Uncertainty.
Volatility.
Instability.
Finding opportunity in the cycles of change.

Harbert Management Corporation

HMC

2012 Annual Report

HMC is an independent investment firm focused on fundamentally based private and public market strategies. We seek investments that have the potential to yield mid- to high-teen returns. Our mission is to provide strong and consistent returns to help our clients meet their investment objectives and preserve initial investment capital. We are opportunistic investors that invest alongside our clients on equal terms and conditions.

Inefficient markets and the patient, disciplined investor

In 2012, emotions continued to rock the financial markets. Uncertainty. Volatility. Doubt. All of these combined to expose inefficiencies in the market for those firms with the patience and the discipline to uncover opportunities with underpriced value.

During the past year, we found considerable opportunity as investors, and when battered by unpredictable forces, we divested risk. As a result, the year produced exceptional returns when measured in absolute terms, and should continue to positively effect our returns for years to come.

We continued our strict approach to investing, evaluating every opportunity on its own merits, applying with rigor our own analysis of each opportunity's fundamentals. And our diligence paid off with a number of transactions that we believe will add attractive absolute returns to our bottom line.

It takes grit to stand in the face of an emotional market and patiently wait for opportunities that meet our own strict requirements. But at HMC, our unwavering commitment to our fundamental beliefs is precisely why we continue to produce attractive results for our investors and partners.

Harbert Management Corporation

Birmingham - Atlanta - Chicago - Dallas - Nashville - New York - Richmond - San Francisco
London - Hong Kong - Madrid - Melbourne - Paris

Corporate Profile

Harbert Management Corporation is an investment firm managing approximately $3 billion in assets and committed capital as of December 31, 2012. Our portfolio, a disciplined balance of risk and return, is comprised of 12 alternative asset classes in three areas of concentration: real estate, private capital and absolute return strategies. Our funds attract investors from around the world and from many sectors, including endowments, foundations, fund of funds, family offices, pension plans, banks, insurance companies and high-net-worth individuals. We make each commitment of capital with a disciplined focus on risk, absolute return and diversification.

We (HMC and our affiliates) make significant investments in each strategy on the same terms and conditions as our Limited Partners. This alignment of interest serves to reassure investors of our ability to source, close, develop and exit transactions profitably. Also reassuring to investors, our institutional infrastructure that supports our diverse set of investment strategies with separate legal, accounting, compliance and risk management teams. This infrastructure is centrally located at our headquarters in Birmingham, Alabama.

In addition to our headquarters in Birmingham, we have satellite offices in Atlanta, Chicago, Dallas, Nashville, New York, Richmond, San Francisco, London, Hong Kong, Madrid, Melbourne and Paris. Our offices are close to the relevant markets for their respective strategies, while our centralized risk management and compliance programs enable these teams to concentrate on their goal of delivering superior risk-adjusted returns.

All of this is accomplished with complete transparency to our investors.

Real Estate

United States

European

Private Capital

Private Equity

Venture Capital

Mezzanine Capital

Independent Power

Australian Private Equity

European Growth Capital

Absolute Return Strategies

Value

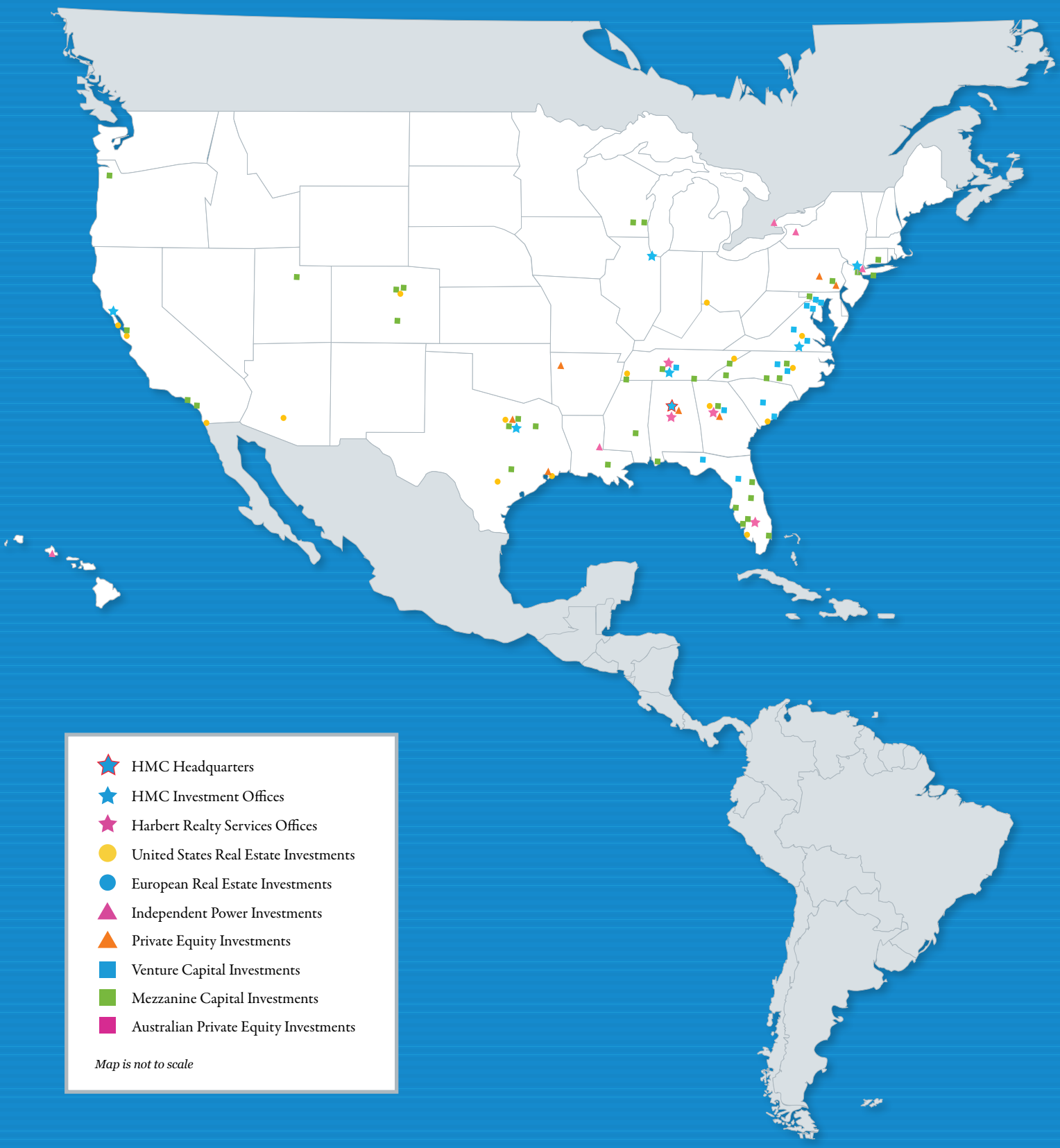
Asian

Commodities

Macro

Harbert Management Corporation

Locations and Private Capital Investments as of December 31, 2012



2012: The Year in Review

Letter to Partners, Associates and Friends

Optimism began a long-awaited return to the investment world this year. As a result, HMC posted its most significant year since the global financial crisis began in 2008 and we were rewarded for our disciplined, fundamental, asset-by-asset approach.

We ended our letter in last year's Annual Report with the statement: "If the markets continue to progress as they have over the last several months, we believe 2012 may be our best performing year since before the global financial crisis."

The markets in general did continue to recover albeit in a sluggish fashion. This allowed Harbert Management Corporation to have our best year since 2007 as measured by five critical aspects of our business.

- Investment performance
- Monetizing mature portfolio investments
- Deploying investment capital
- Raising new funds
- Corporate growth and improvements

We entered 2012 with the vast majority of our investments performing strongly. Since 2008 a great deal of time and effort has been put into rationalizing, and when needed, restructuring our different portfolios. But during that period, HMC has had difficulty monetizing investments at acceptable values. That changed in 2012 as our investment performances continued to improve, liquidity came back to the markets looking for more yield, and investor fears began to subside. Buyers did not flood back into the market, but from a relative point of view it was a much better environment than the previous three years. For HMC, these conditions translated into the best year in our history for exiting private market investments; overall, we returned $232 million to our investors during 2012. The largest of these transactions

Raymond J. Harbert

was Harbert Independent Power Funds' sale of three California based natural gas fired power plants known as GWF Energy for over $300 million [generating a gross IRR of 36.6% and a 3.5x gross equity multiple]. These assets were originally developed by our power team in 2001 and generated electricity for sale to Pacific Gas and Electric Company. During 2011/2012 we were able to negotiate an expansion of capacity and extension of the power sale agreements with the California Public Utilities Commission that created tremendous value for our investors and precipitated the successful exit.

Also in 2012, the U.S. Real Estate team took advantage of the compression in multifamily cap rates and improving apartment fundamentals, selling six assets for approximately $132 million, 2.1x the capital invested in these properties. The European Real Estate team sold the remaining two assets in Fund I generating a gross equity multiple of 2.4x for the Fund. They also sold an asset from Fund II which resulted in the return of all of the Fund's remaining invested capital with six unrealized real estate investments still remaining in the portfolio.

Lastly, as we go to print, the Australian Private Equity Fund is exiting its investment in Aesop, an international skin care business, to a multinational strategic buyer. The proceeds are approximately $105 million, generating an equity multiple of approximately 5.6x. Our domestic Private Equity group sold two assets in the first quarter of 2013. Combined, these two transactions resulted in distributions to our investors of approximately $30 million in the first quarter. During the

For HMC, these conditions translated into the best year in our history for exiting private market investments; overall, we returned $232 million to our investors during 2012.

remainder of the year we also expect numerous other exits in Venture Capital, Private Equity and Mezzanine that have been already initiated.

With asset values having eroded by up to 50% during 2008 and 2009, we have found the environment for making new investments (primarily in the private markets) to be very good over the last several years. These conditions have not changed and HMC called $378 million of capital during 2012 for new private market investments–a record in HMC's history; $69 million of this amount was invested by HMC partners and affiliates pari-passu with our clients.

In Europe, we have made total investments of €380 million ($494 million) over the last 12 months. Our opportunities were in the UK in both office and light industrial properties. The Harbert U.S. Mezzanine team made over $32 million of new loans in 2012, reflecting both the accelerating pace of new buyout and recapitalization transactions and the lack of unsecured senior debt funding in the lower-middle market.

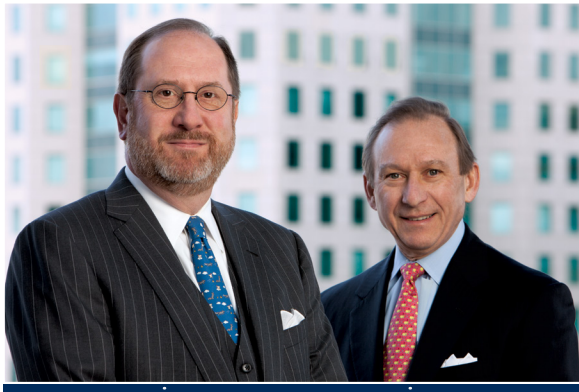
From a valuation perspective, Australia continues to be the most attractive environment HMC is investing in. Our Private Equity Fund added three new investments to its Fund II portfolio in the software, healthcare and natural resources industries, with EBITDA multiples ranging from 3.3x to 5.5x. Harbert Venture Partners III led or co-led six new investments and our U.S. Real Estate group made five multifamily and four office investments with a total transaction value of $265 million.

In public equities, the markets were helped by the current environment of government suppressed interest rates, which in many cases caused the underlying valuations in specific securities to be ignored in favor of "growth at any price" and momentum stories. This environment presented challenges to managers like ourselves, whose investment discipline revolves around absolute valuation driven selection of individual stocks. We did not waver from our principles, and consequently, the positioning of our equity portfolio during 2012 reflected the opportunity set available. Specifically, the Harbert Value Fund maintained a high level of investments throughout the year; however, the market presented us with a large volume of compelling short sale candidates. Our portfolio positioning is always a function of stock picking and is never a result of top down or macro views. As a consequence, we maintained an average net exposure that measured just above 20%, the lowest level in the Fund's history.

In 2012, HMC continued to make investments in our infrastructure and our offerings to better serve our clients and their needs.

In 2012, HMC continued to make investments in our infrastructure and our offerings to better serve our clients and their needs. We opened new offices in Hong Kong and Chicago. These offices will manage Pan Asian Long/Short and Global Macro strategies, respectively. The Harbert Asian Opportunities Fund is focused on generating absolute returns by executing a long/short strategy in a concentrated portfolio of fundamentally selected Pan-Asian Value and Event Driven Securities. The Harbert Macro Fund will allocate capital through discretionary value-based global macro investing with asymmetric trade construction. We expect that the current worldwide, extraordinary level of government interference in currency and capital markets will translate into a plethora of macro investment opportunities. Finally a third U.S. Real Estate investment office was opened in Dallas, Texas, to better access investments in that part of the country.

Raising new capital, especially for illiquid investment strategies, remains challenging; however, conditions were much improved in 2012. In aggregate, HMC received new subscriptions for $571 million last year, of which $93 million was committed by HMC partners and affiliates on a pari-passu basis with our investors. This total represents a record year for capital formation in our private market strategies. During 2012, we had final fund closings on Harbert Venture Partners III and Harbert European Real Estate Fund III. The Venture Fund closed at slightly under $80 million while the European Real Estate strategy closed on €405 million ($525 million), which included €254 million for Fund III and €151 million in co-investment equity. We are pleased that we were able to attract new, significant endowments, pension fund and sovereign wealth clients as new partners with major commitments to these strategies.



Raymond J. Harbert Michael D. Luce

During 2013, in addition to marketing all of our hedge funds, we expect to hold final closings on Harbert United States Real Estate Fund V, Harbert Mezzanine Partners III and Harbert Independent Power Fund V. We also plan on launching Harbert Australian Private Equity II and a new London based strategy, Harbert European Growth Capital Fund, which will focus on making high coupon, short duration loans to rapidly growing companies across Europe that are having difficulty accessing credit in the midst of the banking turmoil in the region.

We are cautiously optimistic as 2013 begins. The world wide economy is expected to be stable and exhibit positive growth, which bodes well for the performance of our current investments. There are multiple exits in process across several of our funds which will return capital to be redeployed in new deals. The fund raising environment, while not robust, continues to improve; several major institutional investors have already committed to initial closings in the first quarter of 2013, and we are currently in active negotiations with other institutional investors on several of our strategies.

In aggregate, HMC received new subscriptions for $571 million last year, of which $93 million was committed by HMC partners and affiliates on a pari-passu basis with our investors.

While optimistic, HMC cannot foresee, much less control the investment environment in 2013 and beyond. We can, however, determine our response to whatever the future brings. Whether faced with robust or sluggish markets, we will remain firmly focused on generating absolute returns through hard work and fundamentally driven asset-by-asset investing. Diversification and the control of downside risk will never be sacrificed to the opportunity for outsized returns, as we invest our own capital alongside yours.

As always, we are grateful for the trust that you, our partners, have placed in our organization.

Raymond J. Harbert
Chairman & Chief Executive Officer

Michael D. Luce
President & Chief Operating Officer

HARBERT MANAGEMENT CORPORATION FUNDS		FINAL CLOSE
Real Estate		
HREP I	Harbinger Real Estate Partners I L.P.	June 23, 1995
HREF II	Harbert Real Estate Fund II LLC	September 30, 2002
HREF III	Harbert Real Estate Fund III LLC	November 17, 2006
HUSREF IV	Harbert United States Real Estate Fund IV L.P.	July 31, 2011
HUSREF V	Harbert United States Real Estate Fund V L.P.*	In subscription
HEREF	Harbert European Real Estate Fund BV	July 31, 2003
HEREF II	Harbert European Real Estate Fund II L.P.	March 30, 2007
HEREF III	Harbert European Real Estate Fund III L.P.*	November 20, 2012
Private Capital		
HPEF I	Harbinger Private Equity Fund I LLC	December 15, 1999
HPEF II	Harbert Private Equity Fund II LLC	December 23, 2004
HAV	Harbinger/Aurora Venture Funds	March 31, 2000
HVP	Harbert Venture Partners LLC	December 31, 2004
HVP II	Harbert Venture Partners II L.P.	October 29, 2009
HVP III	Harbert Venture Partners III L.P.	September 28, 2012
HMP	Harbinger Mezzanine Partners L.P.	December 22, 2000
HMP II	Harbert Mezzanine Partners II L.P.	January 10, 2006
HMP III	Harbert Mezzanine Partners III L.P.	In subscription
HIPF I	Harbinger Independent Power Fund I LLC	June 16, 1997
HIPF II	Harbinger Independent Power Fund II LLC	February 15, 2002
HPF III	Harbert Power Fund III LLC	June 29, 2007
HPF IV	Harbert Power Fund IV LLC	September 10, 2010
HPF V	Harbert Power Fund V LLC*	In subscription
HAPE I	Harbert Australian Private Equity Fund I L.P.	September 21, 2010
HAPE II	Harbert Australian Private Equity Fund II L.P.	In subscription
HEGCF	Harbert European Growth Capital Fund L.P.	In subscription
Absolute Return Strategies		
HVF	Harbert Value Fund L.P.*	Open-ended
HMF	Harbert Macro Fund L.P.*	Open-ended

* Feeder funds available for foreign and tax-exempt investors

HMC Back Office

Organizational Chart

Charles D. Miller
Executive Vice President &
Global Head of Distribution

MARKETING

Melissa M. Babb
Senior Managing Director

Michael J. Larsen
Senior Managing Director

Richard F. Brereton, Jr.
Managing Director

Jerry M. Cain
Director

Kenneth M. Freeman
Managing Director

Lynette P. Horton
Managing Director

(+8 Employees)

MARKETING ADMINISTRATION/ INVESTOR RELATIONS

William T. Wos
Marketing Manager

(+3 Employees)

David A. Boutwell
Executive Vice President &
Chief Financial Officer

TREASURY

Pamela B. Blanks
Assistant Treasurer

HUMAN RESOURCES

Cathy P. Sinclair
Human Resources Manager

(+1 Employee)

Sonja J. Keeton
Senior Vice President &
Chief Administrative Officer

ACCOUNTING

Shufen Hsu
Director of Corporate Taxation

Sarah Beth Cain
Assistant Controller

Kathryn R. O'Neal
Real Estate Funds Accounting
& Finance Manager

Amanda P. Brown
Mezzanine Accounting Manager

Susan B. Walker
HC Accounting Manager

Julia C. Ball
A/P Manager

(+9 Employees)

INVESTOR REPORTING PRIVATE MARKET

Brandon S. Kusibab
Director

(+2 Employees)

INFORMATION TECHNOLOGY

Jeffrey B. Liles
Chief Information Officer

(+4 Employees)

John W. McCullough
Senior Vice President &
General Counsel

LEGAL

Joel B. Piassick
Executive Vice President

S. Perry Given, Jr.
VP & Associate General Counsel

R. A. Ferguson, III
VP & Associate General Counsel

Kevin A. McGovern
VP & Associate General Counsel

Bufkin K. Frazier
Assistant General Counsel

(+3 Employees)

COMPLIANCE

Michael C. Bauder
VP & Chief Compliance Officer

(+1 Employee)

Thomas M. Hicks
Vice President &
Director of Risk Management

RISK / INTERNAL AUDIT / VALUATION

Elizabeth A. Deuel
Director of Internal Audit

Christopher G. Hartin
Director, Private Market
Valuation & Analysis

(+1 Employee)

HEDGE FUND ADMINISTRATION

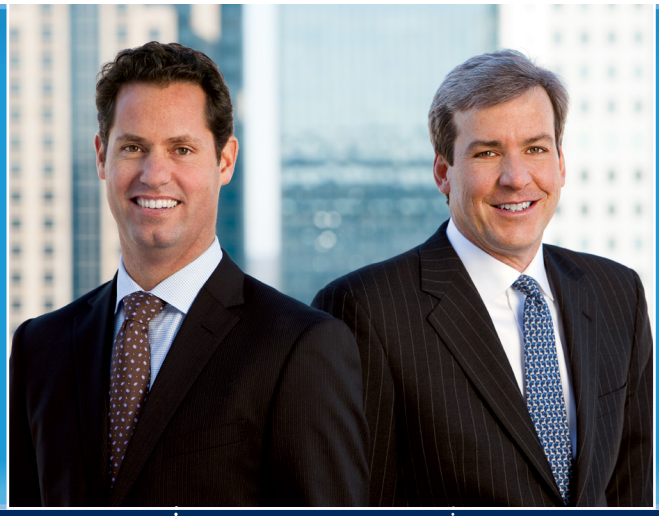
Jennifer H. Patten
Director of Hedge Fund Accounting

(+3 Employees)

Real Estate

A history of uncovering value

United States Real Estate



HMC's United States Real Estate team has a long history of successful investing across a broad range of property types, locations, capital structures and real estate cycles. We have minimum return requirements that we strive to surpass, while ensuring we stay below acceptable risk thresholds. If we can't find an acceptable balance between return, risk and margin of safety, we will not invest.

Jon-Paul Momsen Michael P. White

Since 1995, the United States Real Estate team has consistently executed a disciplined value enhancement investment strategy targeting undervalued institutional quality assets that offer the opportunity to improve cash flow through targeted capital investments and active management.

This past year had many of the same dynamics we saw at work in 2011. There was tepid, yet steady macroeconomic growth, which translated into modest improvement in underlying real estate fundamentals. Well-located, high-quality assets with well-capitalized owners captured a larger share of the improved leasing environment. Markets with a higher concentration of technology, healthcare and natural resources such as San Francisco, Denver, Houston and San Antonio saw strong employment growth. Additionally, housing "bust" markets such as Phoenix, Atlanta and Orlando, which are now more affordable and business friendly, also saw stronger employment growth.

Investor sentiment remained largely risk averse with a focus on core trophy assets in gateway markets. However, as capitalization rates have reached pre-recession lows in those markets, investors are beginning to seek higher-quality assets in other primary markets that may offer higher yield.

While we do not expect to see robust economic growth in the near term and expect that the ongoing uncertainty in the political and regulatory fronts will be a drag on investor sentiment, we have a

TEAM MEMBERS: **Michael P. White,** *Vice President & Senior Managing Director;* **Jon-Paul Momsen,** *Vice President & Senior Managing Director (San Francisco);* **Jeffrey H. Seidman,** *Vice President of Asset Management;* **Todd N. Jordan,** *Managing Director;* **J. Travis Pritchett,** *Managing Director (Dallas);* **Melody T. Lewis,** *Asset Manager;* **Andrew S. Case,** *Asset Manager;* **Craig L. White,** *Associate;* **Brandon J. Cohen,** *Associate;* **S. Trent Thomas,** *Senior Analyst;* **James W. H. Brigham,** *Analyst;* **Joseph A. Azar,** *Analyst*

2012 *in review*

HREF III increased operating distributions by 82% in 2012 compared to 2011 by improving operating fundamentals and lowering borrowing costs through deleveraging the portfolio.

HUSREF IV had four successful dispositions, representing over $33.3 million in proceeds to the Fund.

HUSREF IV acquired seven assets, investing $40.3 million.

HUSREF V acquired two assets, investing $20.4 million.

favorable view of the medium- to long-term prospects for real estate, particularly in the value-add space, and believe that investors with liquidity will be able to continue to selectively find very attractive risk/return opportunities.

Looking forward to 2013, we intend to selectively acquire institutional quality class-B multifamily assets with the potential for repositioning, and high-quality, well-located office properties at a basis that allows us to improve occupancy by offering tenants attractive below market rents. We will remain focused on opportunistically acquiring properties in markets that we anticipate will lead the economic recovery and demonstrate solid underlying fundamentals.

Michael P. White

Vice President & Senior Managing Director

Jon-Paul Momsen

Vice President & Senior Managing Director

This past year had many of the same dynamics we saw at work in 2011. There was tepid, yet steady macroeconomic growth, which translated into modest improvement in underlying real estate fundamentals.

European Real Estate

Harbert European Real Estate Fund seeks to build a diversified portfolio of real estate investments across Europe that balance appreciation-driven investments with current cash returns. The Fund seeks to deliver both secure medium- to long-term investment income streams, while also creating value through active asset management. Our approach relies on fundamental, bottom-up analysis, with particular emphasis on risk management.

Tor V. Tveitane

Scott D. O'Donnell

The investment environment in 2012 always promised low-growth and unpredictability on the back of a fragile and unresolved banking crisis. It is our belief that volatility breeds opportunity – and the more volatile the market, the better the opportunities. The prevailing European predicament has pushed risk-averse institutional investors to the extreme core of the market or out of the game completely. The popularity of the safest assets has resulted in prime yields staying stable and grounded since the start of 2010, whilst the pricing on less favored secondary assets has softened dramatically over the same period. The increased risk perception attached to secondary product and the lack of available financing has resulted in a historically high-yield gap and a spread that is continuing to separate over time.

We believe the market's desire for the best-of-the-best has caused an over-correction to pricing and those assets that now fall slightly outside the narrowed definition of prime present true value. The opportunity exists for investors such as us, with capital, operational track record and the ability to source leverage, to acquire those assets at pricing which reflects pure secondary product. Their minor deficiencies can then be rectified, be it lease length or otherwise, through active asset management and the injection of capital. Following the elimination of impairments, the property can then be returned to the institutional market, priced again as prime.

TEAM MEMBERS: **Scott D. O'Donnell,** *Vice President & Senior Managing Director;* **Tor V. Tveitane,** *Managing Director;* **Peter J.A. Land,** *Principal;* **Roque I. Rotaeche,** *Principal (Madrid);* **Eric R. Desautel,** *Principal (Paris);* **Subbash C. Thammanna,** *Finance Director;* **G. Huw Davies,** *Vice President and Head of Asset Management;* **David King,** *Vice President;* **Jon M. Evans,** *Accounting Manager;* **Kim Myers,** *Analyst;* **Soraya Harris,** *Research Analyst*

2012 *in review*

We acquired 435,000 square feet of Grade-A offices built between 2001 and 2010, plus an additional 620,000 square feet of building rights in southeast England.

The Fund acquired a portfolio of four industrial estates in the UK comprising approximately 4.3 million square feet of space and 61 acres of additional land.

In Q4 2012, HEREF II disposed of an industrial asset in Germany.

We divested the remaining two investments in HEREF I during the year, which is now in the process of final liquidation.

We executed a number of leases across the HEREF II and III investments, maintaining high occupancy levels and strong cash-on-cash returns.

The Fund completed the fundraising for HEREF III and co-investment. Total capital raised exceeded €405 million ($525 million).

During the year we acquired two investments in the UK which have been historically out of our reach. Both are defensive in nature and are underpinned by good quality cash flow. We foresee in 2013 that as banks continue to deleverage and the funding gap widens, the market will present us with more opportunities such as those we capitalized on in 2012.

The objective of the European Real Estate team is to deliver superior, risk-adjusted total returns from diversified real estate investments located throughout Europe. We seek to balance appreciation-driven investments with current cash yields by investing in assets that are expected to deliver both secure income streams and provide opportunities for material value-creation through active asset management. As a firm, we have a successful and consistent track record investing across cycles in Europe where we have acquired in excess of $2 billion of real estate assets.

We seek to balance appreciation-driven investments with current cash yields by investing in assets that are expected to deliver both secure income streams and provide opportunities for material value-creation through active asset management.

Scott D. O'Donnell
Vice President & Senior Managing Director

Tor V. Tveitane
Managing Director

Private Capital

Creating value through a disciplined approach

Private Equity

Harbert Private Equity provides equity financing to lower middle-market companies. We typically invest in well-established businesses in distribution, manufacturing, healthcare services and specialty finance. We create value for our investors by seeking to invest with strong management teams at low absolute valuations, source investment opportunities in niche industry segments, and by pursuing companies that offer defensible organic growth and viable acquisition candidates.

Winston H. Gillum, Jr. Richard S. Davis

Since the Harbert Private Equity team began building a portfolio in 1998, our investing strategy has maintained a firm focus on value investing in lower middle-market companies across a diverse range of industries, geographies and deal structures. Once a company becomes part of our portfolio, we work with management to devise a robust growth strategy that often includes an add-on acquisition strategy that allows us to accelerate growth. With more than 75 years of investing experience, our senior investment team brings deep knowledge to bear on deal flow, deal structuring and portfolio company oversight and strategy.

Coming into 2012, we believed that the capital "overhang" present in the private equity industry would create good exit opportunities but could make acquiring new portfolio companies difficult. While deal flow was up more than 50% versus 2011, the purchase price multiples began to approach lofty levels not seen since 2006-2007. Despite this challenging environment, one of our portfolio companies, Onward Behavioral Health, Inc., was able to complete a sizable acquisition during the first quarter of 2012 that more than doubled the size of that business.

Given current valuations during the second half of 2012, we began marketing several of our portfolio companies for sale. Of our eight current portfolio companies, four have either (1) executed purchase agreements to sell 100% of their outstanding stock to strategic buyers, (2) are in the

TEAM MEMBERS: **Winston H. Gillum, Jr.,** *Vice President & Managing Director;* **Richard S. Davis,** *Director of Investments;* **Raymond J. Harbert, Jr.,** *Associate;* **Elizabeth J. Stewart,** *Associate*

2012 *in review*

HPEFII portfolio company, Onward Behavioral Health, Inc., completed the acquisition of the Life Management companies.

Two HPEFII portfolio companies, ECA Holding, LLC and PFC Acquisition Company, Inc., signed purchase agreements to sell 100% of their stock to strategic acquirers.

HPEFII portfolio company, PWI Holdings, Inc., hired an investment banker and has begun a process to sell the company.

Two HPEFII portfolio companies, Dent-A-Med, Inc. and STX Healthcare Management Services, Inc., renegotiated their senior lines of credit and achieved extensions and interest rate reductions.

process of soliciting bids from potential buyers, or (3) are currently interviewing investment bankers to begin a sale process in early 2013. Consequently, we believe half or more of our current portfolio companies could have sale transactions during 2013.

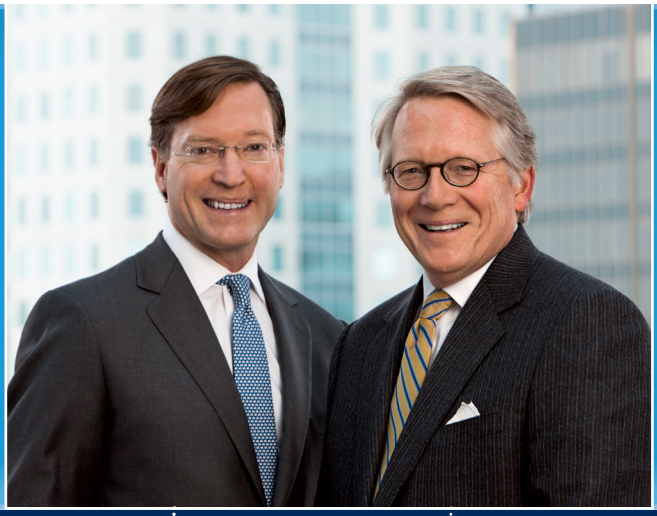
As we look forward to 2013, we continue to see a challenging valuation environment to purchase new portfolio companies. Consequently, we continue to invest time and resources into identifying attractive industry niches and proactively contacting companies in those niches regarding a potential transaction. We believe the traditional "auction" sale processes will not generate investment opportunities for us at reasonable valuations, so we will dedicate resources to uncovering deal opportunities directly. We continue to believe that our core competency of finding, analyzing, and overseeing lower middle-market deals will generate superior investment returns over the long term.

Winston H. Gillum, Jr.
Vice President & Managing Director

Richard S. Davis
Director of Investments

Once a company becomes part of our portfolio, we work with management to devise a robust growth strategy that often includes an add-on acquisition strategy that allows us to accelerate growth.

Venture Capital



Harbert Venture Partners invests in promising, early-growth-stage healthcare and technology companies headquartered in the Southeastern United States. We seek to deploy capital in companies that are positioned to accelerate revenue growth and work with management to develop the operating platform needed to achieve exceptional market results and provide superior returns for our limited partners.

Wayne L. Hunter

William W. Brooke

The Harbert Venture Capital strategy enjoyed a very productive 2012. We closed our third venture fund with approximately $80 million in committed capital. One of our portfolio companies went public through a merger, and we continued to build a diversified portfolio, making new investments in three IT companies and two healthcare companies. While the venture industry continues to show signs of shrinkage, we believe that our early-growth-stage, pan-regional and diversified thesis positions us well for continued success in 2013.

Our strategy is focused on early-growth-stage investing in the high-growth and diversified sectors of healthcare and technology. We believe that sector diversification strategies are prudent principles of fund management due to the cyclical nature of the healthcare and IT industries. Our geographic footprint targets companies headquartered in the Southeastern United States, as we believe the region's capital market inefficiencies allow for longer evaluation periods and more rational valuations. We proactively seek companies that have demonstrated early revenue and customer growth, allowing our investment team to evaluate business models and management teams, while mitigating early technology and market adoption risks. We work to identify and build relationships with attractive company prospects early in their development and track key prospects for several quarters, occasionally years, prior to investing.

TEAM MEMBERS: **William W. Brooke,** *Executive Vice President & Managing Partner;* **Wayne L. Hunter,** *Managing Partner;* **Thomas D. Roberts, III,** *Partner;* **Robert L. Crutchfield,** *Partner;* **Brian C. Carney,** *Principal;* **William W. Brooke, Jr.,** *Associate;* **Thomas I. Walton-Cale,** *Senior Analyst;* **Lindsay B. Carlisle,** *Administrative Analyst*

2012 *in review*

We closed Harbert Venture Partners III with approximately $80 million in investor capital.

Several new institutional investors joined our family in Harbert Venture Partners III.

We made five additional initial investments in Harbert Venture Partners III.

Harbert Venture Partners II continued to post industry-leading returns.

The Harbert Venture Capital team is an experienced and blended group of investment professionals, combining backgrounds in finance, law, business operations, entrepreneurship, information technology and life sciences to produce a broad perspective on venture investing. Our skills and experiences facilitate strategic guidance to our portfolio companies creating value and operational sustainability as they drive through an accelerated growth curve.

We enter 2013 with positive momentum. Corporations in the IT and healthcare sectors are holding very large cash positions, and M&A activity and exit values are at their highest levels in five years. We believe that market conditions will be advantageous for liquidity events and anticipate portfolio realizations in the coming year. Our deal flow activity remains strong and continues to produce quality investment opportunities. Both healthcare and technology market conditions are positive, and we anticipate continued strong revenue growth for the majority of our portfolio companies.

William W. Brooke

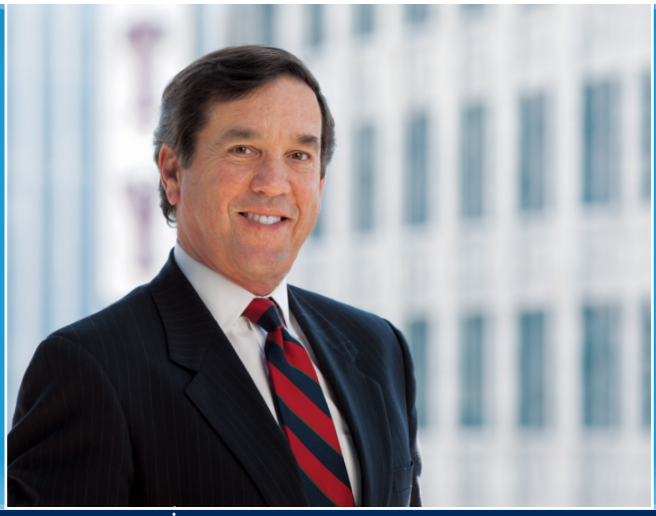
Executive Vice President & Managing Partner

Wayne L. Hunter

Managing Partner

We work to identify and build relationships with attractive company prospects early in their development and track key prospects for several quarters, occasionally years, prior to investing.

Mezzanine Capital



Harbert Mezzanine Partners is a private investment fund that provides approximately $3 million to $15 million in debt financing in unique and defensible niches, while using structures designed to preserve client capital. We focus on subordinated debt to companies in need of capital for organic growth, acquisitions, recapitalizations or management buyouts. We invest in companies that feature a proven management team, sufficient cash flow to service debt, growth potential and a viable exit strategy.

John C. Harrison

Harbert Mezzanine Partners lends approximately $3 million to $15 million in subordinated debt and associated equity investments to private small- and middle-market companies in need of capital. Our debt provides capital to growing companies to assist them with organic growth, acquisitions, recapitalizations and management buyouts. We seek investment opportunities where we believe the risk of principal loss is limited and the prospective equity appreciation is high. We strive for long-term returns competitive with those of venture capital and private equity transactions, and the majority of our deals historically have been unsponsored. Our team has been working together since 1998 and has 80 years of collective investment experience in the commercial lending and mezzanine arena.

While the credit markets loosened somewhat in 2012, most small- and middle-market businesses still had difficulty accessing capital for typical private equity uses, such as organic growth and acquisitions. Senior lenders are operating under more stringent underwriting parameters and are using more conservative leverage multiples. Finding alternative sources of financing is also challenging for small- and middle-market companies. As a result, there are significant investment opportunities in the small- and middle-market in which the Fund operates. We have been a flexible financial provider, willing to move up and down the balance sheet as needed, providing everything from

TEAM MEMBERS: **John C. Harrison,** *Vice President & Senior Managing Director;* **John S. Scott,** *Managing Director;* **Robert A. Bourquin,** *Managing Director;* **D. Andrew Tatman, II,** *Director of Investments;* **Tyler L. Augusty,** *Associate;* **John L. Davis,** *Associate;* **Alyce M. Ory,** *Associate;* **John B. Richmond, II,** *Associate*

2012 *in review*

The Fund ended the year with a combined portfolio of $265 million.

The Fund experienced two exits with several additional exits finalized in the first quarter of 2013.

HMP II funded its last deal and began the deleveraging process. HMP II has repaid approximately $22 million of debt through the first quarter of 2013.

HMP III began making new investments, funding three deals in the fourth quarter.

senior debt to equity, or some combination thereof. This year represented a transition year for the Fund as we began the wind-down process of HMP II and began investing out of HMP III. Given the current market conditions, we expect a strong year of originations in 2013.

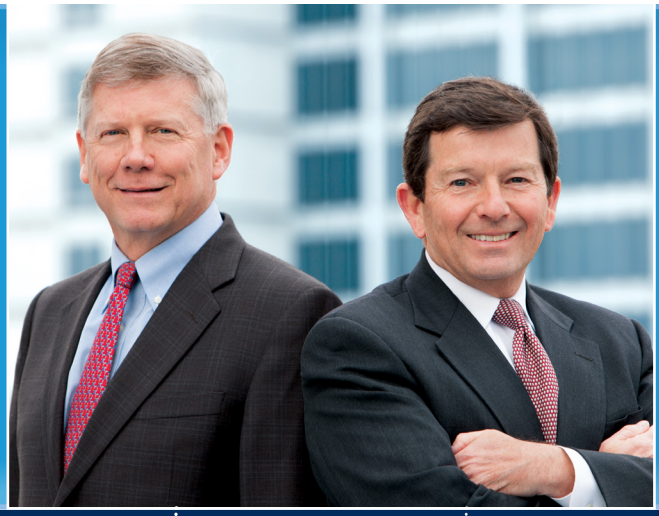
In closing, we feel this is an excellent time to be investing in the private debt markets. There are many small businesses with strong management teams in need of capital. We look forward to discovering these companies and helping them grow in the years ahead.

John C. Harrison

Vice President & Senior Managing Director

We seek investment opportunities where we believe the risk of principal loss is limited and the prospective equity appreciation is high.

Independent Power



Harbert Power is an experienced investor in well-structured, contracted power assets. Our team's network, skills and reputation provide access to both new development opportunities and existing asset acquisitions. Our fund size reflects a focus on the more limited number of well-structured projects, which are expected to provide a reliable income stream with less reliance on exit values to achieve our investment targets.

Wayne B. Nelson, III Patrick E. Molony

The Harbert Power investment team invests primarily in power generation plants that have contracts to sell their output. Our contracted asset strategy mitigates power market and fuel cost risks, produces regular cash flows and provides the opportunity for predictable, attractive returns for our investors. We have successfully invested in contracted power assets for more than 25 years, by acquiring interests in existing facilities and through development of new power assets. Our talented, stable investment team's background and experience as project developers, builders and owner/managers benefits our funds not only on new development projects, but also as we evaluate or seek to improve existing power assets.

Despite the increased number of financial investors in the independent power space, we believe that many opportunities continue to be attractive, particularly when viewed on a risk/reward basis, and considering the predictable return profile of contracted assets. Additionally, our focused strategy sometimes means that our targeted assets, with any single power asset equity investment of $20-60 million, will be beneath the radar of larger, broad strategy energy/infrastructure funds, to the benefit of our investors.

The past 12 months have been another good year for all of our portfolio assets. Two assets, York Energy Centre and GWF Energy's Tracy Plant, completed construction and began

TEAM MEMBERS: **Wayne B. Nelson, III,** *President & Chief Executive Officer;* **Patrick E. Molony,** *Executive Vice President and Chief Operating Officer;* **Kenneth W. Kilgroe,** *Senior Vice President & Controller;* **Jeffrey W. Moore,** *Managing Director;* **A. Howell McBrayer,** *Director, Plant Services;* **G. Tatum Lassiter, Jr.,** *Vice President & Director of Investments;* **J. Russell Martin,** *Vice President & Director of Investments;* **J. Clayton Hamblen, III,** *Director of Investments;* **Crystal L. Burnett,** *Senior Tax Accountant*

2012 *in review*

York Energy Centre completed construction and began commercial operations in May under a 20-year power sales contract with the Ontario Power Authority.

GWF Energy's Tracy peaker plant successfully completed an expansion project and began commercial operations in November as a combined cycle facility under a new 10-year power sales contract with Pacific Gas & Electric. Three Harbert Power Funds (II, III, IV) collectively owned 100% of the equity in the facility until a sale late in 2012.

We completed a successful sale of three of our funds' 100% interest in GWF Energy, a three-plant portfolio of gas-fired power plants in California that includes the recently expanded Tracy plant and the Hanford and Henrietta peakers.

Our fifth fund, HPF V, held its initial close in late 2012. We are planning a $500 million fund focused, like previous Harbert Power funds, on investing in contracted power generation plants.

commercial operations. We successfully completed the sale of three of our funds' 100% interest in GWF Energy, a three-plant portfolio in California. We also held an initial close on our new fund, Harbert Power Fund V. Given the position of our portfolio and the conditions of the market, we look forward to continued success in 2013.

Wayne B. Nelson, III

President & Chief Executive Officer,

Harbert Power, LLC

Patrick E. Molony

Executive Vice President & Chief Operating Officer,

Harbert Power, LLC

We have successfully invested in contracted power assets for more than 25 years, by acquiring interests in existing facilities and through development of new power assets.

Australian Private Equity

Harbert Australian Private Equity invests equity in target companies valued between A$15-50 million. We have positioned ourselves to be the leading provider of private equity in the Victorian and South Australian lower middle-markets. We are an event-based investor in opportunities that require expansion capital, MBO/MBI situations, succession transitions, spin-offs and industry roll-up platform plays.

Jeremy E. Steele

The Australian Private Equity Funds invest in lower middle-market Australian companies valued between A$15-50 million. We invest in growing businesses, helping support expansion, succession and traditional buyouts. While we have a mandate to invest throughout Australia, we focus particularly on the Victorian and South Australian markets, both of which are underserved by private equity investors. The investment team has been investing in these markets for more than eight years, during which time we have established a wide network of relationships, and from these relationships we generate a significant volume of proprietary deal flow.

With 2012 concluding, we significantly expanded our investment holdings by adding three companies to the portfolio this year. Two of our transactions were split between HAPE I and HAPE II. We expect to transfer all investments in HAPE II warehouse to HAPE II in connection with our launch of that fund.

In January, HAPE I and II acquired a significant minority interest in a provider of contract drilling services to the mining and infrastructure sectors. In May, HAPE I and II purchased a majority stake in a leading provider of integrated software solutions to the Australian and Nordic labor hire industries. With these two investments, HAPE I was closed to new portfolio companies. In November, HAPE II acquired the leading interest in a provider of cardiac testing

TEAM MEMBERS: **Jeremy E. Steele,** *Vice President & Senior Managing Director;* **Robert L. Read,** *Managing Director;* **Robert P.A. Whitaker,** *Director of Investments;* **Joshua J. Casey,** *Associate*

2012 *in review*

We made three new investments in 2012, Techdrill Civil & Mining Services (contract drilling services), FastTrack (integrated software for the labor hire industry) and Cardioscan (cardiac testing services).

Fund I is now fully invested.

The divestment process for Aesop successfully concluded in February 2013.

We established Harbert Australian Private Equity Fund II, which is due to commence fundraising in early 2013.

HAPE II, via a warehouse entity, is already seeded with three investments, two of which also sit in HAPE I. HAPE II and the warehouse entity are collectively referred to as HAPE II.

services to large Australian pathology lab and hospital networks. The investment team is optimistic about the medium-term growth prospects for all three new portfolio companies.

HAPE I made its first return to investors in March 2013 following the successful sale of Aesop, our retailing investee, to a Brazilian-based cosmetics company. This transaction generated strong returns for HAPE I investors. During HAPE I's hold period, Aesop significantly outperformed its investment case, and interest in the company was strong with a number of large cosmetics players participating in the divestment process.

The Australian economy continues to demonstrate its resilience and is presently one of the fastest-growing developed economies in the world. We plan to launch HAPE II to outside investors in the first half of 2013, and we believe that we will continue to see attractive investment opportunities in 2013 and beyond.

Jeremy E. Steele

Vice President & Senior Managing Director

While we have a mandate to invest throughout Australia, we focus particularly on the Victorian and South Australian markets, both of which are underserved by private equity investors.

European Growth Capital

a new investment opportunity for 2013

David J. Bateman Johan M. Kampe

Harbert European Growth Capital Fund provides secured debt capital with equity participation into promising Western European growth companies. This large and growing market is driven by the challenging bank and equity financing environment faced by growth stage small and medium enterprises in the European landscape. The blend of debt/equity returns together with a regular cash pay component are at the heart of the strategy, where the debt element allows for more predictable returns and warrant coverage for further upside participation.

Harbert European Growth Capital Fund will officially launch in the first quarter of 2013. The fundamental focus of the Fund is to capitalize on the systemic funding gap that exists for growth businesses in Europe. The Fund's capital will be deployed in the form of secured high-yield debt with contracted repayment terms; we will gain additional upside through equity participation. Our model allows for high current returns with low volatility and capital protection, while still providing for further upside participation over the longer duration as portfolio companies benefit from equity value appreciation. Furthermore, given the cash coupon in the underlying product, the Fund intends to make substantial current payments to LPs beginning shortly after funds are deployed.

The funding gap in Europe has long existed in the growth segment and is only helped by the financial crisis of recent years. So while the HEGCF strategy currently benefits from certain extreme conditions in the market, the core of the strategy is supported by long standing mismatch of lenders' willingness to lend to younger promising businesses and the high cost of equity for these businesses. This creates the opportunity to take debt-like risk and generate alternative asset returns. In the year ahead, we expect to see strong deal flow across much of Europe. This is supported by a substantial pipeline that we are already processing. We have been active in the market for the past 10 years and feel the conditions are favorable and will remain so for some considerable time.

TEAM MEMBERS: **David J. Bateman,** *Senior Managing Director;* **Johan M. Kampe,** *Senior Managing Director*

2012 *in review*

Harbert Management Corporation welcomes Johan Kampe and David Bateman to our London office, who have a mandate to build a leading EU-focused growth capital lending fund.

HMC and affiliates have committed an initial €25 million to the strategy.

Within the growth segment, we are particularly focused on the technology and life science markets, which have consistently been overlooked by traditional lending sources or debt/alternative capital. At the same time this segment provides real equity upside, made possible by the nature of product scalability and high margins inherent in these industries. We will be targeting companies with proven products and markets that may not yet meet traditional lending criteria, but where experience has taught us that we can structure high-priced transactions with attractive loans to enterprise value. It's going to be exciting.

We are delighted to partner with HMC to execute this strategy and look forward to discussing more with you in the near future.

David J. Bateman
Senior Managing Director

Johan M. Kampe
Senior Managing Director

Our model allows for high current returns with low volatility and capital protection, while still providing for further upside participation over the longer duration as portfolio companies benefit from equity value appreciation.

Absolute Return Strategies

Finding opportunity in all market conditions

Value Fund

The Harbert Value Fund is a fundamentally based, long/short equity fund. Our mission is to provide attractive cumulative returns over a long time period without incurring excessive risk of material, permanent impairment of capital. Our disciplined emphasis on absolute value serves as the foundation for our opportunistic investment process.

Todd D. Nunnelley, CFA

We continued to build on the Harbert Value Fund's historical accomplishments during 2012. Our disciplined focus on absolute value served us well as we continued to invest in individual long and short equity investments. The Fund passed its fifth anniversary in April, and we are pleased with the positive absolute returns, positive outperformance of broad equity and comparable hedge fund indices, and positive long and short profitability achieved since the Fund's inception. The team's experience over the wide range of market environments during the past five years places us in a strong position for the years to come.

Our portfolio had an above-average gross exposure and low net exposure for the entire year. These exposures reflected a high and balanced set of opportunities, many of which were identified in the volatile and tumultuous second half of 2011. The Fund's profitability was driven by the long portfolio which led to several successful exits of long investments. Low interest rates and associated asset inflation made short-selling challenging, but we nonetheless achieved some notable individual short successes. We continue to see high potential in our short portfolio and have a high number of potential new opportunities. We closed the year much like we started–with an above-average gross exposure and low net exposure reflecting attractive and balanced future return potential.

TEAM MEMBERS: **Todd D. Nunnelley, CFA,** *Vice President & Senior Managing Director;* **Zachary P. Turnage, CFA,** *Director of Research;* **A. Daniel Thomasson, CFA,** *Director of Investments;* **Clayton C. Williams, CFA,** *Senior Analyst;* **T. Partlow Willings, CFA,** *Senior Analyst*

2012 *in review*

The Fund generated another year of positive absolute returns.

We reaped the benefits of capital invested during 2011 volatility.

We continued to identify investments justifying an above-average gross exposure level.

The long and short investments maintained cumulative profitability.

We ended the year with historically low net exposure and above-average return potential reflected in the portfolio.

We currently see little true value in most broad asset classes which have appreciated due to the psychological, but not practical, benefits of government intervention. This backdrop suggests high risk for limited opportunity in many long-only strategies. We believe the Value Fund is positioned well, given our proven history of achieving both long and short profitability while avoiding permanent losses in tumultuous environments. The team's experience, analytical discipline and emotional fortitude give us confidence that the Value Fund can not only weather whatever the future may bring, but also capitalize on it to the benefit of our investors' capital. We thank our investors for their ongoing support.

Todd D. Nunnelley, CFA

Vice President & Senior Managing Director

The team's experience over the wide range of market environments during the past five years places us in a strong position for the years to come.

Asian Opportunities Fund

a new investment opportunity for 2013

The Harbert Asian Opportunities Fund seeks to generate absolute returns by identifying value and event-driven opportunities in securities across Asia and in securities impacted by Asian themes. The value strategy will focus on identifying securities trading at a discount to intrinsic value; the event-driven strategy will focus on identifying securities that are mispriced due to corporate actions such as mergers and acquisitions, spin-offs and other restructurings.

Frederick T. Liu

The Harbert Asian Opportunities Fund was launched in May 2012 with HMC affiliated capital. The Fund seeks to generate absolute returns by identifying value and event-driven opportunities in Pan-Asian securities, or securities impacted by Asian themes. Our combined value and event-driven approach creates important portfolio synergies, as event-driven positions, generally less correlated with market movements, mitigate portfolio volatility while providing time for longer-term value investments to appreciate. The value strategy focuses on identifying securities trading at a discount to intrinsic value, while the event-driven strategy focuses on identifying securities that are mispriced due to corporate events, such as mergers, acquisitions, spin-offs or other corporate restructurings.

As global macroeconomic turbulence driven by Europe took hold in May, we were well-positioned with a balanced portfolio across our event-driven and value strategies. Our event-driven and short positions helped offset the severe market drawdown, and we used this opportunity to add to our existing long value positions at compelling valuations. As the year progressed, the level of corporate activity in Asia increased markedly, allowing us to establish significant new event-driven positions. Currently, we believe our portfolio is well-positioned to benefit from developments both on the value and event-driven side.

TEAM MEMBERS: **Frederick T. Liu,** *Senior Managing Director;* **Jean-Hubert C.M. Pouleur,** *Managing Director*

2012 *in review*

Frederick Liu and Jean-Hubert Pouleur joined HMC in early 2012, opening our new office in Hong Kong.

After completing all operational, administrative and organizational steps, we launched Harbert Asian Opportunities Fund on May 1, 2012.

We have substantially invested the Fund in a concentrated portfolio of Pan-Asian securities that are trading at a discount to intrinsic value or mispriced due to corporate events.

At this juncture, as developed economies continue to try to deleverage, macroeconomic and global political uncertainty continue to foster volatility in the markets. While many emerging Asian economies have fared better in terms of relative growth, local markets have not and will not be immune to volatility that stems from this macroeconomic backdrop. For the value strategy, these swings in pricing and valuation are opportunities to capitalize on our deep, bottom-up fundamental research. At the same time, corporate activity, while off from its 2007 peak, is occurring at a sustainably higher level than a decade ago, reflective of the inherent growth in Asian economies. This development in the market for corporate control bolsters the transaction pipeline for the event-driven strategy.

We are excited about the year ahead and look forward to our next update.

Frederick T. Liu

Senior Managing Director

The value strategy focuses on identifying securities trading at a discount to intrinsic value, while the event-driven strategy focuses on identifying securities that are mispriced due to corporate events, such as mergers, acquisitions, spin-offs or other corporate restructurings.

Commodities Fund

a new investment opportunity for 2013

The Harbert Commodities Fund seeks to identify and exploit trends in the global energy, metals and foreign exchange markets. The portfolio is structured around strategic core arbitrage or relative-value positions including calendar spreads, location arbitrages and cross-commodity trades, which aim to profit from regional and temporal shifts in supply, demand and market psychology. Investment decisions combine a thorough understanding of market-specific supply/demand conditions with global macroeconomic/geopolitical insight.

Scott D. Davis

The Harbert Commodities Fund was started in January 2012 by an investment team with approximately 20 years of experience in the commodity markets with the goal of achieving capital appreciation and attractive risk-adjusted returns. We identify trends in the global energy, metals and foreign exchange markets. We deploy capital with a primary focus on core arbitrage or relative-value positions, including calendar spreads, location arbitrages and cross-commodity trades which aim to profit from regional and temporal shifts in supply, demand and market psychology. We layer smaller directional trades, both longs and shorts, into the portfolio to add incremental return by taking advantage of trending market environments. In addition to absolute returns, the commodity portfolio aims to provide diversification for investors through exposure to an asset class with low correlation to a typical range of investments.

As 2012 began, we were concerned about the commodity markets as global economic conditions appeared very weak. With the persistent problems in Europe and a slowing China creating a serious drag on demand, the outlook for commodity prices looked poor. This view proved slow to develop into reality, however, as geopolitical conditions in the Middle East kept energy prices well supported, and the global central banking fraternity embarked on numerous rounds of monetary stimulus in the attempt to keep asset prices inflated. The unbridled easing and devaluation of fiat currencies inspired a sharp move higher over the summer; by year end, prices retreated

TEAM MEMBERS: **Scott D. Davis,** *Director of Commodity Investing;* **Clarence (Clay) A. Steineker, Jr.,** *Analyst*

2012 *in review*

Scott Davis was hired as Director of Commodity Investing of HMC's Commodities strategy and began trading in January 2013.

Clay Steineker, who has worked with HMC's Risk Management Department, joined the team as an Analyst.

Unusual market conditions persisted throughout 2012, with commodity markets driven by easy monetary policies rather than commodity-specific supply/demand dynamics.

We continue to believe that large surpluses in the petroleum and base metals markets will result in much lower prices in 2013, as central bank stimulus shows diminished capacity to drive asset prices.

as the markets became skeptical of the efficacy of further monetary measures and industrial supply/demand fundamentals weighed on sentiment.

Entering 2013, our view remains that much lower prices lie ahead for the industrial commodity complex. As the markets question the effectiveness of any further monetary stimulus, investment demand for commodities should wane. With supplies of both base metals and energy expanding apace, we are preparing for another significant leg down in prices and are positioning the Fund accordingly. Looking forward, we believe that market conditions, together with an unrelenting focus on risk control, will provide meaningful opportunities to generate performance in the year ahead.

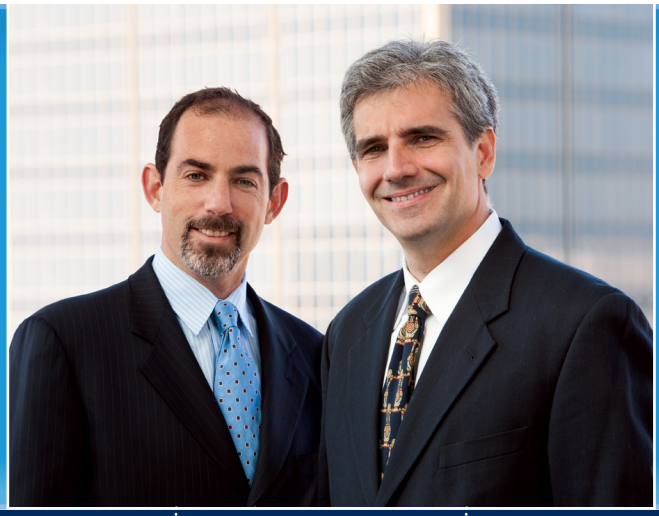
Scott D. Davis

Director of Commodity Investing

In addition to absolute returns, the commodity portfolio aims to provide diversification for investors through exposure to an asset class with low correlation to a typical range of investments.

Macro Fund

a new investment opportunity for 2013



Phillip A. Torres Peter A. Besold

The Harbert Macro Fund is a fundamentally based global macro fund. Our objective is to provide strong absolute returns with constrained risk by efficiently allocating capital to the markets of the world where the risk/reward trade-off is the most attractive. We seek to achieve this by combining analysis of global macroeconomic themes with a rigorous value-based trade selection process.

The Harbert Macro Fund officially launched on January 1, 2013. The Macro Fund is a fundamentally based global macro fund. Our objective is to provide high returns with constrained risk by efficiently allocating capital to the markets of the world where the risk/reward trade-off is the most attractive. We seek to achieve this by combining analysis of global macroeconomic themes with a rigorous value-based trade selection process.

As a global macro fund, we are unconstrained by asset or geographical classification. This allows us to explore every opportunity within asset classes that best express our views of global themes. We focus on trades where a dislocation in markets provides favorable odds for the thoughtful construction of portfolios. We augment a longer-term thematic portfolio with short-time-horizon trades to position ourselves more offensively or defensively to our thematic views. Prudent money management requires firm risk/reward discipline—should market pricing diverge from our underlying themes, capital preservation takes precedence.

We believe the highly active central banking and regulatory environment coupled with substantial variations between developed and developing economies will persist well through the next year. Specifically, several of the problems inherent with the European Monetary Union were laid bare during the 2008 crisis. Likewise, growing imbalances within the Chinese economy have become

TEAM MEMBERS: **Peter A. Besold,** *Senior Managing Director;* **Phillip A. Torres,** *Senior Managing Director*

2012 *in review*

Peter Besold and Phillip Torres joined the firm as Senior Managing Directors to co-head the Harbert Macro Fund.

After completing all operational, administrative and organizational steps, we launched Harbert Macro Fund on January 1, 2013.

We began to deploy capital from fund managers and other HMC affiliates into compelling, asymmetric trades representing our current views of global monetary policy and international trade.

accentuated by recent policy. In the U.S. and much of the rest of the developed world, government intervention during the aftermath of the financial crisis has resulted in distorted pricing in financial assets. These themes offer our strategy a wealth of profitable investment opportunities. Grounded by our value discipline and honed research process we look forward to profitably managing our investors' capital for the years ahead.

Peter A. Besold
Senior Managing Director

Phillip A. Torres
Senior Managing Director

Prudent money management requires firm risk/reward discipline—should market pricing diverge from our underlying themes, capital preservation takes precedence.

Harbert Realty Services

Long success built on service

Harbert Realty Services

Harbert Realty Services is a full-service commercial real estate firm that provides development and brokerage services for office, retail and multifamily disciplines throughout the Southeastern United States. We also provide corporations real estate services when outsourcing is an option to in-house execution to real estate needs.

Harry M. Lynch

Since the 1980s, Harbert Realty Services has been a multi-discipline real estate brokerage, service and investment real estate company. We focus on markets and opportunities in the Southeastern United States, and offer services to tenants, owners, lenders and investors in office, retail, multifamily and other types of commercial real estate. HRS conducts business through four divisions: asset and property management, brokerage, lease administration and development services. We also operate Rock Apartment Advisors, a brokerage company specializing in the apartment segment. In addition to providing client services, HRS reinvests profits from our core divisions into entrepreneurial real estate developments. Our investment approach is a cautious, micro market-driven strategy that combines our operating expertise with a unique value-creation perspective.

Despite uneven recovery in some regions and markets, our industry has shown steady improvements in all commercial property sectors. Accordingly, 2012 has been the most productive year since the economy and commercial real estate reached its low point in 2008.

This year, our brokerage group completed more than 300,000 square feet of transactions valued at more than $41 million. Rock Apartment Advisors closed $104 million of multifamily real estate transactions throughout the Southeast. The asset and property management group

TEAM MEMBERS: **Harry M. Lynch,** *President & Chief Executive Officer;* **David R. Williams,** *Executive Vice President & Chief Operating Officer;* **Mary C. Echols,** *Executive Vice President & Chief Accounting Officer;* **W. Dean Nix,** *Senior Vice President Transaction Services;* **Stephen J. Ankenbrandt,** *President, Rock Advisors;* **Robert D. Flurry,** *Senior Vice President, Rock Advisors*

2012 *in review*

We opened our Publix anchored $10 million shopping center with 100% of space leased.

We sold our Harbert Real Estate Fund joint venture shopping center at a record per-square-foot sale price.

We sold our Altamonte Springs development and our portfolio of digital billboards.

oversees more than one million square feet of office and retail property. Lease administration continues to manage more than 2,000 leases worldwide for our corporate clients. In 2012, we did not make any new development investments, but sold our project in Altamonte Springs, Florida and partially exited our Orlando, Florida asset in a favorable tenant replacement strategy. We also completed construction and successfully reached 100% lease up of our new $10 million shopping center in Enterprise, Alabama.

While the real estate environment is a work in progress, we believe that it is trending in the right direction. In 2013, we will continue to focus on providing the best-in-class service and opportunities for our clients and own account.

Harry M. Lynch

President & Chief Executive Officer

Harbert Realty Services, Inc.

Our investment approach is a cautious, micro market-driven strategy that combines our operating expertise with a unique value-creation perspective.

Harbert Employees Reaching Out *(HERO) Foundation*

Harbert Employees Reaching Out. The HERO Foundation is a cooperative effort of HMC's employees and affiliates to provide temporary assistance to individuals and families in need. Since 1998, our employees have donated their money and volunteered their time to make a difference in the lives of people who had few, if any, options.

Alicia Finley and her new powered wheelchair. A HERO grant helped cover the cost of her new head array.

For some people, the value of words like "independence" and "mobility" is reflected in minor things that most of us take for granted. Alicia Finley understands this more than most of us. Born with cerebral palsy, she lives in a nursing home where she is by far the youngest resident. Her only income comes from Social Security, almost all of which goes to pay for her nursing home care. With very limited use of her body, her independence and mobility are also dependent on her powered wheelchair. Alicia does have good control of her head, which allows her to control her chair through a sophisticated head array. This past year, Alicia's wheelchair broke, leaving her completely immobile and the quality of her life, already full of challenges, quickly diminished.

Thankfully, the wonderful people at United Cerebral Palsy were able to locate a replacement chair. Unfortunately, the chair lacked a head array, so even though her mobility increased, Alicia's independence remained frustratingly limited. The people at UCP approached HERO in the hopes that we could cover the cost of a new head array for Alicia—an array that under the best of conditions is very expensive. For the HERO committee, though, the decision was easy and we were able to not just provide Alicia the technology she needed, but were, in a small way, able to restore her independence. And for someone like Alicia who loves being around other people, independence and mobility are values never to be taken for granted.

Alicia's story points out one of the great aspects of the HERO Foundation. The money we raise and the grants we make have a real and significant impact on people's lives. Since 1998, the Foundation has helped many individuals and families endure and overcome hardships. Where there were no other safety nets, HERO was able to step in and make a difference. Over the years, we've helped people affected by 9/11, Hurricane Katrina and the devastating tornadoes that struck Alabama in 2011.

The committees that manage HERO are made up of employees throughout Harbert Management Corporation and its affiliates. The Foundation's resources come from employees and various fundraisers. Since HERO's inception, HMC affiliates and employees have awarded more than $2.5 million in grants. We've touched the lives of countless people and communities in desperate need. Most of our referrals for help come from community partners, including Children's of Alabama (formerly Children's Hospital of Alabama), Alabama Children's Rehabilitation Services, United Cerebral Palsy and the Alabama Head Injury Foundation, to name just a few.

Since HERO's inception, HMC affiliates and employees have awarded more than $2.5 million in grants. We've touched the lives of countless people and communities in desperate need.

Management

EXECUTIVE OFFICERS

Raymond J. Harbert**
Chairman & Chief Executive Officer

Michael D. Luce**
President & Chief Operating Officer

David A. Boutwell**
Executive Vice President & Chief Financial Officer

William W. Brooke*
Executive Vice President & Managing Partner
Venture Capital

Charles D. Miller*
Executive Vice President & Global Head of Distribution

Joel B. Piassick
Executive Vice President

Sonja J. Keeton
Senior Vice President & Chief Administrative Officer

John W. McCullough
Senior Vice President, General Counsel & Secretary

Thomas M. Hicks
Vice President & Director of Risk Management

INVESTMENT PROFESSIONALS

Real Estate

United States Real Estate
Michael P. White
Vice President & Senior Managing Director

Jon-Paul Momsen
Vice President & Senior Managing Director

European Real Estate
Scott D. O'Donnell
Vice President & Senior Managing Director

Tor V. Tveitane
Managing Director

Private Capital

Private Equity
Winston H. Gillum, Jr.
Vice President & Managing Director

Richard S. Davis
Director of Investments

Venture Capital
William W. Brooke*
Executive Vice President & Managing Partner

Wayne L. Hunter
Managing Partner

Mezzanine Capital
John C. Harrison*
Vice President & Senior Managing Director

Independent Power
Wayne B. Nelson, III
President & Chief Executive Officer
Harbert Power LLC

Patrick E. Molony
Executive Vice President & Chief Operating Officer
Harbert Power LLC

Australian Private Equity
Jeremy E. Steele
Vice President & Senior Managing Director

European Growth Capital
David J. Bateman
Senior Managing Director

Johan M. Kampe
Senior Managing Director

Absolute Return Strategies

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