



**FLOWSTONE**  
PARTNERS

CONFIDENTIAL

# FlowStone Opportunity Fund

November 2020

CONFIDENTIAL



## Important Information

*BEFORE INVESTING YOU SHOULD CAREFULLY CONSIDER THE FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES. THIS AND OTHER INFORMATION IS IN THE PROSPECTUS, A COPY OF WHICH MAY BE OBTAINED FROM FLOWSTONE PARTNERS AT 312-429-2419. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE YOU INVEST.*

**The Shares are speculative and illiquid securities involving substantial risk of loss. An investment in the Fund is appropriate only for those investors who do not require a liquid investment, for whom an investment in the Fund does not constitute a complete investment program, and who fully understand and can assume the risks of an investment in the Fund.** Investors should carefully review and consider potential risks before investing. The Fund has been organized as a non-diversified, closed-end management investment company and designed primarily for long-term investors. An investor should not invest in the Fund if the investor needs a liquid investment. The Fund could experience fluctuations in its performance due to several factors. As a result of these factors, results for any previous period should not be relied upon as being indicative of performance in future periods.

The Fund Investments may include low grade or unrated debt securities ("high yield" or "junk" bonds or leveraged loans) or investments in securities of distressed companies. Such investments involve substantial, highly significant risks. The Fund may invest in mezzanine debt instruments, which are expected to be unsecured and made in companies with capital structures having significant indebtedness ranking ahead of the investments, all or a significant portion of which may be secured. The Portfolio Fund Managers and (subject to applicable law) the Fund may employ leverage through borrowings or derivative instruments and are likely to directly or indirectly acquire interests in companies with highly leveraged capital structures.

The Fund and Portfolio Fund Managers may use derivatives and the use of derivative instruments for hedging or speculative purposes by the Fund or the Portfolio Fund Managers could present significant risks, including the risk of losses in excess of the amounts invested. The overall performance of the Fund's secondary investments will depend in large part on the acquisition price paid, which may be negotiated based on incomplete or imperfect information. Secondary investments may also incur contingent liability risk and syndicate risk. Potential lack of diversification and resulting higher risk due to concentration of allocation authority when a single adviser is utilized. The Adviser does not control the investments or operations of the Portfolio Funds. For a complete discussion of risks please review the prospectus carefully.

Distribution services provided by Foreside Financial Services, LLC.



## Important Information

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The information contained herein reflects views as of a particular time and is subject to change without notice. It is for illustrative purposes only and may not be representative of current or future investments or allocations. Any forward-looking statements are based on assumptions, and actual results may vary from such statements. There is no requirement to update information provided, unless otherwise required by applicable law. While reasonable efforts have been used to obtain information from reliable sources, no representations or warranties are made as to the accuracy, reliability or completeness of third-party information presented. The information contained in this document is unaudited.



# Summary

**The FlowStone Opportunity Fund is a registered investment vehicle designed to provide Qualified Clients with access to the Private Equity asset class**

Limited  
Exposure to  
Private Equity

- High Net Worth Investors (“HNWI”) tend to be under-allocated to the Private Equity asset class when compared to institutional portfolios. As a result, HNWI are not benefitting from the potential for excess risk-adjusted returns and increased diversification in their portfolios
- Private Equity is primarily oriented towards institutional investors. Existing investment products often do not address the high economic, operational, and psychological barriers to entry that typically prevent HNWI for participating in the asset class

Addressing the  
Problem

- The FlowStone Opportunity Fund (“FSOF”) strives to offer diversified, quality exposure to the private equity asset class in a fund structure tailored to the requirements of HNWI, significantly lowering multiple barriers to entry
- Private Equity returns with a reduced J-curve profile and accelerated portfolio diversification may be achieved via secondary purchases of existing fund commitments

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***The Fund’s investment objective is to generate appropriate risk-adjusted long-term returns by investing in a diversified portfolio of private equity investments through secondary transactions, primary commitments to new funds, and direct co-investments alongside trusted private equity managers***

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# FlowStone Opportunity Fund

FlowStone Opportunity Fund is managed by an experienced team and provides highly diversified Private Equity exposure through an investor-friendly structure

| Proven Management Team   | Multi-Strategy   | Intrinsic Value Orientation  | Simplified Access to Private Equity  |
|--|--|--|--|
| Over 64 years of combined private equity fund investing experience at <b>Landmark Partners, Partners Group, Matlin Patterson, Adams Street Partners, and Aberdeen Standard</b> | Diversified access to: <ul style="list-style-type: none"><li>• ~\$90 billion secondary market<sup>(1)</sup></li><li>• \$290 billion primary market<sup>(2)</sup></li><li>• Direct investments sponsored by core managers</li></ul> | Investment strategies focused on manager quality and/or acquiring assets at a discount to Intrinsic Value, reducing or eliminating the J-Curve | Low investment minimums, quarterly investment and redemption windows, immediate evergreen allocation, and timely Form 1099 tax and financial reporting |

*The Fund's investment objective is to generate appropriate risk-adjusted long-term returns by investing in a diversified portfolio of private equity investments through the secondary purchase of mature fund interests, primary commitments to new funds, and direct co-investments alongside trusted private equity managers*

<sup>(1)</sup>Source: Greenhill; Global Secondary Market Trends & Outlook – January 2020

<sup>(2)</sup>Source: PitchBook; PitchBook's Q4 2019 US PE Breakdown – February 2020



# FlowStone Opportunity Fund

|   | August 31, 2019<br>Inception | As of<br>December 31,<br>2019 | As of March<br>31, 2020 | As of June<br>30, 2020  | As of<br>September 30,<br>2020 |
|---|------------------------------|-------------------------------|-------------------------|-------------------------|--------------------------------|
| <b>Net Assets<sup>(1)</sup></b>                                     | \$31.4 million               | \$36.6 million                | \$45.4 million          | \$56.9 million          | \$67.7 million                 |
| <b>New Investment –<br/>Quarter Ended</b>                           |                              | \$2.2 million                 | \$10.3 million          | \$7.8 million           | \$9.2 million                  |
| <b>NAV/Unit</b>   | \$10.00                      | \$10.88                       | \$10.54                 | \$11.29                 | \$11.56                        |
| <b>Number of<br/>Transactions<sup>(2)</sup></b>                     | One                          | Three                         | Four                    | Six                     | Six                            |
| <b>Invested/Committed<br/>Capital <sup>(3)</sup></b>                | \$5.0 million<br>14.9%       | \$24.4 million<br>72.6%       | \$26.9 million<br>61.3% | \$33.4 million<br>64.6% | \$33.4 million<br>54.9%        |
| <b>Total Return Based on<br/>NAV <sup>(4)</sup> – Quarter Ended</b> | Not Applicable               | <b>8.7%</b>                   | <b>(3.2%)</b>           | <b>7.1%</b>             | <b>2.4%</b>                    |
| <b>Total Return<sup>(4)</sup> Based on<br/>NAV Since Inception</b>  | Not Applicable               | <b>8.8%</b>                   | <b>5.4%</b>             | <b>12.9%</b>            | <b>15.6%</b>                   |

<sup>(1)</sup>Shareholders' Equity at the measurement date

<sup>(2)</sup>See the Glossary for the definition of "Transaction(s)"

<sup>(3)</sup>Committed Capital reflects the amount of capital invested into the Fund by investors

<sup>(4)</sup>See Expense Summary on page 6



# FlowStone Opportunity Fund | Expense Summary

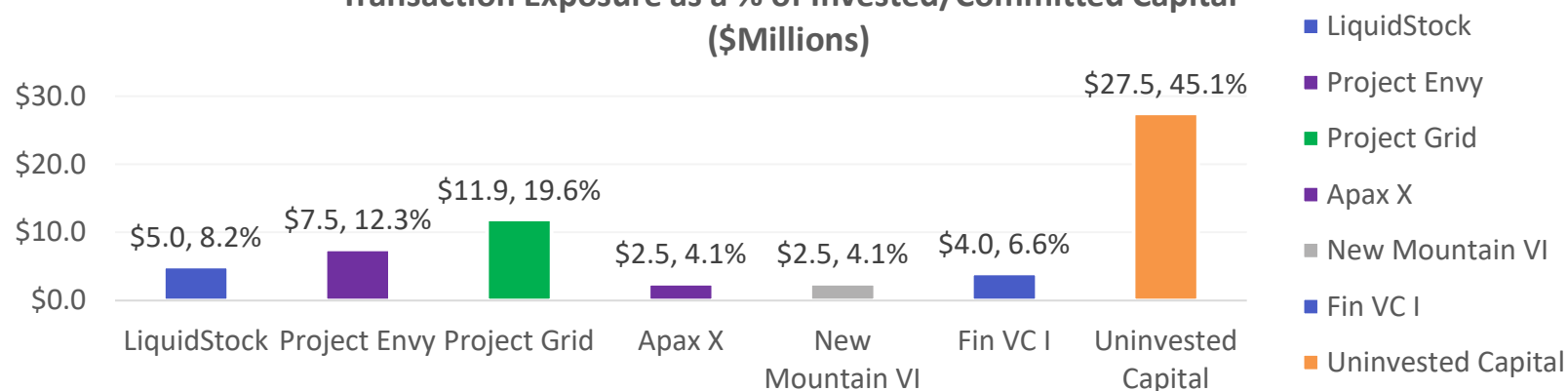
- <sup>(1)</sup> Returns are presented net of estimated gross expenses of 7.94% and 5.11%, net of Fee Waiver and/or Expense Reimbursement of 2.83%. If the Fee Waiver and/or Expense Reimbursement had not been in place, returns would have been lower. Performance figures do not reflect the 2% early withdrawal fee that may apply to some unit holders. Expenses are estimated as of the Fund's prospectus, effective August 5, 2020.
- <sup>(2)</sup> The Adviser has entered into an expense limitation agreement (the "Expense Limitation Agreement") with the Fund, whereby the Adviser has agreed to waive fees that it would otherwise be paid, and/or to assume expenses of the Fund (a "Waiver"), if required to ensure the Total Annual Expenses (excluding taxes, interest, brokerage commissions, certain transaction-related expenses, extraordinary expenses, acquired fund fees and expenses and the Incentive Fee) do not exceed 1.95% on an annualized basis (the "Expense Limit"). For a period not to exceed three years from the date on which a Waiver is made, the Adviser may recoup amounts waived or assumed, provided it is able to effect such recoupment without causing the Fund's expense ratio (after recoupment) to exceed the lesser of (a) the expense limit in effect at the time of the waiver, and (b) the expense limit in effect at the time of the recoupment. The Expense Limitation Agreement also provides that, after the commencement of operations until the first anniversary of the commencement of operations, the Adviser agrees to waive fees payable to it by the Fund on assets held in cash or cash equivalents less the total amount of capital committed by the Fund and not yet drawn for investment. The Expense Limitation Agreement will have a term ending one-year from the date the Fund commences operations, and will automatically renew thereafter for consecutive twelve-month terms, provided that such continuance is specifically approved at least annually by a majority of the Trustees. The Expense Limitation Agreement may be terminated by the Fund's Board of Trustees upon thirty days' written notice to the Adviser.
- <sup>(3)</sup> Shareholders also indirectly bear a portion of the asset-based fees, performance or incentive fees or allocations and other expenses incurred by the Fund as an investor in the Portfolio Funds. Generally, asset-based fees payable in connection with Portfolio Fund investments will range from 1% to 2.5% (annualized) of the commitment amount of the Fund's investment, and performance or incentive fees or allocations are typically 20% of a Portfolio Fund's net profits annually, although it is possible that such amounts may be exceeded for certain Portfolio Fund Managers. Historically, a substantial majority of the direct investments made by the Adviser and its affiliates on behalf of their clients have been made without any "acquired fees" (i.e., free of the management fees and performance/incentive fees or allocations that are typically charged by Portfolio Fund Managers). The "Acquired Fund Fees and Expenses" disclosed above, however, do not reflect any performance-based fees or allocations paid by the Portfolio Funds that are calculated solely on the realization and/or distribution of gains, or on the sum of such gains and unrealized appreciation of assets distributed in kind, as such fees and allocations for a particular period may be unrelated to the cost of investing in the Portfolio Funds.



## Fund Status

| Transaction     | Investment     | % of Total Capital <sup>(1)</sup> | Closed            |
|-----------------|----------------|-----------------------------------|-------------------|
| LiquidStock     | \$5.0 million  | 8.2%                              | August 31, 2019   |
| Project Envy    | \$7.5 million  | 12.3%                             | October 31, 2019  |
| Project Grid    | \$11.9 million | 19.6%                             | December 31, 2019 |
| Apax X          | \$2.5 million  | 4.1%                              | March 3, 2020     |
| New Mountain VI | \$2.5 million  | 4.1%                              | June 30, 2020     |
| Fin VC I        | \$4.0 million  | 6.6%                              | June 30, 2020     |
| Total           | \$33.4 million | 54.9%                             |                   |

Transaction Exposure as a % of Invested/Committed Capital  
(\$Millions)



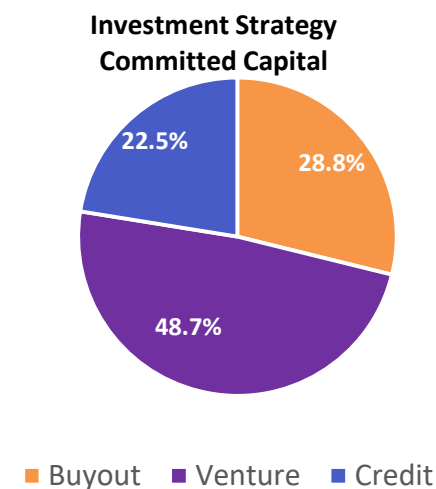
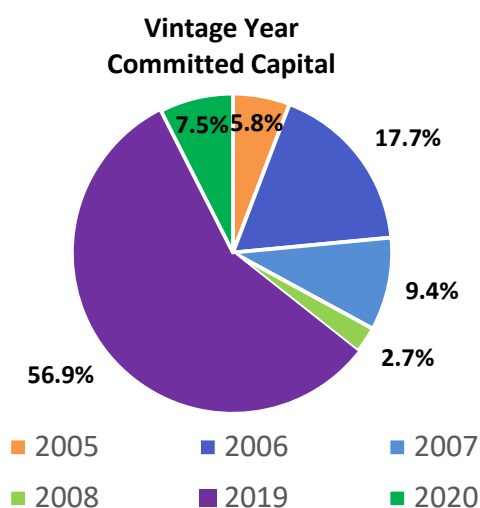
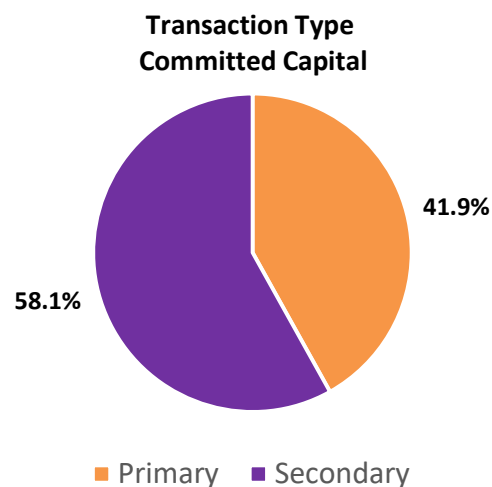
***As of September 30, 2020 the Fund has Invested/Committed 55% of its Total Capital***

<sup>(1)</sup>Total Capital is the amount of capital invested into the Fund by investors  
Disclosure: Holdings are subject to change



# FSOF Summary of Exposure – September 30, 2020

| Transaction <sup>(2)</sup> | Number of Funds | Number of Companies | Top 5 Fund Holdings By NAV <sup>(1)</sup>       | % of NAV |
|----------------------------|-----------------|---------------------|---|----------|
| LiquidStock                | 1               | 3                   | AIC Credit Opportunities Partners Fund II, L.P. | 23.8%    |
| Project Envy               | 1               | 67                  | Fin Venture Capital I, L.P.                     | 12.1%    |
| Project Grid               | 15              | 50                  | Parthenon Investors III, L.P.                   | 11.4%    |
| Apax X                     | 1               | 1                   | Grid D F Fund                                   | 10.1%    |
| NMC VI                     | 1               | 1                   | Point 406 Ventures I, L.P.                      | 8.9%     |
| Fin VC I                   | 1               | 12                  |   |          |
| Total                      | 20              | 134                 |   |          |



<sup>(1)</sup>Represents the five largest individual investment positions in the Fund as determined by Net Asset Value as of September 30, 2020

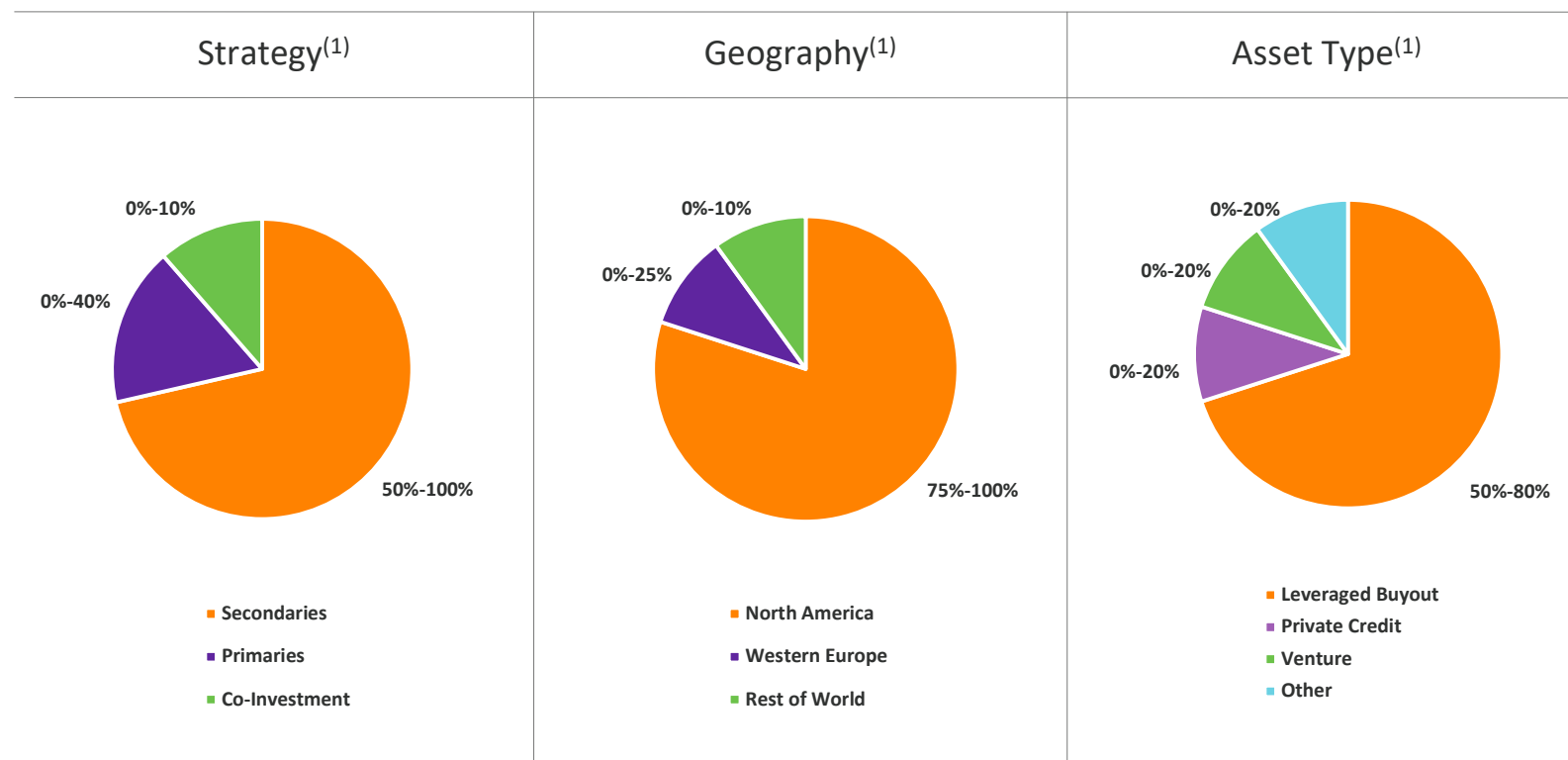
<sup>(2)</sup>See Glossary for the definition of "Transaction(s)"

**Disclosure: Diversification does not ensure a profit or protect against loss. Past performance does not guarantee future results**

**Disclosure: Holdings are subject to change**



# Portfolio Construction Targets



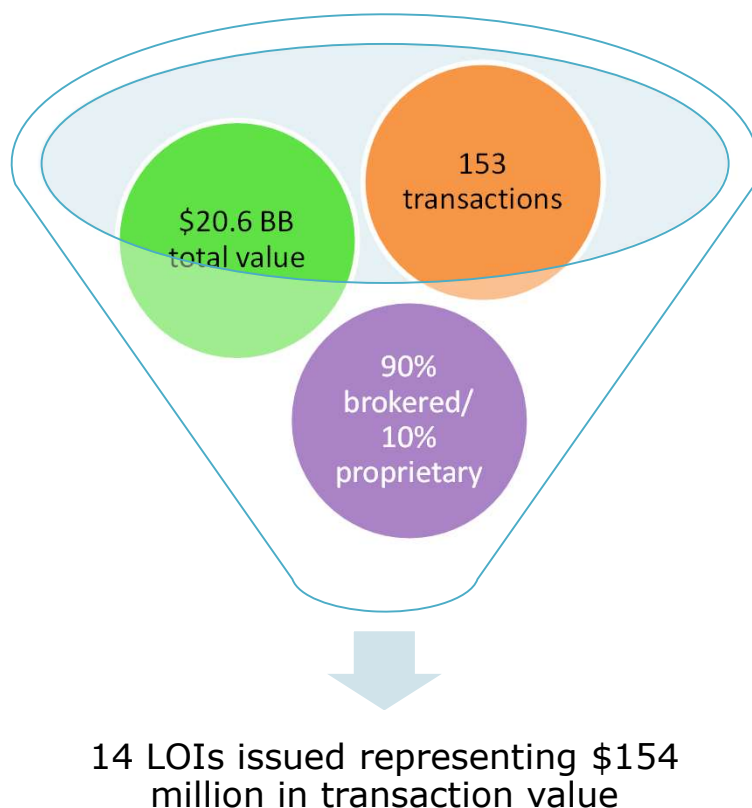
***FlowStone Opportunity Fund will provide diversified exposure primarily to cash flow positive businesses in developed markets***

<sup>(1)</sup>See Glossary for definitions

**Disclosure: Diversification does not ensure a profit or protect against loss. Past performance does not guarantee future results**



# Investment Pipeline Summary



## Brokers by Deal Count

- Setter – 19%
- Brant Street – 15%
- Proprietary – 10%
- Evercore – 10%
- Melting Point – 7%
- Other – 39%

## Deal Size by Deal Count

- <\$50 million – 67%
- \$50-\$100 million – 15%
- \$100-\$200 million – 4%
- >\$200 million – 14%

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***The Fund is experiencing robust deal flow in what the Adviser considers to be its sweet spot for size, character, and quality. The emergence of “micro-brokers” facilitates finding deals in the small end of the market where there are fewer buyers and slightly less pricing efficiency***

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Disclosure: There is not guarantee that the Fund will complete these investments



## FlowStone Opportunity Fund – Operations

| <b>Custody Platforms</b>        |                                      |
|---------------------------------|--------------------------------------|
| Schwab                          | Approved                             |
| Schwab AI OneSource             | Approved                             |
| Pershing                        | Approved                             |
| PENSCO                          | Approved; self-directed IRA accounts |
| Fidelity/NFS                    | Approved                             |
| CAIS                            | Pending; distribution                |
| <b>Operational Improvements</b> | <b>Status</b>                        |
| Subscription Guidebook          | Completed                            |
| FSOF Data Site                  | Completed                            |
| FSOF Users Guide                | Completed                            |
| Quarterly One-Page Update       | Completed                            |
| Website Updates                 | Completed                            |
| SAF                             | Pending                              |



# Glossary

**Blind Pool Investment Fund** – A limited partnership that does not announce its intentions with specificity as to what investments will be made.

**Buyout** - Control investments in established, cash flow positive companies are generally classified as buyouts. Buyout investments may focus on small-, mid- or large-capitalization companies, and such investments collectively represent a majority of the capital deployed in the overall private equity market. The use of debt financings, or leverage, is prevalent in buyout transactions — particularly in the large-cap segment.

**Co-Investments** – Co-investments generally involve taking an interest in securities issued by an operating company, whether equity or debt, in parallel with a sponsoring fund manager acting as the lead investor. Direct equity investments generally involve new owners taking a material stake in the target company and may involve exercising influence on the growth and development of the company through work with the company’s management and board of directors. Direct debt investments typically represent financing for buyout or growth investments and may have various features and covenants designed to protect the lender’s interests.

**Direct Funds** – Individual private equity funds or a portfolio of individual private equity funds.

**Dry Powder** – A private equity investment term referring to uninvested capital subject to call by an investment fund.

**E & F** – Endowments and Foundations

**Evergreen Fund** – Evergreen Funds reinvest investment proceeds into new investments within the fund, as opposed to distributing investment proceeds to the fund’s investors.

**Family Office** – An investment company established by a high net worth individual or family to invest and manage that investor’s assets

**Global Private Equity/VC Funds** – Those U.S. and non-U.S. private equity and venture capital funds included in a combination of the Cambridge Associates Global Private Equity Fund and Global Venture Capital Fund Index data sets as of the dates indicated in the relevant chart footnotes. As of the March 31, 2017; and December 31, 2005, reports, these data sets are comprised of five asset classes: Buyouts, Growth Equity, Private Equity Energy, Subordinated Capital, and Venture Capital.

**Global Secondary Funds** – Those U.S. and non-U.S. secondary funds included in the Cambridge Associates Global Secondary Fund Index data sets as of the dates indicated in the relevant chart footnotes.



# Glossary

**Harvest Phase** - The stage in a private equity fund's life cycle when the fund's manager begins to liquidate the fund's assets through the public and/or private capital markets. This stage typically begins in years 4-6 of a fund's life, as the investments have matured, and the investment manager has built value above cost in the individual company investments.

**Intermediated** – Transactions where a broker is involved and acts as an intermediary between the buy and sell side

**J-Curve** – The value development pattern in which the net asset value of a private-equity fund typically declines moderately during the early years of the private-equity fund's life as investment related fees and expenses are incurred before investment gains have been realized. As the fund matures and portfolio companies are sold, the pattern typically reverses with increasing net asset value and distributions.

**Mezzanine** - Mezzanine is a private equity industry term referring to subordinated debt investments made directly in operating companies. Investee companies are often private-equity backed. Mezzanine debt is junior to most forms of debt and liabilities in the capital structure but is senior to all forms of equity. In compensation for the risk profile, mezzanine debt generally requires a higher level of interest payment to the investor, typically in some combination of cash and in-kind payments. Often, the mezzanine investor will also require equity warrants to be associated with the debt security.

**Other - Infrastructure** - Infrastructure is a private equity industry term that refers to investments made directly in infrastructure projects, such as energy production plans, dams, pipelines, bridges, or other income producing facilities. These investments may be made in the form of equity, debt, revenue or profit-sharing participations, or in some combination.

**Other - Natural resources** - Natural resources is a private equity industry term that refers to investments made directly in assets such as oil and gas exploration and production, oil and gas distribution, or timber. These investments may be made in the form of equity, debt, revenue or profit-sharing participations, or some combination.

**Primary Investments** - Primary investments (primaries) are interests or investments in newly established private equity funds. Primary investors subscribe for interests during an initial fundraising period, and their capital commitments are then used to fund investments in several individual operating companies (typically ten to thirty) during a defined investment period. The investments of the fund are usually unknown at the time of commitment, and investors typically have little or no ability to influence the investments that are made during the fund's life.

**Proprietary** – Transactions originated via the FlowStone Opportunity Fund platform where a broker is not involved

**Seasoned Primary** – Similar to a Primary Investment; however, when the investor commits to the fund during the initial fundraising period, the newly established fund has already completed a number of transactions. Importantly, there is still a relatively high amount of unfunded capital that will be drawn down to make new platform investments



# Glossary

## **Secondary Fund Size Classification**

| Vintage Year | Small-Cap | Mid-Cap         | Large-Cap  |
|--------------|-----------|-----------------|------------|
| 2000-2004    | <\$50MM   | \$50-\$250MM    | >\$250MM   |
| 2005-2009    | <\$300MM  | \$300-\$1,500MM | >\$1,500MM |
| 2010-2011    | <\$500MM  | \$500-\$2,500MM | >\$2,500MM |

**Secondary Investments** - Secondary Investments are interests in existing private equity funds that are acquired in privately negotiated transactions, typically after the end of the private equity fund's fundraising period. The investments of the acquired fund are usually known at the time of acquisition, and the majority of the fund's capital is typically drawn down and invested by the time of the fund's acquisition.

**SWF** - Sovereign Wealth Fund

**Syndicate** – A group of buyers who combine to purchase a specific interest

**Synthetic** – Secondary investors acquire an interest in a new limited partnership that is formed specifically to hold a portfolio of investments. Typically, the manager of the new fund had historically managed the assets as a captive portfolio

**Total Value to Paid-In Capital ("TVPI")** – The ratio of Total Value (Net Asset Value plus distributions received) to Paid-In Capital (total invested capital)

**Transaction(s)** - Transactions are defined as the number of individual investment transactions closed by the Fund during the measurement period. For example, a primary commitment is counted as one transaction. A completed secondary acquisition of assets is counted as one transaction, irrespective of the number assets acquired in that transaction. "Transactions" does not provide a measure of diversification but is intended to summarize the Fund's new investment activity during the measurement period.

**Venture** - Investments in new and emerging companies are usually classified as venture capital. Such investments are often in technology and healthcare related industries. Companies financed by venture capital are generally not cash flow positive at the time of investment and may require several rounds of financing before the company can be sold privately or taken public. Venture capital investors may finance companies along the full path of development or focus on certain sub-stages in partnership with other investors.