or the Funds' portfolio companies will offset the Management Fee as described in the Funds' Operative Documents. Such fees include, without limitation, (i) monitoring, consulting, or director's fees; (ii) closing, placement, commitment, or transactions fees; and (iii) break-up fees.

**Counterparty Risk.** There are risks involved in dealing with the banks, custodians, and broker-dealers, as well as other securities intermediaries engaged by the Firm. Although the Firm monitors the banks, custodians, broker-dealers, and securities intermediaries, and believes that they are appropriate banks, custodians, broker-dealers, and securities intermediaries, there is no guarantee that the banks, custodians, broker-dealers, and securities intermediaries, or any other banks, custodians, broker-dealers, or securities intermediaries that the Funds may use from time to time, will not become bankrupt, insolvent, or otherwise cease to operate normally. While the U.S. Bankruptcy Code, the U.S. Securities Investor Protection Act of 1970, regulatory agencies including the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation, and applicable bank insolvency laws seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a bank or broker-dealer, there is no certainty that, in the event of a failure of a bank or broker-dealer that has custody of Fund assets, the Funds would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

**Distressed Investments.** The Funds are authorized to invest in the securities and obligations, including debt obligations in covenant or default, of companies experiencing significant financial difficulties and material operating issues, including companies which are or may become involved in bankruptcy proceedings. Investments in such distressed companies involves a higher degree of risk than investing in companies without such distressed operations. There can be no assurance that the Firm will correctly evaluate the value of the assets of a distressed company when determining whether to make an initial or follow-on investment. In the event that a portfolio company becomes subject to a bankruptcy proceeding or other restructuring or reorganization proceeding, the Funds could lose some or all of its investment and may be required to accept illiquid securities with rights materially different than the original securities in which the Fund invested.

**Public Company Holdings.** The Funds are expected from time to time to hold investments in equity or debt of publicly traded companies. Such investments subject the Funds to risks different than those traditionally involved in privately held investments, including greater volatility, increased disclosure obligations, and limitations on the ability of the Funds to dispose of such investments. Publicly traded investments frequently require the usage of a brokerage firm to purchase or sell; usage of a brokerage firm will impose increased costs to the Funds which would not be incurred in the absence of such brokerage transaction.

## Item 9. Disciplinary Information

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an Investor's evaluation of American Discovery Investment Advisors or the integrity of the Firm's management. American Discovery Investment Advisors has no such legal or disciplinary events to disclose.

There have been no legal or disciplinary events to disclose that are material to an Investor's or prospective Investor's evaluation of American Discovery Investment Advisor's advisory business or integrity of management.

Specifically, there has not been a criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which the Firm or a management person of the Firm:

- was convicted of, or pled guilty or nolo contendere ("no contest") to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;
- is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
- was found to have been involved in a violation of an investment-related statute or regulation; or
- was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, the Firm or a management person of the Firm from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.

There has also not been an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which American Discovery Investment Advisors or a management person of the Firm:

- was found to have caused an investment-related business to lose its authorization to do business; or
- was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority:
  - denying, suspending, or revoking the authorization of the Firm or a management person of the Firm to act in an investment-related business;
  - barring or suspending the Firm or a management person of the Firm's association with an investment-related business;
  - otherwise significantly limiting the Firm or a management person of the Firm's investment-related activities; or
  - imposing a civil money penalty of more than \$2,500 on the Firm or a management person of the Firm.

Lastly, there has not been a self-regulatory organization ("SRO") proceeding in which the Firm or a management person of the Firm:

- was found to have caused an investment-related business to lose its authorization to do business; or

- was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

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

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American Discovery Investment Advisors is not registered, nor does it have an application pending to register, as a broker-dealer. Members of the Investment Committees for ADF I and ADF II are registered representatives of American Discovery Advisors, a registered broker-dealer. Specifically, Mr. Webber, Mr. Joliet, Mr. Degryse, Mr. Shoemaker, and Mr. Gelles are registered representatives of American Discovery Advisors. Neither American Discovery Investment Advisors nor any management persons are registered, nor have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

American Discovery Advisors, LLC, a Delaware limited liability company, is registered as a broker-dealer with the SEC and is a member of FINRA. American Discovery Advisors is expected to receive and retain customary transaction, investment banking, structuring, financing, capital markets, advisory, consulting, and other fees or reimbursements for services provided in connection with its business. American Discovery Advisors is expected to provide services to the Funds and portfolio companies and receive compensation in connection with those services. Fees and expenses paid to American Discovery Advisors will in certain circumstances offset the Management Fee as described in Item 5 of this Brochure and in detail in the Funds' Operative Documents. Any fees or reimbursements from any person or entity, other than from a portfolio company over which the Funds have voting control, will not reduce or offset the Management Fee and will not be shared with the Funds or the Investors.

American Discovery Investment Advisors does not recommend other investment advisers for the Funds.

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

### **Code of Ethics and Personal Trading**

Pursuant to Rule 204A-1 of the Advisers Act, American Discovery Investment Advisors adopted a Code of Ethics (referred to in this brochure as the “Code”) to ensure that the Firm fulfills its role as a fiduciary to the Funds. The interests of the Funds must always be recognized, respected, and have precedence over those of the Firm’s employees. The Code requires that the Firm’s employees act in the best interests of the Funds to the exclusion of contrary interests, act in good faith and in an ethical manner, avoid conflicts of interest with the Funds to the extent reasonably possible, and identify and manage conflicts of interest to the extent they arise. American Discovery Investment Advisor’s employees are also required to comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of such laws by the Firm or its employees.

In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of the Firm’s personnel. The Code requires that personnel pre-clear certain public and private personal securities transactions, report personal securities transactions in accordance with the Code on at least a quarterly basis, and submit reports to the Firm regarding personal accounts and reportable securities holdings at least annually.

The Code also addresses outside activities of employees, conflicts of interest, policies and procedures concerning the prevention of insider trading, includes restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and the pre-clearance and reporting of political contributions. Employees are required to provide an annual written certification to the Firm as to their understanding of the Code’s requirements and agreement to comply with the Code. A copy of the Firm’s Code is available upon written request to American Discovery Investment Advisors at 11150 Santa Monica Boulevard, Suite 1425, Los Angeles, California 90025, Attn: Anthony Shepherd, Chief Compliance Officer.

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

The Principals of the Firm also serve as members or partners of the General Partners or Ultimate General Partner. As such, members of the Firm participate in the funding of the General Partners commitment to the Funds and receive a beneficial interest in the Funds. The Funds will not invest in portfolio companies in which an equity interest is held by the General Partners or the Firm unless such investment has received approval of the Funds’ respective Advisory Committee.

The General Partners are permitted, in their sole discretion, to provide or commit to provide co-investment opportunities to one or more Investors or other persons, including the Firm and affiliates thereof. Such co-investment opportunities often arise when the investment opportunity in a portfolio company exceeds the size appropriate for the Funds. In its discretion, the General Partner can allocate such opportunities after considering some or all of a number of factors described in the Fund’s Operative Documents.

Some investments will be suitable for investment by the Funds and by American Discovery Advisors, in its own capacity and for its own account. American Discovery Investment Advisors will evaluate prospective investments for participation by the Funds in the Funds’ best interest. Where a prospective investment is not selected for the Funds or where additional investment opportunities are available beyond the commitment by the Funds, American Discovery Advisors or co-investors, as described above, may be offered the opportunity to participate. A conflict of interest exists between the interests of the Funds and those of American Discovery Advisors. The Firm seeks to mitigate such conflict by presenting opportunities to invest to the Funds before offering the investment to related or outside parties. As described above, the

Funds shall not invest in a company where a member of the Firm, or the Firm itself, has a material financial interest without the approval of the Fund's Advisory Committee.

## **Item 12. Brokerage Practices**

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American Discovery Investment Advisors has discretion regarding the types of investments to be made by the Funds, subject to each of the Funds' investment strategies and purpose as set forth in the Operative Documents of the Funds, respectively. The Firm focuses on investing in private companies, and generally the Funds purchase and sell interests in such companies through privately negotiated transactions which generally will not require the retention of a broker. In the event that a portfolio company held by the Funds goes public, or the Funds otherwise acquire an interest in publicly traded securities, the Firm can choose to distribute publicly traded securities to Investors or purchase or sell such securities through a broker-dealer. Although the Firm does not intend to regularly engage in public securities transactions, to the extent it does so, the Firm will follow the brokerage practices detailed below.

If the Firm purchases or sells publicly traded securities for the Funds, the Firm will seek best execution of the transaction and will consider a variety of factors in selecting a broker to execute such sale, including without limitation the execution abilities of the broker, the commission charged by the broker, and the reliability, integrity, and reputation of the broker. As discussed above, the Firm's affiliate, American Discovery Advisors, is registered with the SEC as a broker-dealer and a member of FINRA. The Firm does not expect to utilize American Discovery Advisors to act as the broker to the Funds for public securities transactions.

The Firm does not utilize soft-dollar benefits in the connection with brokerage relationships.

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

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American Discovery Investment Advisors manages the portfolio investments of the Funds. The Firm does not manage individual advisory accounts or hold itself out as providing financial planning or similar services. The Firm employs professionals to monitor and review the Funds' investment portfolio on a regular basis. Investments by the Funds' must be approved by the Fund's Investment Committee which consists of senior investment personnel of the Firm.

The Funds will furnish audited financial statements annually to all Investors. Audited financial statements will be prepared by an independent auditor registered with the Public Company Accounting Oversight Board ("PCAOB") and prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Additionally, the Funds will distribute unaudited financial statements to Investors on a quarterly basis, not including the final fiscal quarter. Investors will be furnished with tax information annually.

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

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American Discovery Investment Advisors engaged a third-party placement agent to introduce prospective investors to ADF II. In exchange for introducing prospective investors to ADF II, the Firm pays a percentage of such investor's capital commitment to the placement agent. The placement agent fees, paid by ADF II, are reimbursed by the Firm through an offset of the Firm's Management Fee for ADF II. In selecting a placement agent, the Firm evaluated any potential conflicts of interest and deemed none apply for the current arrangement as of the time of this filing.

## **Item 15. Custody**

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American Discovery Investment Advisors maintains custody of the Funds' assets as a result of its affiliation with the General Partners in addition to the Firm's and such General Partners' ability to deduct fees from Fund accounts. While the Firm or certain affiliates may be deemed to have custody of client funds, the Firm itself does not maintain physical custody of such assets. As set forth in Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), all client funds that fall under the purview of the Custody Rule are held at accounts maintained in the name of the applicable client by entities deemed qualified custodians as defined in the Custody Rule. The Fund is audited on an annual basis by an accounting firm registered with, and subject to oversight and inspection by, the Public Accounting Oversight Board ("PCAOB"). The Fund's audited financial statements are prepared in accordance with United States generally accepted accounting principles and are distributed to investors in the Funds by the Firm within 120 days of the Fund's fiscal year end.

## **Item 16. Investment Discretion**

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American Discovery Investment Advisors exclusively manages the business of the Funds and has discretionary investment authority to manage the making of new investments by the Funds and the management of the existing investments held by the Funds. Generally, this authority is provided for in each Funds' Operative Documents. To become an Investor, a prospective investor must execute, among other documents, a subscription agreement and/or an investor qualification statement and a limited partnership agreement. Such Operative Documents generally contain a power of attorney that grants the Firm or the General Partners certain powers related to the orderly administration of the affairs of the Funds. Once an Investor executes these documents, with limited exceptions, such as certain conflicts of interest as discussed elsewhere in this brochure, the Firm is not required to contact an Investor prior to transacting any business. Investors in the Funds must execute a subscription agreement or an investor qualification statement in which they make various representations, including representations regarding their suitability to invest in a high-risk investment pool.

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

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American Discovery Investment Advisor's investment strategy does not generally involve the acquisition of public securities with voting authority, making it unlikely that a Fund will be placed in a position of proxy voting authority.

The majority of "proxies" received by the Firm, however, will be written shareholder consents or similar instruments for private companies owned by the Fund. As such, the Firm has adopted proxy voting policies and procedures pursuant to regulations. The Firm's proxy voting policy seeks to ensure that it votes proxies in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Investors may obtain a copy of the Firm's proxy voting policy and information related to the voting of proxies upon written request to 11150 Santa Monica Boulevard, Suite 1425, Los Angeles, California 90025, Attn: Anthony Shepherd, Chief Compliance Officer.

**Item 18. Financial Information**

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American Discovery Investment Advisors does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance.

The Firm is not aware of any financial conditions that would be reasonably likely to impair the Firm's ability to meet contractual commitments to the Funds.

The Firm and its affiliates have not been the subject of a bankruptcy petition at any time during the past ten years.

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

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American Discovery Investment Advisors is not required to register with any state securities authority. Therefore, Item 19 is not applicable.