

**J.P. Morgan China Private Investors LLC  
J.P. Morgan China Private Investors Offshore L.P.  
for the purpose of investing indirectly in  
J.P. Morgan China Private Equity Fund L.P.**

**J.P.Morgan**

**AUGUST 2011**

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*IN CONNECTION WITH EVALUATING THE MERITS OF A PROPOSED INVESTMENT, A NUMBER OF RISKS SHOULD BE CONSIDERED. CERTAIN OF THESE RISKS ARE DESCRIBED BELOW UNDER "CERTAIN RISK FACTORS". IN PARTICULAR, SPECIAL RISKS ASSOCIATED WITH INVESTING IN CHINA, INCLUDING ECONOMIC, POLITICAL AND SOCIAL CONDITIONS, THE CHINESE LEGAL SYSTEM, CURRENCY RISKS, CURRENCY EXCHANGE CONTROLS, REGULATIONS GOVERNING FOREIGN INVESTMENTS, DIFFICULTIES IN EXITING CHINESE INVESTMENTS, COMPETITION FOR INVESTMENTS, CHINESE ACCOUNTING AND DISCLOSURE STANDARDS, SUBSEQUENT CHANGES IN THE INVESTMENT ENVIRONMENT AND CHINESE TAXATION WILL INCREASE THE RISKS OF THIS INVESTMENT AND MAY IMPACT THE PERFORMANCE OF THIS FUND.*

## **INVESTMENT OVERVIEW**

J.P. Morgan China Private Equity Fund L.P. (the "Fund") is a new Chinese private equity fund being established by Beijing Equity Investment Development Management Co., Ltd. ("BEIDM"). BEIDM is a joint venture between JPMorgan Asset Management Private Equity (China) LLC ("JPM China"), a special purpose entity formed on behalf of the J.P. Morgan Asset Management Private Equity Group (the "PEG") of J.P. Morgan Investment Management Inc. and Beijing State-owned Capital Operation and Management Center ("BSCOMC"). Certain Chinese strategic investors are expected to participate in the joint venture in the future. The Fund is expected to consist of a diversified portfolio of direct investments in companies formed in, or whose headquarters or principal business operations are located in, the People's Republic of China (excluding Hong Kong, Macau and Taiwan, "China" or the "PRC"). The Fund will seek to build a portfolio of a select number of PRC companies and businesses across a number of industries, including but not limited to sectors such as consumer and services, media, technology, internet and mobile, alternative energy, financial services, medical and healthcare, and agriculture. Unless JPM China and the Fund's advisory committee otherwise consent, not more than 10% of the aggregate capital commitments to the Fund will be invested in any one portfolio company. These investments will be made in Renminbi ("RMB"). The Fund will be denominated in US Dollars and is seeking aggregate capital commitments from investors of US\$1 billion.

## **INVESTMENT HIGHLIGHTS**

**Access to onshore China private equity for non-PRC investors.** The joint venture between BSCOMC and JPM China, together with the newly created Qualified Foreign Limited Partner ("QFLP") program, is expected to enable the Fund to access Chinese companies generally not accessible to non-PRC investors. Under the QFLP program, the Fund will be able to convert an investor's US dollar investment into Chinese RMB. The Fund will then be able to invest in RMB-denominated private equity deals. In addition, the Fund is expected to provide accelerated governmental approval for deals.

**Favorable macro environment in China.** Over the past decade, the Gross Domestic Product ("GDP") of China grew more rapidly than its global peers. In 2010, GDP growth was 10.3% while U.S. and global GDP growth were 2.8% and 5.0%, respectively.<sup>1</sup> Additionally, China's working population is expected to exceed that of the U.S. and Europe combined, with an expected working age population of 550 million people by 2020.<sup>2</sup> Alongside the favorable demographic and economic growth trends is the growth in Chinese middle class consumption. It is expected that middle class consumption will grow from approximately \$750 billion in 2009 to over \$4.0 trillion in 2020, exceeding U.S. middle class consumption<sup>3</sup>.

**Experienced investment team.** The PEG is one of the largest teams of investment professionals dedicated to building high quality private equity portfolios, with a strategy and process developed and refined over the past 31 years<sup>4</sup>. The experienced and cohesive team of investment professionals brings a tested skill set in private equity investing. In addition, a number of investment professionals have been active in Asia private equity markets since 1985 and the PEG is a well-respected

<sup>1</sup> Source: J.P. Morgan; IMF World Economic Outlook database April 2011.

<sup>2</sup> Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2010 Revision. \*2020 estimate is derived from assumptions regarding future trends in fertility, mortality, and international immigration.

<sup>3</sup> Source: Wolfensohn Center for Development at Brookings. Data as of March 2010.

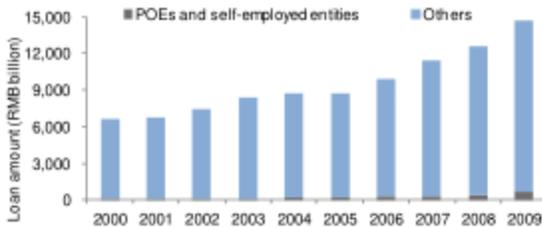
<sup>4</sup> Includes tenure at both PEG and AT&T Investment Management Corporation.

participant in the Asian investment community. Since 2005, the PEG has reviewed over 350 Asian partnership and direct investment opportunities.

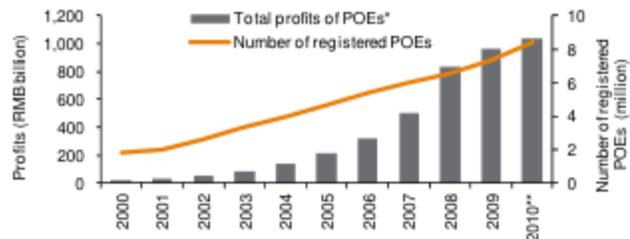
## MARKET OPPORTUNITY

BEIDM believes that the Chinese private equity market offers an opportunity to capitalize on China's domestic economy, growing middle class and government initiative to grow businesses by permitting investment in smaller, rapidly growing private companies. China is home to a large and rapidly expanding pool of experienced and repeat entrepreneurs. Although private enterprises have become a significant presence in the overall Chinese economy, the market for financing private businesses in China remains inefficient. Small Private Owned Enterprises ("POE") generally have fewer options for capital as Chinese banks remain focused on funding government-led initiatives. Due to the increase in the number and presence of private companies, competition for growth capital and inefficient financing markets, in BEIDM's view, China has the potential to offer attractive private equity valuations and entry prices relative to its public markets.

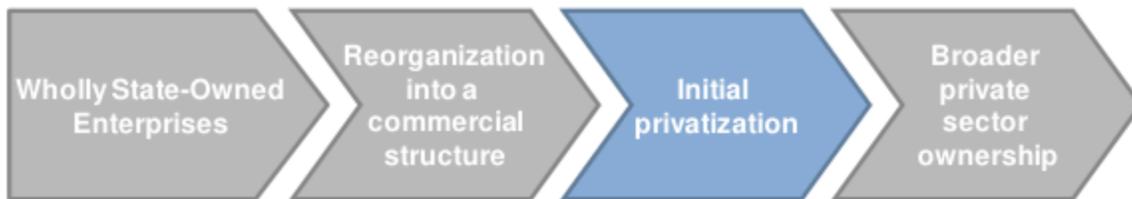
**POEs have had limited access to credit: Short term loans issued by financial institutions<sup>5</sup>**



**The number of POEs and their aggregate profits have significantly grown<sup>6</sup>**

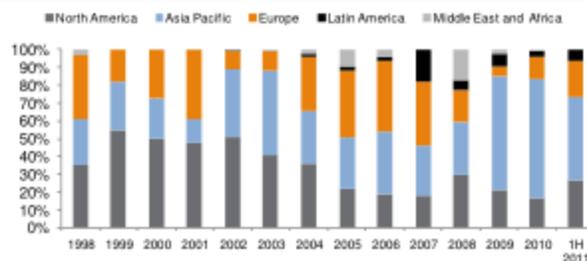


In addition, the Fund expects to take advantage of the trend towards privatization of State Owned Enterprises ("SOE"). Since the mid 1990's, the Chinese government has taken an active stance on the reform of SOEs by divesting minority stakes in their operating business to private sector enterprises. The initial privatization phase of SOEs provides an attractive opportunity for private equity funds to make minority investments in established businesses.



As a result of the overall growth of the Chinese economy, BEIDM expects the demand for private equity capital to remain strong and create attractive investment opportunities for the Fund. BEIDM also believes that there will be sufficient exit opportunities for the Fund. As compared to international stock exchanges, the domestic stock markets in Asia have provided attractive exit opportunities and significant liquidity for companies that pursue a domestic IPO. In 2010, there were 400 IPOs in China of which 367 were listed on Chinese domestic stock exchanges.<sup>7</sup>

**Asia is an increasingly large share of global IPOs<sup>8</sup>**



**YoY % change in real GDP<sup>9</sup>**



<sup>5</sup> Source: China National Bureau of Statistics as of December 31, 2009. \*Financial Institutions include the People's Bank of China, policy banks, State-owned commercial banks, share-holding commercial banks, urban commercial banks, rural commercial banks, rural cooperative banks, urban credit cooperatives, rural credit cooperatives, financial trust and investment companies, finance companies, financial leasing companies, foreign-funded financial institutions, and China Postal Savings Bank. Short term bank loans have maturities no longer than 1 year, while medium/longer term bank loans have longer maturities but no longer than 3 years.

<sup>6</sup> State Administration for Industry & Commerce of PRC as of December 31, 2010; National Bureau of Statistics, "China Statistical Yearbook 2010"; POEs include those enterprises with annual revenue from principal business over RMB 5 billion. \*Applies to the enterprises with annual revenue from principal business over RMB 5 billion. \*\*Total profits are as of November 30, 2010.

<sup>7</sup> Source: Factset, as of 1H 2011.

<sup>8</sup> Source: Renaissance Capital, as of June 2011.

<sup>9</sup> Source: J.P. Morgan; IMF World Economic Outlook database, April 2011. 2011 and 2012 are projected GDP growth estimates.

## INVESTMENT STRATEGY & STRUCTURE

The investment objective of the Fund is to realize capital appreciation through identifying and selecting attractive minority venture capital, growth equity and corporate finance investments in PRC domestic unlisted companies using RMB as currency. There can be no assurance that the Fund will achieve its investment objective. The Fund's investments are expected to be sourced primarily through the general partners and sponsors of partnerships with whom BEIDM, BSCOMC and certain strategic investors in the Fund have business relationships. BSCOMC was established in December 2008 as a wholly-owned SOE and is among one of the ten largest Chinese enterprises. As one of China's largest asset managers, BSCOMC is the Beijing Municipal Government's largest holding company and controls equity stakes in a portfolio of companies in the automobile, steel, property, electronics, consumer, energy, financial services, and agricultural sectors. BSCOMC is a key local partner as it is one of the largest and most prestigious asset management organizations in China. By virtue of its position in the market, BSCOMC has a deep network of contacts and relationships in the private equity markets that are expected to generate proprietary deal flow for the Fund.

In addition, the PEG has longstanding relationships with private equity firms in China and, through these firms, often has strong relationships with the portfolio companies in which these firms invest. BEIDM believes that these relationships will help provide access to investment opportunities in private companies that many other investors are unable to access. By leveraging these access points, the Fund will seek to acquire interests in private companies with a strategic plan for eventual exit from these interests.

BEIDM expects to follow a rigorous and disciplined investment selection process that seeks to ensure that all investment opportunities are properly screened and only the most attractive opportunities are considered for investment. The process takes a bottom-up approach designed to assess the probability of an investment's future success, and focuses on the company's strategy and business, management team, industry and competitive landscape, and the terms of the transaction. The Fund will focus exclusively on minority growth equity investments in partnership with local private equity funds. The partnership with experienced local private equity funds is expected to provide third party validation of pricing and structure and enhance ongoing management of portfolio companies.

In addition to being the general partner and manager of the Fund, BEIDM manages a RMB-denominated fund of private equity funds for PRC investors (the "RMB Fund-of-Funds").<sup>10</sup> Currently, BSCOMC has committed \$375 million to the RMB Fund-of-Funds.



<sup>10</sup> RMB Fund-of-Funds is a PRC-organized limited partnership solely for Chinese investors seeking to invest in RMB-denominated partnerships that are focused on investing in China.

## INVESTMENT TEAM

BEIDM is a joint venture between JPM China, a special purpose entity formed on behalf of the PEG, and BSCOMC. Certain Chinese strategic investors are expected to participate in the joint venture in the future. The team at BSCOMC is led by its President, Mr. Yin Rongyan, who manages the day-to-day investment activities and operations of BSCOMC. Mr. Yin has extensive experience in IPOs, re-capitalizations, mergers and acquisitions, and equity investment with over 10 years of roles overseeing large China financial institutions.

The PEG is comprised of investment professionals with extensive private equity and venture capital knowledge and experience, certain of whom have been active in the Asia private equity markets since 1985. Globally, the PEG currently manages approximately US\$22 billion<sup>11</sup> in private equity assets, and has investment relationships with more than 350 private equity sponsors and is actively involved with more than 50 direct co-investments. The PEG's professionals have built and maintained strong relationships throughout the Chinese and Asian private equity communities. Mr. Lawrence M. Unrein heads the PEG.

Mr. Yin and Mr. Unrein will serve as Chairman and Vice Chairman, respectively, of the board of directors of BEIDM. The Fund will have an Investment Committee, initially consisting of four members, with two members appointed by each of BSCOMC and JPM China. Investments will be subject to the prior approval of 75% of the Investment Committee.

<p><b>Lawrence Unrein</b> <i>Vice Chairman of BEIDM and member of Investment Committee of the Fund</i></p> <ul style="list-style-type: none"> <li>■ Head of the J.P. Morgan Asset Management Private Equity Group</li> <li>■ Chairman of the J.P. Morgan Asset Management Investment Committee</li> <li>■ 31 years of private equity experience</li> </ul>	<p><b>Yin Rongyan</b> <i>Chairman of BEIDM and member of Investment Committee of the Fund</i></p> <ul style="list-style-type: none"> <li>■ President of BSCOMC</li> <li>■ Previously Managing Director of China Securities Co. and Head of Investment Banking</li> <li>■ Over 20 years of experience in China SOE and financial institutions , extensive experience in domestic IPOs, re-capitalizations, M&amp;A, and equity investments</li> </ul>
<p><b>Eric Chan</b> <i>Board of Director of BEIDM and member of Investment Committee of the Fund</i></p> <ul style="list-style-type: none"> <li>■ PEG Managing Director</li> <li>■ 15 years of pan-Asian private equity experience</li> <li>■ Former partner at Pantheon Group (8 years) responsible for Asian private equity investment programs</li> </ul>	<p><b>Zhao Jifeng</b> <i>Board of Director of BEIDM and member of Investment Committee of the Fund</i></p> <ul style="list-style-type: none"> <li>■ Vice President of BSCOMC</li> <li>■ Over 15 years of experience in SOE reform, incorporation and spin-out, M&amp;A, domestic and international market IPOs, and private equity investments</li> </ul>

<sup>11</sup>As of December 31, 2010, includes private equity commingled vehicles and managed accounts within JPMorgan Asset Management. Represents 9/30/2010 AUM adjusted for cash movements and applying results of PEG's year end valuation estimation project through a survey of General Partners.

# J.P. Morgan China Private Equity Fund L.P.

## PRELIMINARY SUMMARY OF TERMS OF THE FUND

Please refer to the Confidential Private Placement Memorandum and the Agreement of Limited Partnership of the Fund and the applicable Feeder Fund documentation (collectively, the "Fund Documents") for a more detailed discussion of terms. The following is a brief summary of selected principal terms and is qualified entirely by reference to the Fund Documents.

<b>Legal structure:</b>	<p>J.P. Morgan China Private Equity Fund L.P. is a foreign-invested limited partnership enterprise formed in Beijing in accordance with the <i>Partnership Enterprise Law of the People's Republic of China</i> ("PRC"), the <i>Measures for the Administration of the Establishment of Partnership Enterprises in China by Foreign Enterprises or Individuals</i> and other relevant laws and regulations (the "Fund").</p> <p>It is anticipated that J.P. Morgan private clients will participate in the Fund through one or more feeder funds (the "Feeder Funds") administered by J.P. Morgan Investment Management Inc. ("JPMIM").</p>
<b>General Partner and Manager of the Fund:</b>	<p>Beijing Equity Investment Development Management Co., Ltd., a Sino-foreign equity joint venture under the <i>Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures</i> ("BEIDM").</p> <p>Beijing State-owned Capital Operation and Management Center ("BSCOMC") and JPMorgan Asset Management Private Equity (China) LLC ("JPM China") together will own a majority in interest of the outstanding equity interests of BEIDM and will have the power to elect a majority of the members of the board of directors of BEIDM. BEIDM will also be retained as the manager of Beijing Equity Investment Development Center L.P. (the "RMB Fund-of-Funds"), a limited partnership enterprise formed in Beijing in accordance with the <i>Partnership Enterprise Law of the People's Republic of China</i>. The RMB Fund-of-Funds is a private equity fund-of-funds for BSCOMC and other PRC institutional investors.</p>
<b>Target Fund Size:</b>	The Fund is seeking aggregate capital commitments of \$1 billion.
<b>Investment Period:</b>	Three years from the earlier of (i) the date the Fund commits to its first long-term investment and (ii) a date selected by BEIDM (the "Activation Date"), subject to extension by BEIDM of up to two successive one-year periods. The Fund may make follow-on investments after such period.
<b>Term:</b>	Ten years from the Activation Date with up to two one-year extensions at the election of the General Partner.
<b>Investment restrictions:</b>	Investments will be made only in companies organized in, or whose headquarters or principal business operations are located in, the PRC. Generally, the Fund will co-invest with the RMB Fund-of-Funds in a ratio of five (for the Fund) to one (for the RMB Fund-of-Funds). The Fund will be subject to restrictions applicable to private equity funds established for "qualified foreign limited partners".
<b>Investment Committee:</b>	The Investment Committee will initially consist of 4 members: Yin Rongyan, Zhao Jifeng, Lawrence Unrein and Eric Chan.
<b>Advisory Committee:</b>	<p>The Fund will have an advisory committee composed of investors in the Fund and the Feeder Funds or their designees (the "Advisory Committee"). The size of the Advisory Committee will be determined from time to time by BEIDM.</p> <p>The Advisory Committee will advise BEIDM with respect to certain significant decisions, including any extension of the term of the Fund, and matters relating to valuation policies and conflicts of interest.</p>
<b>Management Fee:</b>	Annual management fee of 2.0% of aggregate capital commitments payable quarterly in advance during the Investment Period. Thereafter, the management fee will be reduced to an amount equal to 2.0% of aggregate capital contributions in respect of investments (excluding investments disposed of or written-off in full). The management fee will be payable as an amount in addition to capital commitments, and will not reduce the amount of such commitments.

**Distributions;  
Carried Interest:**

Each investor's share of net cash available for distribution will be distributed as follows:

First, 100% to such investor until the cumulative distributions to such investor equal the sum of:

- a) the capital contributions of such investor used to acquire realized investments, plus such investor's proportionate share of any write-downs of unrealized investments, as of that time; and
- a) a portion of the capital contributions of such investor used to pay organizational expenses and expenses incurred in connection with the investments of the Fund, to the extent allocated to realized investments and write-downs of unrealized investments;

Second, 100% to such investor until the cumulative distributions to such investor are sufficient to provide such investor with an 8% rate of return, compounded annually, on the capital contributions of such investor described in clause *First*;

Third, 100% to the General Partner and certain associated persons (collectively, the "Carry Recipients") or 100% to such investor until the Carry Recipients have received in respect of such investor 20% of the excess of (a) the cumulative distributions made to such investor and to the Carry Recipients in respect of such investor over (b) the capital contributions of such investor described in clause *First*; and

Thereafter, 80% to such investor and 20% to the Carry Recipients (the distributions to the Carry Recipients described in clause *Third* and this clause being referred to as the "Carried Interest").

**Clawback:**

If, upon liquidation of the Fund, it is determined that over the term of the Fund the Carry Recipients have received Carried Interest in respect of an investor in excess of 20% of the excess of (i) the cumulative distributions made to such investor and to the Carry Recipients in respect of such investor over (ii) the amount of such investor's capital contributions used to acquire investments and to pay expenses incurred in connection with investments and organizational expenses, then the Carry Recipients will return the excess amount to the Fund for distribution to such investor, provided, however, that no Carry Recipient will be obligated to pay an amount hereunder in excess of the aggregate distributions it has received on account of its Carried Interest, less any taxes related thereto determined at the maximum marginal combined tax rates applicable to individuals or corporations (whichever is higher).

**Borrowings:**

The Fund may borrow money from time to time to fund any investment or expenses, but the aggregate borrowings outstanding at any one time with respect to the Fund will not exceed 10% of the capital commitments of the investors to the Fund, and will be required to be repaid within 90 days after the date of borrowing.

**Diversification:**

Unless JPM China and the Advisory Committee otherwise consent, not more than 10% of the aggregate capital commitments to the Fund will be invested in any one portfolio company. Unless JPM China and the Investment Committee otherwise consent, the Fund will not acquire interests representing more than 10% of the ownership interests in any portfolio company.

**Expenses:**

As a part of their capital commitment, investors in the Fund will be responsible for their pro rata share of organizational, offering and operating costs and expenses of the Fund, the Feeder Funds and intermediate vehicles (other than taxes payable by such a Feeder Fund or intermediate vehicle, which taxes will be borne by such entity and in turn by any investor that invests through such entity). The amount of organizational and offering costs and expenses to be borne by investors will not exceed 0.25% of the aggregate capital commitments to the Fund, although investors in a Feeder Fund established for private banking clients may be responsible for an additional portion of the organizational and offering costs and expenses of such Feeder Fund.

**Tax Considerations:**

An investment in the Fund involves complex U.S. federal, state, local and non-US income tax considerations that will differ for each investor. For instance, the PRC imposes withholding tax on investments in the PRC by non-PRC investors, which may be reduced if a bilateral income treaty applies. Prospective investors are urged to consult their tax advisors with respect to their particular tax situations and the effects of an investment in the Fund.

## CERTAIN ADDITIONAL TERMS RELATING TO THE FEEDER FUNDS

Please refer to the applicable Feeder Fund documentation for a more detailed discussion of the terms.

**Minimum Commitment:** The minimum commitment amount required to acquire an interest in the Feeder Fund is \$500,000.

<b>J.P. Morgan origination fee:</b>	<u>Subscription amount</u>	<u>Fee (% of commitment)</u>
	\$10,000,000 and above	0.0%
	\$5,000,000 - \$9,999,999	0.5%
	\$2,500,000 - \$4,999,999	1.0%
	\$1,000,000 - \$2,499,999	1.5%
	Less than \$1,000,000	2.0%

The origination fee will be paid by investors to an affiliate of J.P. Morgan at the closing and will be in addition to, and not in reduction of, capital commitments. The origination fee is in addition to fees charged by the Feeder Fund.

**Feeder Funds expenses:** Investors in the Feeder Funds may be responsible for a portion of the organizational and offering costs and expenses of the Feeder Funds. The payment of such costs and expenses by investors will be in addition to, and not in reduction of, the capital commitments of investors.

**U.S. tax reporting:** JPMIM will use its reasonable efforts to send to investors, within 250 days after the end of each fiscal year, information necessary for the completion of U.S. federal, state and local tax returns, subject to reasonable delays in the event of the late receipt of any necessary information from portfolio investments of the Fund. **Investors should be prepared to file for extensions of time to file any federal and state tax returns.**

**Placement agent:** J.P. Morgan Securities LLC and certain of its affiliates

## IRS CIRCULAR 230 DISCLOSURE

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## CERTAIN RISK FACTORS

*The following considerations, which summarize some, but not all, of the risks, should be carefully evaluated before making an investment in the Feeder Fund. The information set forth under "Risk Factors" and "Potential Conflicts of Interest" in the Confidential Private Placement Memorandum of each of the Fund and the Feeder Fund must be reviewed in its entirety prior to making a decision to invest in the Feeder Fund.*

**General.** An investment in the Fund involves a high degree of risk as a result of (i) the types of investments expected to be made by the Fund, (ii) special risks associated with investments in China and (iii) the structure of the Fund.

**Risks associated with investments in China.** The Fund intends to focus its investments in portfolio companies organized in, or whose headquarters or principal business operations are located in, China. Such investments present a variety of risks not presented by investments in portfolio companies in developed countries, including but not limited to risks associated with: (i) economic, political and social conditions; (ii) the Chinese legal system; (iii) currency risks related to the Renminbi; (iv) currency exchange controls; (v) regulations governing foreign investments; (vi) difficulties in exiting Chinese investments; (vii) competition for investments; (viii) Chinese accounting and disclosure standards; (ix) public health risks and natural disasters; (x) subsequent changes in the investment environment; and (xi) Chinese taxation. In general terms, the investment climate in China is less mature than in developed countries. While BEIDM believes that the Chinese investment climate will develop in a favorable manner, there can be no assurance that this will occur, and an investment in the Fund should be considered riskier than an investment in a fund that invests in developed countries. Prospective investors should consider an investment in the Fund only if they have independently determined based upon their own analysis that the risks and challenges of China-related investments are outweighed by the potential benefits.

**Risks of private equity investments.** The venture capital companies in which the Fund will seek to invest may be in a conceptual or early stage of development, may not have a proven operating history and may have products that are not yet developed or ready to be marketed or that have no established market. Investments made in connection with acquisition transactions are subject to a variety of special risks, including the risk that the acquiring company has paid too much for the acquired business, the risk of unforeseen liabilities, the risks associated with new or unproven management or new business strategies and the risk that the acquired business will not be successfully integrated with existing businesses or produce the expected synergies.

**No assurance of investment returns.** The Fund is speculative and involves a high degree of risk. The Fund's task of identifying investment opportunities in China-based portfolio companies, managing such investments and realizing an attractive rate of return for investors will be difficult. There is no assurance that the Fund will be able to invest its capital on attractive terms or generate positive returns for its investors. Further, there is no assurance of any allocations of any profit or any distributions to the limited partners of the Fund at any time and limited partners may lose part or all of their investment in the Fund.

**Valuation.** It will be difficult to value interests in portfolio companies, as there is no established market for these types of interests. The overall performance of the Fund will be significantly affected by the acquisition price paid by the Fund for its interests in portfolio companies, which will be negotiated with the issuers or other sellers of the interests.

**Risks associated with minority portfolio investments.** The Fund will hold a minority, non-controlling interest in each portfolio company in which it directly invests and may acquire securities that are subordinated vis-à-vis other securities as to economic, management or other attributes. Accordingly, the Fund's investments will be subject to the risk a portfolio company may make business, financial or management decisions with which BEIDM does not agree, or that the majority stakeholders or management of a portfolio company may take risks or otherwise act in a manner that does not serve the interests of the Fund.

**Availability of investment opportunities and information.** The market for venture capital, growth equity and corporate finance direct investments is limited and competitive. Identifying attractive investment opportunities is difficult and involves a high degree of uncertainty. Moreover, investments are from time to time oversubscribed, and it may not be possible to make investments that have been identified as attractive opportunities. There can be no assurance that the Fund will be able to invest fully its committed capital. Many investment decisions made on behalf of the Fund will be dependent upon the ability of BEIDM's representatives and agents to obtain relevant information from non-public sources, and BEIDM often will be required to make decisions without complete information or in reliance upon information provided by third parties that is impracticable or impossible to verify.

**Long-term and illiquid investment; penalty for default.** A commitment to the Fund is a long-term investment. There will be no market for interests in the Fund, substantial restrictions on transfer of interests and no right to withdraw capital. The expected term of the Fund will be the lesser of (i) ten years from the earlier of the Activation Date, with up to two one-year extensions and (ii) fifteen years. Although the Fund expects to make distributions prior to its termination, there can be no assurance as to the amount or timing of any such distributions. After the Fund makes a distribution to an intermediate entity, there may be a substantial delay before such intermediate entity, in turn, is able to make a distribution to another intermediate entity or Feeder Fund. The Fund may draw down the capital commitments of investors at any time during the term of the Fund. Thus, there will be a substantial period of time during which investors may be obligated to provide capital without receiving any return and regardless of the performance of the Fund. An investor that defaults in any payment with respect to its capital commitment to the Fund will be subject to substantial penalties.

**Illiquidity of private equity investments.** The Fund's private equity investment portfolio will consist primarily of illiquid securities of private companies. There may be no readily available market for the Fund's investments, many of which will be difficult to value, and the disposal of a portfolio investment by the Fund may be prohibited or delayed due to legal, contractual or practical reasons. The Fund will be limited in its ability to sell, liquidate, distribute or otherwise transfer its interests in portfolio companies.

**Lack of diversification.** The Fund may make only a limited number of investments and, as a consequence, the aggregate return on the Fund's investments may be substantially adversely affected by the unfavorable performance of one or a small number of the Fund's investments.

**PEG does not control Fund investment decisions.** While members of the PEG will be part of the leadership and investment committee of BEIDM, the PEG will not control decisions regarding making, managing and disposing of investments made by the Fund.

**Lack of operating history.** While members of the PEG who will be involved in managing the Fund's investments have substantial experience in private equity investments, the Fund was only recently formed, does not as yet have any operating history and has not made any investments. Further, while members of each of the PEG and BSCOMC who will be involved in the leadership, investment committee and administration of BEIDM have substantial experience in private equity investing, BEIDM was only recently formed and does not as yet have any operating history.

**Potential conflicts of interest.** Affiliates of BEIDM provide a broad range of financial advisory services. While these relationships and activities might enable BEIDM to offer attractive opportunities and services to the Fund, these relationships and activities also may from time to time give rise to conflicts of interest with the Fund. BSCOMC, the largest owner of BEIDM, is a government-owned entity and this relationship could give rise to conflicts of interest with the Fund.

**Risks associated with the QFLP structure.** The QFLP structure is a new type of private equity fund ownership structure and the parameters of the QFLP structure are not clearly defined and legal uncertainty exists. Parameters governing the ability of funds adopting the QFLP structure are less clear than under other ownership structures. Funds adopting the QFLP structure may be required to focus on certain industries and geographic sectors. In addition, further governmental registrations and approvals are expected before a fund adopting the QFLP structure may engage in certain activities.

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