HOULIHAN LOKEY

The Role of Financial Opinions in Managing Fund Conflicts

Fund Conflicts of Interest Are in the Spotlight

As regulators and investors increase scrutiny of private investment funds, sponsors must be aware of actual or perceived conflicts of interest in affiliate transactions. Transactions or trades conducted by a sponsor among its affiliates may lead to investor challenges and regulatory actions.

From a regulatory perspective, the SEC has stated that it will "*continue to examine private fund advisers, focusing on conflicts of interest and disclosure of conflicts as well as actions that appear to benefit the adviser at the expense of investors.*"

Types of Fund Affiliate Transactions

Fund affiliate transactions often address end-of-life fund issues or involve combinations of assets across funds. Affiliate transactions that may be actual, or perceived as, conflicts of interest include:

Cross-Trades or Fund Transfers
Transactions between affiliated funds, such as the sale of an investment between funds or a merger of portfolio companies owned by different funds.

Fund Seeding
The contribution of existing investments into a new fund prior to an external capital raise.

Fund Recapitalization
GP-led fund recapitalizations that offer investors liquidity and often result in the continued management of the portfolio by the GP.

Principal Transactions
Transactions between a GP or fund executive and a related fund or affiliate.

Contractual Arrangements
Service agreements between portfolio companies or funds.

Season and Sell
Transactions in which an onshore fund typically originates a loan and, after several months, sells the loan to an affiliated offshore fund.

The Role of an Independent Opinion in Fund Transactions

An independent financial advisor can assist sponsors in satisfying their legal, regulatory, and contractual duties in connection with an affiliate transaction. Fairness opinions or valuation opinions may serve to both protect the sponsor and facilitate discussions about the transaction with the LP Advisory Committee and other parties. The receipt of independent advice and a financial opinion by a sponsor in affiliate transactions has become a widely adopted best practice.

Houlihan Lokey has been at the forefront of providing valuation and fairness opinions to sponsors across a wide range of affiliate transactions. We have provided these "Fund Opinions" to leading sponsors in connection with fund transfer, fund recapitalization, and other portfolio company transactions over the past several years. Select recent sample engagements are below.

F2i Fondi italiani per le infrastrutture
has completed the closing of Third Fund, inheriting the assets of the First Fund through a merger
Fairness Opinion

Macquarie Infrastructure Partners
has sold its 50% interest in
Dulles Greenway
to **Macquarie Atlas Roads**
Fairness Opinion

Monitor Clipper Partners
has completed a fund recapitalization transaction
Valuation Opinion

Huron Inc.
has merged with
Dynamic Technologies
each a portfolio company of
Ardian
Fairness Opinion

Diamond Castle
has completed a fund recapitalization transaction
Fairness Opinion

Camden Partners
has completed a fund recapitalization transaction
Fairness Opinion

Blum Capital
has completed a fund recapitalization transaction
Fairness Opinion

The Endowment Fund
with the newly formed PMF Master Fund has sold interest in its fund of funds pursuant to a tender offer
Fairness Opinion

J.W. Childs Associates
has completed a fund recapitalization transaction
Fairness Opinion

Newport Global Advisors
has completed a fund recapitalization transaction
Fairness Opinion

Zurmont Madison Private Equity
has completed a fund recapitalization transaction
Fairness Opinion

Crescent
has completed a fund recapitalization transaction
Fairness Opinion

Aurora Capital Group
has completed a fund recapitalization transaction
Fairness Opinion

mfg motor fuel group
a portfolio company of
Clayton Dubilier & Rice
has agreed to acquire
MRH Driving Retail
MRH (GB) Ltd.
Fairness Opinion

Nine
Nine Energy Service
has been formed by the combination of
CDK, IPS, NSC-Tripoint
each a portfolio company of
SCF Partners
Fairness Opinion

Tombstones included herein represent transactions closed from 2013 forward.

Portfolio Valuation and Fund Advisory Services

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services Group is a leading advisor to many of the world's largest asset managers who rely on our (i) strong reputation with regulators, auditors, and investors; (ii) experience with private company, structured products, and derivative valuations; and (iii) independent voice. Our practice is deeply rooted in the valuation of illiquid assets on behalf of hundreds of hedge funds, private equity firms, financial institutions, corporations, and investors. Our service offerings include:

Fair Valuation for Financial Reporting	**Fund Opinions – Fairness & Valuation**
Valuation Governance & Best Practices	**Fund Manager Valuation**
Securitization & Regulatory Compliance	**Portfolio Acquisition & Divestiture Services**

Contacts

Cindy Ma, Ph.D., CFA
Managing Director
New York
212.497.7970
CMa@HL.com

Chris Croft
Managing Director
New York
212.497.4121
CCroft@HL.com

Tad Flynn
Managing Director
New York
212.497.7852
TFlynn@HL.com

Terence Tchen
Managing Director
Los Angeles
310.788.5235
TTchen@HL.com

Mark Schade
Managing Director
New York
212.497.4166
MSchade@HL.com

Jonathan Sloan
Managing Director
New York
212.497.4232
JSloan@HL.com

Milko Pavlov
Director
London
+44 (0) 20 7747 2788
MPavlov@HL.com

Ethan Ma
Senior Vice President
Hong Kong
+852.3551.2309
EMa@HL.com

Leading global independent investment bank

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include those in (i) the United States: Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of FINRA (www.finra.org) and SIPC (www.sipc.org) (investment banking services); Houlihan Lokey Financial Advisors, Inc. (financial advisory services); Houlihan Lokey Consulting, Inc. (strategic consulting services); and Houlihan Lokey Real Estate Group, Inc. (real estate advisory services); (ii) Europe: Houlihan Lokey EMEA, LLP, and Houlihan Lokey (Corporate Finance) Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey GmbH; Houlihan Lokey (Netherlands) B.V.; and Houlihan Lokey (España), S.A.; (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited, an "exempt corporate finance adviser" able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) China: Houlihan Lokey Howard & Zukin Investment Consulting (Beijing) Co., Limited (financial advisory services); (vii) Japan: Houlihan Lokey K.K. (financial advisory services); and (viii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the Australian Securities and Investments Commission (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the European Economic Area (EEA), Dubai, Singapore, Hong Kong, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (EEA and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.