

DISCLOSURE BROCHURE  
(FORM ADV PART 2)

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This brochure provides information about the qualifications and business practices of Treaty Oak Capital Management, L.P. If you have any questions about the contents of this brochure, please contact us at 512.481.1970. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Treaty Oak Capital Management, L.P. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Treaty Oak Capital Management, L.P. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Because much of the information in this ADV Part 2 is additional information we are providing due to legislative changes and was not previously provided in our prior ADV Part II, we recommend that you read this ADV Part 2 in its entirety.

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## **1. Advisory Business**

Treaty Oak Capital Management, L.P. began operations in April 2002 and is principally owned by the Aaron Stanley Management Trust. We provide investment supervisory services on a discretionary basis to private pooled investment limited partnerships, individuals, partnerships and corporations. Investment supervisory services include: (1) establishing each client's investment objectives; (2) buying or selling portfolio securities on behalf of each client and, from time to time, reallocating securities among client portfolios to balance securities among such portfolios and (3) periodically reporting to each client its current investment holdings, valuations, transactions, capital gains or losses, investment income and performance. We primarily focus our supervisory services on energy-sector related securities.

Our clients include Treaty Oak Partners, LP, Treaty Oak Partners (QP), LP and Treaty Oak Acorn Fund, LP, all private investment funds formed as a Texas limited partnerships, of which we are the investment manager. We also accept clients into separately managed accounts.

While we adhere to the funds' investment objectives which are detailed in their private placement memoranda, fund clients may not otherwise impose restrictions on investing in certain securities or types of securities.

With respect to separately managed account clients, we will discuss each client's individual needs and work to develop an investment advisory agreement that describes its investment objectives and any restrictions on investments in certain securities or types of securities the client desires.

All client assets are managed on a discretionary basis and total client assets managed as of March 1, 2011 were \$111,500,000.

## **2. Fees and Compensation**

### **Fund Clients:**

We charge fund clients a quarterly management fee, in advance, at an annual rate of 1.0% of the value of each limited partner's capital account balance. The value of the account on which the management fee is based is the limited partner's capital account balance on the first day of the quarter. Management fees are generally not refundable or negotiable and are deducted from the client's account quarterly.

Treaty Oak Canopy, LP, the general partner of the funds and our affiliate, charges an annual performance-based profit allocation at the end of each year of 20% of the fund's annual net

profits attributable to a limited partner, but only to the extent that such profits exceed any losses carried forward from prior years based on a “high water mark” formula. However, with respect to Treaty Oak Partners, LP and Treaty Oak Partners (QP), LP, the general partner only receives a performance allocation if net profits attributable to a limited partner exceed a “hurdle rate” of 5% for the year. Once the “hurdle rate” is achieved, the performance allocation applies to all net profits of a particular limited partner for the year. Net profit includes unrealized appreciation or depreciation or marketable positions but generally includes only realized amounts in the case of non-marketable investments.

We may reduce or waive fees at our discretion. Fees are deducted from clients’ assets as incurred.

Each of the funds bears all costs and expenses directly related to its investment program, including expenses related to proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees and any withholding or transfer taxes imposed on the fund. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a each fund’s prospectus. Each fund also bears all out-of-pocket costs of the administration of the fund, including accounting, audit and legal expenses, costs of any litigation or investigation involving the fund’s activities and costs associated with reporting and providing information to existing and prospective limited partners. Such charges, fees and commissions are exclusive of and in addition to our fee, and we shall not receive any portion of these commissions, fees and costs.

Section 9 further describes the factors we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Managed Account Clients:**

Currently, we only advise one managed account client. The managed account client pays us an asset based fee (a percentage of the net assets in the account), which is payable quarterly in arrears at the end of each calendar quarter.

Additionally, we receive an annual performance fee in arrears at the end of each calendar year. The annual performance fee is a portion of the net realized and net unrealized appreciation of the managed account. However, if net asset value of the managed account is below a specified threshold, we receive a reduced performance fee. No performance fee is payable for any year in which there is an overall net loss in the managed account and no performance fee is payable until such net loss is offset by net overall appreciation.

We bill the managed account client for all advisory fees.

Expenses that we incur that are directly related to the managed account’s investment activities, including legal fees and professional fees, are billed to the client. Expenses and

any commission, if common to the managed account client and the funds, are paid pro rata by such entities based on their respective amounts of capital under management.

Section 9 further describes the factors we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **3. Performance-Based Fees and Side-By-Side Management**

Treaty Oak Canopy, LP, the funds' general partner and our affiliate, receives an annual performance-based profit allocation at the end of each year of 20% of each fund's annual net profits attributable to a limited partner, but only to the extent that net profits exceed any losses carried forward from prior years based on a "high water mark" formula. With respect to our managed account client, we receive an annual performance-based fee.

Performance-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have designed and implemented a monthly pro rata account allocation procedure to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients.

We do not currently have any clients who are not charged a performance based fee.

### **4. Types of Clients**

We generally provide portfolio management services to individuals, high net worth individuals, charitable institutions, foundations, endowments, private investment funds, and other U.S. and international institutions. The minimum investment in the funds is \$500,000. Separate managed accounts must have a minimum balance of \$750,000 or the individual's net worth must be in excess of \$1.5 million.

### **5. Methods of Analysis, Investment Strategies and Risk of Loss**

Our equity investment process is driven both by a "top-down" and "bottom-up" style. While the majority of our investment decisions are generally generated on a "bottom-up" approach (i.e., individual fundamental company and security analysis of valuation relative to potential value adjusted for risk), we also have substantial experience in forecasting oil and natural gas prices and have developed several proprietary supply and demand

databases as well as economic and non-economic supply and demand models. At various points in time, we may use the conclusions from these macroeconomic models to drive sector allocations among the energy universe (oil price-sensitive equities, gas price-sensitive equities, service-cost sensitive, electricity price-sensitive, etc.) in the investment portfolio. We consider these macroeconomic allocations relative to sector valuation as well as other factors such as market psychology.

In periods of a benign macroeconomic view, as well as periods of aggressive macroeconomic opinion, the driving force in the individual investments within a sector will generally be company specific analysis. While we generally are a value investor, this is placed in context with a company's growth outlook. Our field of vision usually encompasses companies that would be more traditionally defined as "growth" companies. We consider a high P/E perfectly appropriate if the probability of future growth scenarios is high enough. Conversely, many companies that trade at low valuations do so for good reasons, including managements with poor track records of value creation or some other factor that may impair the company's future earnings outlook. We realize that value must often be accompanied with catalysts to realize the value. We intend to broadly define energy related securities. In addition to the traditional producers, transporters and service suppliers, we may consider investments in securities of companies that may benefit from price changes in various forms of energy.

Investing in securities involves a risk of loss that clients should be prepared to bear. The risks associated with the investment strategy described above include, but are not limited to the following:

*Energy Exposure.* A significant portion of the client's capital will be invested in equities and other instruments of energy companies. As a result, the clients will be exposed to risks associated with energy commodity price fluctuations as such fluctuations impact energy companies. Such commodity interest prices are highly volatile and no assurance can be given that our investment strategy will result in profitable trades or that the clients will not incur substantial losses.

*Government Regulation and Proprietary Rights of Energy Companies.* The operations of energy companies and oil service companies are generally subject to extensive regulation by federal, state and local governmental agencies. Companies in which we invest may need to obtain licenses and approvals from government regulators to operate or sell their products or technologies. Licenses granted may be revoked and applications for new licenses are subject to delays for substantial periods of time. Government regulation can include rate regulation as well as limiting available services and products, ownership and geographic territories served. Such regulation can result in limited returns, increased costs and decreased economic incentive to develop new products. Government regulation may be unpredictable and is subject to political, economic, social and market developments.

There can be no assurance as to the level or effect on companies in the energy and oil and gas sector of government regulation in the future.

Many of the companies in which we will invest rely on a combination of patent, copyright, trademark and trade secret protection and non-disclosure agreements to establish and protect their proprietary rights. There can be no assurance that a particular company will be able to protect these rights or will have the financial resources to effectively enforce their rights, or that competitors will not develop technologies that are substantially equivalent or superior to a company's technology.

*Short Sales.* Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase, although we may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, we might have difficulty purchasing securities to meet our short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet our short sale obligations at a time when fundamental investment considerations would not favor such sales.

*Derivatives.* Derivative instruments, or "derivatives," include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the clients to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts.

*Use of Leverage.* Subject to applicable margin and other limitations, we may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the clients' portfolios would be amplified. Interest on borrowings will be a portfolio expense of the clients and will affect the operating results of the clients. Also, the clients could potentially

create leverage via the use of instruments such as options and other derivative instruments.

*Options.* Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

*Foreign Securities.* Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the clients are maintained) and the various foreign currencies in which the clients' portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes and (v) the extension of credit, especially in the case of sovereign debt.

## **6. Disciplinary Information**

We have had no disciplinary or legal events since our establishment in 2002.

## **7. Other Financial Industry Activities and Affiliations**

Our clients include Treaty Oak Partners, LP, Treaty Oak Partners (QP), LP and Treaty Oak Acorn Fund, LP, all private investment funds formed as a Texas limited partnerships, of which we are the investment manager. Our affiliate, Treaty Oak Canopy, LP, serves as the general partner to each of the funds. Although this arrangement may give us heightened control and discretion over the funds, we manage any potential conflicts of interest by

adhering to the investment strategy and investment allocation policy discussed in each fund's private placement memorandum.

Additionally, the performance allocation paid to the funds' general partner (our affiliate) may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of such performance allocation. We address this potential conflict of interest by fully disclosing the relationship among the general partner, us and the funds in the funds' offering documents. In addition, the general partner entered into the investment management arrangement with us on behalf of the funds. While this may be an interested party agreement, the material terms of the investment management arrangements are fully disclosed to all investors in the funds prior to their investment.

## **8. Code of Ethics**

We adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Investment Advisers Act of 1940, as amended. This Rule requires us to adopt a Code that sets forth a standard of business conduct and compliance with federal securities laws by all of our employees. Our Code contains policies and procedures that ensure that all personal securities trading by our employees are conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. We prohibit personal trading on certain securities or instruments; require pre-clearance before purchasing or selling an energy-related security; require periodic reporting of employees' personal securities transactions and holdings and require prompt internal reporting of Code violations.

Our members and employees may invest in securities in which we may have invested on clients' behalf. This could create a conflict of interest if such individuals receive more favorable execution prices than the clients. Therefore, our members and employees may purchase or sell such securities only contemporaneously with or after all clients' purchase or sale of such securities, as the case may be. Members, employees or any other covered persons' personal investing activities are required to be reported to the Chief Compliance Officer. Additionally, personal trading activity must be pre-approved by the Chief Compliance Officer. Members, employees and other covered persons are never allowed to trade in a security while in possession of material non-public information.

If requested, we will provide at no cost, a copy of our Code of Ethics.

## **9. Brokerage Practices**

We have complete investment and brokerage discretion with respect to our clients' accounts. We select brokers for our direct securities transactions based on a number of

factors, including the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services and other services we consider to be of value and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria. We are not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by us, and our fees are not reduced as a consequence of the receipt of such supplemental research information. Research services may include both services generated internally by a broker's own research staff and services obtained by the broker from a third party research firm. Research may include reports and analyses concerning specific issuers, industries or sectors; market, financial and economic forecasts and other data; and statistics and pricing services. It may also include, software, databases and telecommunications services that we use for research purposes. Research services provided by the broker-dealers used by the clients may be utilized by us or our affiliates in connection with investment services for other accounts and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by us in performing their services for the clients. Since commission rates in the United States are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

From time to time, we may become a party to "soft dollar" arrangements with various brokerage firms, pursuant to which the cost of certain research and other services and products used by us or our affiliates is paid for with commissions generated by direct securities transactions for client accounts. We may use soft dollar credits generated by a client account to pay for services and products used by us or our affiliates that are unrelated to the account from which the soft dollars were generated. Currently, we only use soft dollar credits to obtain market data, research, and industry insights, all of which fall under safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended. During the last year, we used accumulated client brokerage commissions to obtain research related materials that are relevant to our analyses. We have an arrangement with our prime broker to use a portion of client commissions to pay for outside research materials.

The use of brokerage commissions to obtain investment research services creates a conflict of interest between us and the clients, because the clients pay for such products and services that are not exclusively for the benefit of the clients and that may be primarily or exclusively for the benefit of us. To the extent that we are able to acquire these products and services without expending our own resources (including management fees paid by the client), our use of "soft-dollars" would tend to increase our profitability. In addition, the availability of these non-monetary benefits may influence us to select one broker rather than another to perform services for the clients. The investment management agreements between us and the clients specifically authorize these practices to the fullest extent

permitted by law. We direct our clients' transactions to broker-dealers based on overall best execution, as explained above.

Transactions of the same security for multiple accounts are aggregated whenever possible. When trades are aggregated, the average execution price will be applied to each participating client account. If all such orders cannot be fully executed under prevailing market conditions, we may allocate the securities amount clients on a basis we consider equitable.

## **10. Review of Accounts**

Each account is reviewed weekly or more frequently if triggered by economic or market conditions. Aaron R. Stanley, the manager, and Brad Beago, Jay Creel and Chris McDougall, our analysts, review each account in a manner consistent with the investment goals of each account.

Our prime broker provides daily account reports with trading positions and valuation to the funds. On a monthly basis, the funds' administrator provides financial reports and performance data to the funds.

We furnish to the funds' limited partners, as soon as practicable after the end of each taxable year, annual reports containing financial statements examined by the funds' independent auditors as well as such tax information as is necessary for each partner to complete federal and state income tax or information returns. We also provide monthly reports reviewing each fund's performance for the month. The funds' administrator provides fund clients' monthly account statements detailing their individual account activity.

We do not deliver any reports to the managed account client. The managed account client has a direct relationship with the prime broker and we only direct trades on behalf of that account. The managed account client receives account statements directly from the broker and has the ability to see all account activity on a daily basis.

## **11. Client Referrals and Other Compensation**

From time to time, we may enter into agreements with individuals who solicit clients for us. Currently, we have one outstanding agreement with a third party marketer/solicitor. Prior to 2007, we engaged a different outside marketing firm to solicit clients on our behalf. Per the marketing agreement between us and the former solicitor, we continue to compensate the solicitor for clients obtained by him for a period of five years from the termination of the agreement. All solicitors are compensated out of ordinary and customary fees that we charge to our clients. No additional amounts are deducted from the client's account to compensate any third party marketing firm. There is no difference with respect to the level of service that we deliver to investors who have been introduced to us by outside marketers from that delivered to any other client.

## **12. Custody**

While it is our practice not to accept or maintain physical possession of any client assets, we are deemed to have custody of the funds' assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to deduct our fees from our clients' account. Fund clients receive monthly account statements from their custodian.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all of our clients' assets. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year.

We do not have custody of the managed account. The managed account client receives monthly account statements from its custodian.

Clients should carefully review account statements received from their custodian.

## **13. Investment Discretion**

Our investment advisory contracts contain language whereby the clients grant us broad discretionary power to manage their accounts. While the fund clients may not place limitations on this authority, we adhere to the investment strategy set forth in each fund's private placement memorandum. With respect to the managed account client, we observe

the investment policies, limitations and restrictions set forth in the client's agreement with us. Our managed account client generally trades *pari passu* with the funds. However, we may not invest the managed account's assets in any form of illiquid securities without obtaining the client's prior consent. Additionally, we may not permit the managed account's gross market exposure to exceed 200%.

#### **14. Voting Client Securities**

We adhere to an established policy to vote proxies on behalf of our clients. The purpose of this policy is to further the best interests of the clients. This policy has been and will be distributed to all prospective clients. This policy is available to clients upon request. Further, clients may request a record of how proxies have been voted on their behalf.

We vote each proxy to further the best interest of our clients. In the event that a conflict of interest, we will either disclose the conflict to the client and obtain a consent or we will have a meeting composed of all analysts and the Chief Compliance Officer in order to mutually determine the best course of action to resolve such conflict in order to be able to vote such proxy in the best interest of the client. Generally, clients cannot direct our vote in a particular situation.

#### **15. Financial Information**

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual and fiduciary commitments our clients and we have never been the subject of a bankruptcy proceeding.