

***MORGAN KEEGAN FUND MANAGEMENT, INC.
Fifty North Front Street
Memphis, Tennessee 38103
For questions, please call (901) 579-4356***

FORM ADV - Part 2 A

THIS BROCHURE PROVIDES CLIENTS WITH INFORMATION ABOUT FUND MANAGEMENT, INC., A REGISTERED INVESTMENT ADVISER, THAT SHOULD BE CONSIDERED BEFORE BECOMING A CLIENT.

THIS INFORMATION HAS NOT BEEN APPROVED OR VERIFIED BY ANY GOVERNMENTAL AUTHORITY.

Being “Registered” does not imply a level of expertise.

Item 2: Material changes

This document has been prepared in accordance with the changes required per the SEC. As this is the initial publication, no material changes are identified in this section.

Item 3 - Table of Contents

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ITEM 4 – Advisory Business

Introduction:

Morgan Keegan Fund Management, Inc. (“MKFM” or the “Firm”) is a wholly owned second tier subsidiary of Regions Financial Corporation, a regional financial holding company that is a publicly held reporting company under the Securities Exchange Act of 1934. MKFM is registered as a Futures Commission Merchant with the Commodities Futures Trading Commission.

Securities held in advisory accounts are not deposits or obligations of any bank, are not endorsed or guaranteed by any bank, and are not insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board or any other governmental agency. Investments in securities involve risks including the possible loss of principle amount invested.

Advisory Services:

Morgan Keegan Fund Management, Inc., a Tennessee corporation (“MKFM”) serves as the managing member of Preferred Fund of Funds LLC (“Preferred Fund”), Preferred Fund of Funds QP LLC (“PFOF QP”), MK Preferred Employee Securities Fund LLC (“Preferred ESC Fund”), MK Capital Partners I LLC (“Capital Partners I”), MK Capital Partners II LLC (“Capital Partners II”) and MK Capital Partners III LLC (“Capital Partners III”). (Each of the foregoing entities may also be referred to individually as a “Fund” or, collectively, as the “Funds.”).

Under the terms of each Fund's limited liability company agreement or limited partnership agreement, MKFM as managing member or general partner is responsible for the day-to-day administration of each Fund's business and is primarily responsible for the determination and implementation of its investment strategy.

The investment objective of each of Preferred Fund, PFOF QP and Preferred ESC Fund is to achieve long-term capital appreciation while attempting to reduce volatility through investments in a diversified, multi-manager portfolio. Each of the Preferred Fund, PFOF QP and Preferred ESC Fund invest in a select portfolio of private investment funds sponsored by other entities (“Investment Funds”). Each Investment Fund, in turn, invests in separate accounts or private investment funds sponsored by others (each, an “Underlying Fund”). The Preferred ESC Fund intends to invest substantially all of its assets in the Class A Interests of the Preferred Fund. Each of the Preferred Fund and PFOF QP currently intends to invest in three such Investment Funds sponsored by Meridian Capital Partners, Inc. or its affiliate, Meridian Diversified Fund, LLC (collectively, “Meridian”), as follows: Meridian Performance Partners, L.P., Meridian Horizon Fund, L.P. and Meridian Diversified Fund, L.P. (collectively, the “Meridian Funds”).

Investors holding Class B interests of the Preferred Fund and PFOF QP are assessed a monthly management fee equal to one-twelfth of 1.0%. Management fees are paid monthly in arrears. No Management Fees will be charged with respect to Class A interests in either fund management fees will be charged with respect to interests in the Preferred ESC Fund.

The investment objective of each of Capital Partners I, Capital Partners II and Capital Partners III is to provide capital growth.

Item 5 - Fees and Compensation

MKCI, a broker-dealer affiliate of MKFM, serves as the placement agent for the Preferred Fund and PFOF QP. An investor who is eligible to purchase a Class A Interest in the Preferred Fund or PFOF QP will not pay a placement fee; an investor who purchases a Class B Interest in either fund will be charged a placement fee of up to 2% of the amount for which the investor subscribes (“Placement Fee”). Subsequent subscriptions for a Class B Interest will also be subject to the Placement Fee.

MKCI also serves as the placement agent for the Preferred ESC Fund, Capital Partners I, Capital Partners II and Capital Partners III. Investors in those Funds will not be assessed any placement fee.

Non-managing members in Capital Partners I, Capital Partners II and Capital Partners III are assessed a monthly management fee equal to one-twelfth of 1.5%. Management fees are paid monthly in arrears. MKFM is also entitled to receive from each non-managing member of Capital Partners I, Capital Partners II and Capital Partners III an annual incentive allocation of 20% (in the case of Capital Partners I and Capital Partners II) or 10% (in the case of Capital Partners III). This annual incentive allocation is subject to a high water mark.

All management fees, incentive allocations and general partner fees discussed above may be waived or reduced for any or all periods in the sole and absolute discretion of MKFM.

Item 6 - Performance Fees – Side by Side Management

The Firm may charge the investors in the Funds fees based on the net profit of the account of the investor. In the case of the Preferred Fund and PFOF QP, these fees are charged not by the Fund itself but by the underlying funds. Such fees are known as performance fees and are regulated by Rule 205-3 under the Advisers Act. The Firm, and the underlying funds whose advisers are registered with the SEC as investment advisers, may only assess performance fees to “qualified clients” under the Investment Advisers Act of 1940, as amended.

Item 7 Types of Clients

Each investor in a Fund must be an “accredited investor,” as defined in Regulation D under the Securities Act of 1933, as amended. With respect to certain Funds, each investor must also be a “qualified purchaser,” as defined in the 1940 Act, as amended, a “qualified client” under the Investment Advisers Act of 1940, as amended.

Only employees and certain other persons or entities connected with MKCI and its affiliates will be eligible to purchase interests in the Preferred ESC Fund and Capital Partners III.

In general, each Fund has a minimum investment amount, a minimum amount for subsequent investments, a minimum capital account balance after redemption are effected and a minimum amount for redemption requests. Capital Partners III also has a maximum investment amount. All of the foregoing minimums and maximums may be waived by MKFM.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Each of the Preferred Fund and PFOF QP seeks to achieve its objective by investing in a select portfolio of Investment Funds. Generally, the activities of the Investment Funds (and the Underlying Funds) may involve investing in, holding, selling, and trading any investment instrument, including stocks, bonds, warrants, notes, debentures (whether subordinated, convertible, or otherwise), money market funds, commercial paper, certificates of deposit, and governmental obligations (or the obligations of any instrumentality thereof), whether publicly offered or pursuant to private placements, and options, futures contracts, forward currency contracts, swaps, caps, floors, collars, and other over-the-counter derivatives in connection therewith.

The Preferred ESC Fund seeks to achieve its objective by investing substantially all of its assets in the Preferred Fund.

MKFM seeks to achieve the investment objective of each of Capital Partners I, Capital Partners II and Capital Partners III by (i) taking long positions in stocks of companies that MKFM believes have appreciation potential and (ii) taking short positions in the stocks of companies that MKFM believes are overvalued and likely to decline in price. MKFM expects that each Capital Partner Fund's investment portfolio will consist primarily of small to mid capitalization common stocks, which are defined to include companies with market capitalizations

of \$5 billion or less. In addition, each Capital Partners may, from time to time, invest in larger capitalization stocks, exchange-traded funds, options, cash-equivalent securities, and certain other investment instruments.

Certain Funds may invest in money market mutual funds or other mutual funds sponsored by or otherwise affiliated with MKCI or its affiliates.

Alternative Investments may be speculative, illiquid, utilize significant leverage and involve substantial risks including the risk of total loss of an investor's capital. Funds are subject to less regulation and higher fees than other pooled investment vehicles such as mutual funds. Funds generally have no secondary market and are not transferable without the consent of the Fund Sponsor. In addition to these general risks associated with Alternative Investments, investors should be aware of the following additional risks where applicable:

Certain Risks of Investing in Hedge Funds and Funds of Hedge Funds:

- **Limited liquidity.** Investors in Funds have limited rights to redeem and limited rights to transfer Fund interests.
- **Use of leverage.** Funds of hedge funds may use leverage to invest in hedge funds. Hedge fund managers also may employ leverage, including borrowing to buy securities on margin as well as other speculative investment practices.
- **Dependence on manager.** The investment managers at the fund of funds and underlying hedge fund levels have wide latitude in making investment decisions and valuing investment positions.
- **Tax risks.** Investors in Funds are typically subject to pass through tax treatment which may result in investors incurring tax liabilities during a year when no cash distribution is received from the Fund. There are also tax risk factors specific to tax-exempt investors including Unrelated Business Taxable Income. In addition, delays in manager reporting may and, in the case of funds of funds is likely to, require the investor to request an extension to file their tax return.
- **Fees and expenses.** Investors in hedge funds will bear fees, expenses and performance based allocations, and in the case of funds of funds, an additional layer of fees. These fees and expenses are higher than the fees typically charged by mutual funds.
- **Regulatory risks and tax risks.** The operation and tax consequences of the Funds are substantially affected by legal requirements, including those imposed by ERISA, the US Internal Revenue Code, US Securities Regulations, and by the laws of any jurisdiction in which a Fund may be organized, formed or offered.

Item 9 Disciplinary Information

MKFM has no disclosures that are reportable. The following is a link to the Investment Adviser Public Disclosure Website:

http://www.adviserinfo.sec.gov/IAPD/Content/lapdMain/iapd_SiteMap.aspx.

Item 10 - Other Financial Industry Activities or Affiliations

Morgan Keegan & Company, Inc. ("Morgan Keegan" or the "Firm") is a wholly owned subsidiary of Regions Financial Corporation, a regional financial holding company that is a publicly held reporting company under the Securities Exchange Act of 1934. Morgan Keegan's primary business is operating as a retail-oriented multi-branch, full service dually registered broker/dealer and investment adviser registered with the Securities and Exchange Commission.

Morgan Keegan is a member of FINRA, the Securities Investors Protection Corporation; the New York Stock Exchange; the American Stock Exchange; and the Chicago Board Options Exchange. Morgan Keegan is registered as a Futures Commission Merchant with the Commodities Futures Trading Commission.

Morgan Asset Management, Inc. ("MAM") is an investment adviser affiliate of MKFM. MKFM, MAM and Morgan Keegan & company, Inc. ("MKCI") are all non-bank subsidiaries of Regions Financial Corp., a bank holding company that is regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. MAM and other advisory affiliates of MKFM may sponsor limited partnerships or limited liability companies similar to the Funds.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

MKFM has adopted a Code of Ethics ("Code") that sets forth the standards of conduct expected of MKFM personnel. The Code requires personnel to report their personal securities holdings and transactions and requires the Chief Compliance Officer to pre-approve certain investments. MKFM is required to keep copies of the Code and records relating to the Code. Clients and prospective clients may obtain a copy of the Code by contacting MKFM. MKFM personnel are required to submit an annual report of brokerage accounts and holdings along with an annual acknowledgement and certification stating that the individual will comply with the Code. In addition, personnel are required to submit quarterly transaction reports that detail the individual's securities transactions for the quarter.

All employees, managers and officers of MKFM must comply with the Code. The Code states that MKFM personnel owe a duty of loyalty to MKFM and its clients that requires MKFM personnel to act for the best interests of MKFM and its clients. In addition, MKFM personnel must avoid actions or activities that allow (or appear to allow) them or their family members to profit or benefit from their relationships with MKFM and its clients. The Code also contains policies involving the safeguarding of proprietary and non-public information by MKFM personnel along with restrictions on the use of insider information and the use of non-public information regarding a client. MKFM will provide a copy of its Code to any investor or prospective investor upon request.

MKFM will hold a nominal investment in the Preferred Fund, PFOF QP, Capital Partners I, Capital Partners II, Preferred ESC Fund, and in Capital Partners III. The principals of MKFM may also invest in certain Funds. Each of Capital Partners III and Preferred ESC Fund is an "employees' securities company" and, accordingly, only employees and certain other persons or entities connected with MKCI and its affiliates will be eligible to purchase interests in those Funds.

Item 12 - Brokerage Practices

MKCI is a registered broker-dealer which, from time to time, may act as either principal or as agent to effect securities transactions for any client.

The Firm has a duty to seek the best execution of client accounts. "Best execution" refers to the duty to seek the best overall qualitative execution for a client in a particular circumstance. "Best execution" is not synonymous with lowest brokerage commission. Consequently, in a particular transaction a Fund may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction.

For the Preferred Fund and PFP QP, the managers of the underlying funds arrange for the placement of orders and execution of portfolio transactions. MKFM will seek to address execution concerns with an applicable manager as deemed appropriate and reserves the right to terminate such relationships if MKFM deems satisfactory measures to address their concerns is not taken. MKFM makes decisions concerning the allocation of assets of the Preferred Funds and PFOF QP into the Investment Funds (collectively the "Meridian Funds").

For the Capital Partners Funds, MKFM does arrange for order placement and execution of transactions and seeks to obtain best execution for such transactions. Block trades are used whenever possible and allocation of daily transactions is typically finalized no later than the close of business on the trade date. Trades will not be blocked for Funds where the portfolio manager determines that blocking will not lead to efficiency, regulations preclude blocking, the trade is directed to a broker in return for legitimate research or similar

products and/or if the portfolio manager determines that blocking is otherwise not the best interest of the applicable Fund and its investors.

MKFM may, from time to time, have the Funds to engage in transactions with each other if MKFM believes the transactions are in the best interest of the Funds. Although MKFM does not consider such transactions to be principal transactions, MKFM will seek to ensure the transactions between MKFM advisory clients are conducted in the best interest of those clients.

Soft Dollars

Although MKFM does not expect to generate “soft dollars” with respect to the trades of any Fund, if it does so, MKFM intends to comply with the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Item 13 - Review of Accounts

Original client subscription documents will be reviewed by MKFM personnel prior to approval for purchase into the Funds. MKCI branch managers are responsible for the initial review of subscription documentation. Client account opening documents are inspected to ensure clients meet the financial requirements imposed by a Fund and investment objectives are appropriate to investment within the elected Fund. The client, financial advisor, and branch manager must execute all subscription documentation.

MKFM personnel will perform the final review of each potential client subscription agreement for suitability and financial requirements associated with the Fund elected.

For institutional clients, MKFM may rely upon the Financial Advisor and Branch Manager for documentation supporting suitability.

Only approved Financial Advisors may make presentations on the Funds. The Alternative Investments Group of MKCI will establish the criteria necessary to market the Funds.

MFKM monitors the investment managers who manage the assets for its Preferred Fund and PFPF QP clients. This review process includes personal visits to managers' offices, telephone conversations with the managers and their staff, and reviews of the investment strategies and performance. MKFM's review process generally extends to the Investment Funds, but not to the Underlying Funds. MKFM generally reviews the Partnership's portfolio on a monthly basis and it generally reviews the portfolio of the Preferred Fund and PFOF QP on at least a quarterly basis.

In the case of Capital Partners I, Capital Partners II and Capital Partners III, the Chief Compliance Officer or designee reviews the portfolio transactions and holdings of the Funds on a monthly basis to ensure that MKFM is complying with terms of the offering documents for these funds and to ensure that MKFM is complying with its compliance procedures and applicable law with respect to the trading and other activities of these Funds. The Chief Compliance Officer or his designee will discuss any concerns raised during these reviews with the portfolio manager(s) responsible for the trading activities of these Funds.

Investors in each Fund receive annual audited financial statements and certain monthly and/or quarterly reports containing capital account information and/or a discussion of Fund performance.

Item 14 - Client Referrals and Other Compensation

The firm does not receive any economic benefit from a non-client for providing advisory services to clients.

MKCI and its registered representatives will also receive a portion of the management and performance fees earned by the general partner and/or investment manager of the Meridian Funds, and may receive a portion of

such fees earned by the general partner, managing member and/or investment manager of the other Investment Funds in which the Preferred Fund and/or PFOF QP invest.

Item 15 – Custody

All assets are held away at non-affiliated companies or directly with the investment sponsor.

Item 16 – Investment Discretion

The firm has investment discretion over the accounts of certain of its clients.

Item 17 - Voting Client Securities:

MKFM generally will vote proxies so as to promote the long-term economic value of the underlying securities held by MKFM's clients. Each proxy proposal is considered on its own merits, and an independent determination is made whether to support or oppose management's position. MKFM believes that the recommendation of management should be given substantial weight, but MKFM will not support management proposals that MKFM believes may be detrimental to the underlying value of client positions. Investors may obtain a copy of these proxy voting policies as well as information about how MKFM has voted client proxies by contacting MKFM.

Item 18 - Financial Information

MKFM is a subsidiary of Regions Financial Corporation.

Appendix 1 Wrap Fees

MKFM does not sponsor any wrap programs.