

Item 1. Cover Page

FIRM BROCHURE

**HOVDE CAPITAL ADVISORS, LLC
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WASHINGTON, DISTRICT OF COLUMBIA 20036**

WWW.HOVDECAPITAL.COM

MARCH 31, 2011

This brochure provides information about the qualifications and business practices of Hovde Capital Advisors, LLC. If you have any questions about the contents of this brochure, please contact our Legal Department at (202) 822-8117 and/or advlegal@hovdecapital.com. 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.

Additional information about Hovde Capital Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Being a "registered investment adviser" or describing ourselves as being "registered" does not imply a certain level of skill or training.

**THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE
SOLICITATION OF ANY OFFER TO BUY ANY SECURITY.**

Item 2. Material Changes

Not Applicable

Item 3. Table of Contents

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Item 4. Advisory Business

Hovde Capital Advisors, LLC (“HCA”), a Delaware limited liability company, founded in 1994, provides investment advisory services to clients on a discretionary basis. The advisory services include, among other things, providing advice regarding asset allocation and the selection of investments. HCA provides advisory services to five private investment funds (i.e., hedge funds): Financial Institution Partners Master Fund, LP, a Cayman Islands limited partnership (the “FIP Master Fund”), Financial Institution Partners, L.P., a Delaware limited partnership (“FIP LP”), Financial Institution Partners, Ltd., a Cayman Islands exempted company (“FIP Ltd.”), Financial Institution Partners III, L.P., a Delaware limited partnership (“FIP III”), and Financial Institution Partners IV, L.P., a Delaware limited partnership (“FIP IV”) (individually, a “FIP Fund”, or collectively, the “FIP Funds”).

In October 2009, FIP LP and FIP Ltd. were restructured as feeder-funds in a master feeder structure and invest all of their investable assets in FIP Master Fund, which operates a master fund. The operating and trading activities of the FIP Funds are conducted by FIP Master Fund, FIP III and FIP IV. HCA from time to time also provides advisory services to separately managed accounts.

HCA’s principal owners include: Eric Donald Hovde, President, Chief Executive Officer and Managing Member; Richard Joseph Perry, Jr., Chief Compliance Officer, Chief Operating Officer, and Managing Member; Jeffrey Alan Kashdin, Chief Financial Officer and Member; Jason Andrew Swanson, Assistant Portfolio Manager and Managing Member.

HCA employs an investment strategy that seeks superior returns primarily through long-term capital appreciation of financial services and real estate-related investments, while also attempting to mitigate risk through hedging activities.

HCA will invest in a wide variety of securities and financial instruments of all kinds and descriptions, whether publicly traded or privately placed, including, but not limited to, common and preferred stocks, bonds and other debt securities, convertible securities, publicly traded limited partnership interests, options, warrants, futures contracts, derivatives, various types of collateralized debt obligations (“CDOs”) (e.g., bank and insurance trust preferred CDOs), monetary instruments and cash and cash equivalents. HCA primarily invests in equity and equity-related securities of banks, thrifts, investment banks, insurance companies, real estate-related companies (including, but not limited to, homebuilders, real estate developers, building supply companies and other companies owning, leasing, renting, developing and managing real estate) and nonbank financial services companies, including commercial and consumer finance companies, asset management companies, collection companies, technology companies related to, or which derive significant revenue from, the financial services or real estate-related industries, and other companies which derive a significant portion of their revenue or profits from financing and/or real estate-related activities. HCA will generally invest at least seventy-five percent (75%) of a FIP Fund’s assets in the financial services and real estate-related companies described above. While HCA invests primarily in securities of companies listed on U.S.-based exchanges, it may, from time to time, also invest in companies that either are listed on a foreign exchange or are domiciled outside of the U.S. Such investments are generally either made directly on foreign exchanges or through American Depositary Receipts (“ADRs”) listed

on an U.S. exchange. The FIP Funds' exposure to such companies will generally not exceed fifteen percent (15%) of a FIP Fund's assets, and typically involves companies with a significant presence or operations in the United States. Currency exposure associated with foreign securities may or may not be hedged depending on the circumstances. *The investment strategies employed by HCA may be modified from time to time, and the description herein is not exhaustive.*

As of December 31, 2010, HCA has approximately \$352,109,567 under its management on a discretionary basis.

Hovde Credit Opportunities Management ("HCOM"), a Delaware limited liability company formed in November 2008 is an affiliate of HCA (both HCA and HCOM, as well as any entity which serves as general partner or other similar capacity with respect to a Fund will, where the context requires, be referred to collectively as the "Adviser"), and provides investment advisory services to Hovde Credit Opportunities Fund, L.P., a Delaware limited partnership ("HCO US Feeder"), Hovde Credit Opportunities Fund, Ltd., a Cayman Islands exempted company ("HCO Cayman Feeder") which invest all or substantially all of their assets in Hovde Credit Opportunities Master Fund, L.P., a Cayman Islands exempted limited partnership ("HCO Master Fund", collectively, with the HCO US Feeder and the HCO Cayman Feeder, the "Credit Opportunities Funds"). The Credit Opportunities Fund and the FIP Funds are also referred to collectively herein as the "Funds."

Hovde Credit Opportunities Management LP principal owners include: Eric Donald Hovde, Managing Member; Richard Joseph Perry, Jr., Managing Member; Jeffrey Alan Kashdin, Member; Jason Andrew Swanson, Managing Member.

HCOM employs an investment strategy which seeks above-average capital appreciation while taking appropriate risk by investing primarily in both public offerings and private placements in distressed debt securities and similar securities and other financial instruments, including, without limitation, whole loans, both secured and unsecured, various types of collateralized debt obligations ("CDOs") (e.g., bank and insurance trust preferred CDOs), collateralized loan obligations ("CLOs"), corporate bonds, asset-backed securities ("ABS"), commercial mortgage-backed securities ("CMBS"), residential mortgage-backed securities ("RMBS"), credit default swaps, individual trust preferred securities and/or other preferred and convertible preferred securities. HCOM may utilize other strategies or financial instruments as it sees fit. *The investment strategies employed by HCOM may be modified from time to time, and the description herein is not exhaustive.*

As of December 31, 2010, HCOM has approximately \$46,736,433 under its management on a discretionary basis.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and 10 (Other Financial Industry Activities and Affiliations).

Item 5. Fees and Compensation

The Adviser receives from the Funds management fees ranging from 0.125% per month (equivalent to approximately 1.5% annually) to 0.167% per month (equivalent to approximately 2.0% annually) of each investor's share of the applicable Fund's net asset value (including, without limitation, the value of any Side Pocket Accounts (as defined below)). The management fee will be debited directly from assets of the Fund. The management fee is payable quarterly in arrears and calculated and accrued as of the last day of each month during the relevant quarter. A pro rated management fee will be charged to for any amounts permitted to be invested or withdrawn during any quarter and for any quarter in which the Adviser does not act as the Adviser for the entire quarter. Currently, the management fees are paid by FIP III, FIP IV, the FIP Master Fund and the HCO Master Fund.

With respect to Side Pocket Accounts, if an investor in a Fund completely withdraws or redeems from such Fund, and after giving effect to such withdrawal or redemption, such investor still has an interest in such Fund attributable to a Side Pocket Account, the Adviser generally may reserve or hold back from the withdrawal or redemption proceeds payable to such investor an amount, as deemed sufficient to cover the management fee expected to be payable over the life of each such Side Pocket Account with respect to such investor (the "Management Fee Reserve"). The Management Fee Reserve generally will earn interest at a rate equal to the average yield on the relevant Fund's cash and cash equivalents for the period from the applicable withdrawal or redemption date until the date the Management Fee Reserve is used. Generally, any unused portion of the Management Fee Reserve will be paid to the investor upon a Realization Event (as defined below) with respect to the relevant Side Pocket Account. To the extent the Management Fee Reserve and any interest thereon does not cover the management fee that is due in any year during the life of the Side Pocket Account, the Adviser will send a periodic statement to the relevant investor providing for the payment of the management fee, which shall be due within fifteen (15) days of receiving such statement. If the full amount of the shortfall due and owing is not paid, the Adviser may reduce the amount of any subsequent withdrawal or redemption proceeds paid to such investor by an amount equal to the unpaid shortfall, together with interest accrued at a rate equal to the average yield on the relevant Fund's cash and cash equivalents plus 3%.

In addition, if an investor in a Fund completely withdraws or redeems from such Fund, and after giving effect to such withdrawal or redemption, such investor at a still has an interest in such Fund attributable to a Side Pocket Account, the Adviser may establish a reserve from the withdrawal or redemption proceeds to pay for future expenses attributable to such Side Pocket Account.

The Adviser may waive, reduce or rebate the management fees paid by a Fund with respect to any investor in such Fund, including, without limitation, any employee, agent or affiliate of the Adviser. The Adviser, in its sole and absolute discretion, may also pay a portion of the management fee to certain investors, affiliates or other third parties.

The Adviser has the authority to alter or change the manner and method of calculating and paying the management fee solely for the purpose of ease of administration, including, without limitation, charging the management fee to FIP LP, FIP Ltd, the HCO US Feeder and/or the

HCO Cayman Feeder, rather than charging the respective master funds the management fee, provided that no such alteration or change in the method of calculation and payment shall in any way alter or affect the substantive rights of any investor in such Fund.

In addition, with respect to investors in FIP LP and FIP Ltd, provided that the Aggregate Contributed Capital (as defined below) of an investor and his, her or its Eligible Affiliates (as defined below) equals (or exceeds) \$100,000,000 (the "Threshold Capital Amount") on or after October 1, 2009, the Hovde Management Fees (as defined below) payable by such investor and/or his, her or its Eligible Affiliates, as applicable, to the Adviser, in each case to the extent accrued on or after June 1, 2009, shall be calculated based on the following rate schedule:

(i) in the event that the Aggregate Investment Value (as defined below) of such investor and/or his, her or its Eligible Affiliates, as applicable, as of the relevant dates of determination is less than or equal to \$200,000,000, the relevant Hovde Management Fees on the portion thereof that is less than or equal to \$100,000,000 shall accrue at a rate equal to 0.125% per month (equivalent to approximately 1.5% annually), and the relevant Hovde Management Fees on the remainder shall accrue at a rate equal to 0.10416% per month (equivalent to approximately 1.25% annually); and

(ii) in the event that the Aggregate Investment Value of such investor and/or his, her or its Eligible Affiliates, as applicable, as of the relevant dates of determination is greater than \$200,000,000, the relevant Hovde Management Fees on the portion thereof that is less than or equal to \$200,000,000 shall accrue at the rates and in the manner provided in clause (i) above, and the relevant Hovde Management Fees on the remainder shall accrue at a rate equal to 0.0833% per month (equivalent to approximately 1.0% annually);

The foregoing rate schedule applicable to the relevant Hovde Management Fees set forth in clauses (i) and (ii) above shall not apply to the extent that the Aggregate Contributed Capital of such investor and his, her or its Eligible Affiliates is less than the Threshold Capital Amount (except to the extent that such reduction is as a result of the performance of one or more Hovde Products (as defined below)) during any relevant calendar quarter (or other period) relating to a relevant date of determination, in which case, for the avoidance of doubt, the rate or rates otherwise in effect pursuant to the terms and provisions hereof and of any other relevant account or fund documentation shall apply.

"Aggregate Contributed Capital" shall mean, with respect to an investor and/or his, her or its Eligible Affiliates, without duplication, the aggregate amount as of the relevant dates of determination of any capital placed in or otherwise contributed to, subscriptions made for shares or other interests in, or other investments made in any Hovde Product (but excluding any appreciation thereon), by such investor or any of his, her or its Eligible Affiliates.

"Aggregate Investment Value" shall mean, with respect to an investor and/or his, her or its Eligible Affiliates, without duplication, the aggregate net asset value or net worth as of the relevant dates of determination of all investments in Hovde Products held by such investor and his, her or its Eligible Affiliates, in each case calculated in accordance with the relevant account or fund documentation governing such Hovde Product.

“Eligible Affiliates” shall mean, collectively, with respect to an investor, all persons, family members and entities controlling, controlled by or under common control with such investor, as well as any separate or managed account, fund or other investment vehicle sponsored, managed or advised by the investment manager or adviser, general partner or managing member of such investor or other person or entity acting in a similar capacity on behalf of such investor and that invests in any Hovde Product pursuant to an allocation of capital made by any of the foregoing. For purposes of the foregoing, the determination of an Eligible Affiliate shall be subject to the final review by and approval of the Adviser in its sole and absolute discretion.

“Hovde Management Fees” shall mean, collectively, any and all management fees and similar fees (but, for the avoidance of doubt, not any performance- or incentive-based fees or allocations) payable to the Adviser with respect to the relevant Hovde Product(s).

“Hovde Product” shall mean any fund or other investment vehicle that HCA or the general partner of the Master Fund, directly or indirectly, provides or shall provide investment management services to and/or acts as the general partner, managing member (or in a similar capacity) for, or any separate or managed account, fund or other investment vehicle of an investor or any of his, her or its Eligible Affiliates that is managed or advised, directly or indirectly, by the Adviser, in each case for so long as such fund, other investment vehicle or separate or managed account, as applicable, has been designated by the Adviser as being a Hovde Product (and has not had such designation revoked by the Adviser), in its sole absolute discretion. For the avoidance of doubt, the Hovde Product(s) designated as such for purposes of determining Aggregate Contributed Capital need not be the same as the Hovde Product(s) designated as such for purposes of the application of the foregoing rate schedule (including, without limitation, the allocation of the discounted rates on portions of the Aggregate Investment Value) across the relevant Hovde Product(s), which shall be made by the Adviser, in its sole and absolute discretion.

Subject to the Loss Carryover, as of the end of each fiscal year, increases in the net asset value allocated during such fiscal year to each investor in such Fund will be reallocated so that the Adviser shall receive an allocation (a “Performance Allocation”) equal to twenty percent (20%) of the aggregate increases in such Fund’s net asset value allocated to each investor. With respect to Side Pockets, no Performance Allocation shall be made with respect to a Side Pocket Account until a Realization Event occurs with respect to such Side Pocket Account. Currently, Performance Allocations are made to the Adviser by FIP III, FIP IV, the FIP Master Fund and the HCO Master Fund.

A separate Performance Allocation will be calculated with respect to all funds permitted to be invested by an investor in a Fund during a fiscal year and with respect to all funds permitted to be withdrawn by an investor from a Fund during a fiscal year.

The Performance Allocation is subject to what is commonly known as a “Loss Carryover.” That is, if there is a net loss allocated to an investor in any year, this loss will be carried forward, to future years (such amount is referred to as the “Loss Carryover”). Whenever there is a Loss Carryover a Performance Allocation will not be received for future years until the Loss Carryover amount has been recovered. Once the Loss Carryover has been recovered, the

Performance Allocation shall be based on the increase in net asset value in excess of the Loss Carryover, rather than the entire increase in net asset value allocated to an investor.

When a Side Pocket Account is created, any increase in net asset value allocated to an investor will be taken into account in determining the Performance Allocation with respect to the investor and whether there is an addition to each related Loss Carryover.

The Loss Carryover attributable to each investor will be proportionately reduced to reflect the creation of a Side Pocket Account and upon the occurrence of a Realization Event, such reduction in the Loss Carryover (if any) shall be reversed (and will increase the Loss Carryover, if any) and any increase in net asset value in such Side Pocket Account will be allocated to each investor participating in such Side Pocket Account and taken into account in computing the Performance Allocation. In the event of a Realization Event solely with respect to a portion of a Side Pocket Account, the Loss Carryover reduction on the allocation to the Side Pocket Account will be reversed proportionately with the portion of such Side Pocket Account that is realized.

In addition, if an investor in a Fund completely withdraws or redeems from such Fund, and after giving effect to such withdrawal or redemption, such investor still has an interest in such Fund attributable to a Side Pocket Account, upon the occurrence of a Realization Event with respect to such Side Pocket Account, any increases or decreases in net asset value that result will be allocated to each investor participating in such Side Pocket Account. The Loss Carryover attributable to each such investor will be reduced as a result of such withdrawal or redemption and until the Realization Event with respect to such Side Pocket Account has occurred, the Loss Carryover attributable to such investor will be zero. Upon such Realization Event, the Loss Carryover attributable to such investor will be increased by a reversal of the original reduction of such investor's Loss Carryover on the participation by such investor in the Side Pocket Account and the Adviser will receive no Performance Allocation with respect to such investor until the newly increased Loss Carryover is recovered in full. In such a case, the Performance Allocation will therefore be calculated based on the increase in net asset value (or relevant portion thereof) on the Side Pocket Account in excess of the amounts used to recover the Loss Carryover. Thus, reversed amounts from the Loss Carryover and realized losses on a Side Pocket Account from a Realization Event will not offset unrealized gains on other Side Pocket Accounts.

For the avoidance of doubt, the Adviser may waive, reduce or rebate the Performance Allocation attributable to any investor in a Fund, including, without limitation, any employee, agent or affiliate of the Adviser. The Adviser may also pay a portion of the Performance Allocation to certain investors and/or other third parties. In addition, the Adviser shall have the authority to alter or change the manner and method of calculating and making the Performance Allocation solely for the purpose of ease of administration, including, without limitation, charging such the Performance Allocation to the FIP US Feeder, the FIP Cayman Feeder, the HCO US Feeder and/or HCO Cayman Feeder rather than at the respective master funds, provided that no such alteration or change in the method of calculation and payment shall in any way alter or affect the substantive rights of any investor in such Fund.

The fact that the general partner of each Fund, which is affiliated with the Adviser, is eligible to receive performance-based profit allocations from certain Ionic Funds may create an incentive for Ionic to make investments on behalf of the Funds that are riskier or more speculative than

would be the case in the absence of such performance-based profit allocations. In addition, the performance-based profit allocations received by the general partners are calculated on the basis of the unrealized, as well as the realized, gains and losses. As a result, the performance-based profit allocations could be made to the general partners in respect of unrealized gains of the Ionic Funds that may never be realized; provided, however, with respect to the Credit Opportunities Funds, performance-based profit can only be paid upon realization.

Each Fund generally has incurred Organizational Expenses and will incur Investment Expenses and Administrative Expenses. The term “Organizational Expenses” generally means the expenses incurred by a Fund in connection with its organization. The term “Investment Expenses” means the expenses associated with the investment program of a Fund, which include, without limitation: brokerage expenses, custodial fees, administrative expenses, management fees and the Performance Allocation. The term “Administrative Expenses” means a Fund’s accounting, legal, audit and other operating expenses and all expenses incurred in connection with the offer and sale of interests in such Fund. Each Fund will bear its own, and the FIP US Feeder, the FIP Cayman Feeder, the HCO US Feeder and the HCO Cayman Feeder bear their respective *pro rata* share of the relevant master fund’s, Organizational Expenses, Investment Expenses and Administrative Expenses.

Generally, the Adviser initially pays the Organizational Expenses and is reimbursed by the applicable Fund for all such Organizational Expenses. The Fund generally may amortize such Organizational Expenses for accounting purposes over a period of either sixty (60) or one hundred eighty (180) months from the date the applicable Fund commences operations, or such other period of time as determined by Adviser, in its sole and absolute discretion.

The Adviser believes that amortizing such Organizational Expenses is in conformance with industry standards and is more equitable than expensing the entire amount during the first year of operations, as is required by United States generally accepted accounting principles (“GAAP”).

Accordingly, the auditor’s opinion on a Fund’s financial statements, as applicable, may contain a qualification to reflect this treatment. In such instances, the Adviser may decide to: (i) avoid the qualification by recognizing the unamortized expenses; (ii) make U.S. GAAP conforming changes for financial reporting purposes, but amortize expenses for purposes of calculating a Fund’s net worth; or (iii) allow the auditor’s opinion on the Fund’s financial statements to contain such a qualification.

The Adviser shall have the authority to alter or change the manner and method of calculating and charging expenses solely for the purpose of ease of administration, including, without limitation, charging certain expenses to FIP LP, FIP Ltd, HCO US Feeder and/or HCO Cayman Feeder rather than to the respective master funds, provided that no such alteration or change in the method of calculation and charging of such expenses shall in any way alter or affect the substantive rights of any investor in such Fund.

Item 6. *Performance-Based Fees* and Side-By-Side Management

The Adviser currently only manages the Funds, which are charged the Performance Allocations described above.

Please refer to Items 8 & 10 for Risk Factors and Conflicts of Interest.

Item 7. Types of Clients

The Adviser currently provides investment advisory services to the Funds.

Interests in FIP LP, FIP III, FIP IV and the HCO US Feeder are generally only offered to “accredited investors” as defined in Regulation D under the U.S. Securities Act of 1933, as amended, and, in the case of FIP LP, FIP Ltd. and HCO US Feeder, "qualified purchasers" (including “knowledgeable employees”) as those terms are defined in the U.S. Investment Company Act of 1940, as amended. Shares in FIP Ltd and HCO Cayman Feeder are generally only offered to non-“United States persons” and to U.S. tax-exempt investors who are accredited investors and qualified purchasers (including knowledgeable employees).

The minimum initial investment in the Funds ranges from \$1,000,000 to \$5,000,000, generally payable only in U.S. Dollars. The Adviser can waive this minimum investment amount at any time for any prospective investor.

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

With its industry focus and expertise, the Adviser believes it has developed an in-depth understanding of the markets and how various sectors and individual companies within the financial services and real estate-related industries react to changes in the economy and capital markets, interest rate and market fluctuations, and changes in the overall regulatory environment. The Adviser attempts to utilize its experience and expertise to identify attractive investment opportunities within these industries and seeks to strategically position the client's portfolio to capitalize on changing market and economic trends, in an effort to generate positive returns across various economic and interest rate cycles. In particular, the Adviser attempts to take advantage of this evolving market by seeking investment opportunities in financial services and real estate-related companies based on the following strategies and criteria:

1. Focus on those companies that consistently generate superior investment returns on equity. The focus in this area will be on well-managed companies that have been able to generate sustainable double-digit quality earnings growth. These companies tend to have positioned themselves in a non-commoditized product line and have established deep customer relationships that are not highly price-sensitive, or have developed a dominant position in a niche product line and/or market which provides superior returns. These companies tend to be less interest-rate and credit-cycle sensitive due to their thorough understanding of their markets and/or products.

2. Invest in companies with strong underlying core franchises which are trading at discounts to their peers on a price-to-earnings or a price-to-book multiple, or, in the case of depository institutions, on a price-to-core deposit premium. The focus in this area will be on those companies which have yet to fully maximize their earnings potential or on previously troubled companies where problems have largely been resolved but which may need additional capital to meet stringent capital adequacy standards. By focusing on these companies, there is a two-fold benefit: first, there is a greater potential for these companies to increase their earnings; and, second, once earnings are fully realized, these companies will trade at comparable multiples to their peers.

3. Select companies that have developed a unique market or product niche. The Adviser will also invest in nonbank financial services and financial technology companies that have developed a particular market or product niche which affords significant appreciation due to rapid revenue growth. Due to the dramatic changes that are occurring in the industry as a result of technology, the use of new marketing techniques and delivery channels have allowed nimble, creative nonbank financial services companies to grow at exponential rates. Many of these financial services companies are fee-based financial services providers and thus have no credit risk. Furthermore, the financial services industry is continuing to rely more extensively on technology and its products. As a result, there are numerous financial technology companies that are experiencing explosive growth by assisting the financial services industry in becoming part of the "new technology-based economy." Many of these companies require capital in order to facilitate their explosive growth.

4. Select banks, thrifts or other companies that are likely takeover candidates. Utilizing the investment criteria described above, the Adviser will also assess the desirability of companies as takeover targets and the resulting potential appreciation that a sale or merger will provide. A

company's takeout value is directly linked to the one primary factor that is essential to each of the previous investment criteria: franchise value. Franchise value is the strength and breadth of the relationships the company has with its customers and/or geographic community. In this regard, the Adviser will seek companies that have attributes such as a dominant market position, a competitive market position in a high growth or affluent region, and/or a unique product capability or operating niche. The ultimate objective is to combine the investment criteria listed above with the potential added appreciation from a sale in order to achieve the client's desired returns.

5. Select real estate-related companies where there are opportunities to take advantage of the disparity in perceptions between public and private market values. The Adviser seeks to use proprietary research and analysis to invest in real estate-related companies (including, but not limited to, homebuilders, real estate developers, building supply companies, real estate investment trusts, real estate operating companies and other companies involved in owning, leasing, renting, developing, constructing and managing real estate) that the Adviser believes are trading below their estimated fair market value or at unjustifiable discounts to comparable peer companies. The Adviser seeks to focus on companies that have developed a particular expertise in developing, managing or acquiring real estate assets and that have demonstrated a track record of generating significant value in excess of their cost of capital over time. In addition to the aforementioned qualities, the Adviser generally seeks to focus on companies the Adviser believes have conservatively structured balance sheets and ample liquidity to finance their operations.

6. Utilize short positions. Given constantly changing economic and market conditions, the Adviser will utilize short positions in equity securities within the financial services and real estate-related industries, as well as others, as a component of the Adviser's investment strategy, as appropriate, and to hedge the downside risk of the overall portfolio. In identifying potential short opportunities, characteristics the Adviser looks for include the following: (1) companies with fundamental flaws (*i.e.*, deteriorating credit quality, high exposure to certain industries, and/or a poor business model); (2) companies that are overvalued relative to their growth rates and/or in comparison to their peers; (3) companies that will have difficulty meeting earnings and growth projections; and (4) companies that have volatile revenue streams that will be impacted to a greater extent by unfavorable economic and market conditions. The Adviser believes that utilizing such short positions allows for the achievement of speculative gains as well as lowers the client's risk profile and enhances its ability to provide positive returns in either an up or a down market.

In connection with the foregoing investment strategies, the Adviser generally intends to utilize the following additional investments and/or techniques:

Private Placements. In addition to investing in publicly traded common equities, the Adviser's investment strategy includes investing in privately placed unregistered securities that do not have a readily ascertainable market value or other illiquid securities which may be valued but are not freely transferable (such privately placed and illiquid securities, collectively, "Illiquid Securities"). As a result, the client's portfolio will not be as liquid as would have been the case had the Adviser invested solely in liquid securities.

Options. The Adviser will use derivative securities, primarily options, as part of its investment strategy. The Adviser intends to purchase and write put and call options that are traded on national securities exchanges or over-the-counter markets as well as on electronic communications networks (ECN's). Options can be used in many ways such as to increase market exposure (i.e., for purposes of leverage), to reduce overall market exposure (i.e., for hedging purposes), to increase the portfolio's current income, or to reduce the cost basis of a new position. The Adviser may also utilize certain options, such as various types of index or "market basket" options and derivatives, in an effort to hedge against certain market-related risks, as the Adviser deems appropriate. The Adviser believes that the use of options and other derivatives may help reduce risk and enhance investment performance.

Fixed Income Securities. The Adviser intends to invest in fixed income securities (e.g. bonds, trust preferred securities and trust preferred securities CDOs) as part of the investment strategy. The Adviser may take advantage of special investment opportunities in the high yield and convertible segments of the fixed income market. The Adviser considers these investments to be equity substitutes, with the expectation of providing both current income and capital appreciation. The Adviser may also seek opportunities in government issued fixed-income securities as deemed appropriate.

Leverage. To a limited extent, the Adviser intends to increase the number and extent of its "long" positions by borrowing (e.g., by purchasing securities on margin). Entering into short sales also increases the use of leverage. Moreover, the amount of any borrowing may also be limited by regulations imposed by the Federal Reserve Board ("FRB") or by the availability and cost of credit. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer.

Other Investments. The Adviser intends to also invest some of the client's assets in short-term United States Government obligations, certificates of deposit, commercial paper and other money market instruments, including repurchase agreements with respect to such obligations, to enable the Adviser to make investments quickly and to serve as collateral with respect to certain of its investments. If the Adviser believes that a defensive position is appropriate because of expected economic or business conditions or the outlook for security prices, a greater percentage of clients assets may be invested in such obligations. The Adviser may also engage in securities lending activities. From time to time, in the sole discretion of the Adviser, cash balances in the clients' brokerage account may be placed in a money market fund or other cash-equivalent investment.

Serving on Board of Directors of Portfolio Companies. Although the Adviser generally does not take an active role in the affairs of the companies in which Adviser or one of the Advisers clients' has a position, it will be the policy of the Adviser to take such steps as are necessary and appropriate to protect its economic interests, including seeking a role on the board of directors of any company in which the Adviser manages securities on behalf of its clients.

Development and Risks of Adviser's Trading Strategy. The development of a trading strategy is a continuous process and the Adviser's trading strategy and methods may therefore be modified from time to time. The Adviser's trading methods are confidential and the descriptions of them in this brochure are not exhaustive. The Adviser's trading strategies may differ from

client to client and/or from time to time. Trading decisions require the exercise of judgment by the Adviser. Such decisions may or may not yield profits or avoid losses. The Funds cannot be assured that the strategies or methods utilized by the Adviser will result in profitable trading for the Funds.

In addition to the foregoing, the Adviser may invest a portion of the Funds' assets in securities or other financial instruments which the Adviser determines are difficult to value and not readily marketable, or should be held until the resolution of a special event or circumstance (each, a "Side Pocket Investment"). The Adviser may place such Side Pocket Investments in a separate special account (each, a "Side Pocket Account"). In addition, the Adviser may make an investment that it determines is a follow-up investment to a Side Pocket Investment (each, a "Follow-Up Investment"), and may place such Follow-Up Investment in the same Side Pocket Account as the Side Pocket Investment to which it relates. The initial value of such Side Pocket Account shall be the value of the related Side Pocket Investment (as defined below), as determined by the Adviser.

In general, an investor in a Fund will not be able to withdraw portions of such investor's interest in such Fund attributable to an interest a Side Pocket Account until the relevant Side Pocket Investment and Follow-Up Investments (if any) become liquid or are sold or otherwise disposed of by the Adviser.

Interests in a Side Pocket Account are allocated only to investors in the Fund making such Side Pocket Investment as of the date the Side Pocket Account is deemed to be created. Interests in a Side Pocket Account relating to a Follow-Up Investment will be allocated only to those investors that participate in the related Side Pocket Account as of the date the applicable Fund allocates the interest relating to the Follow-Up Investment to the related Side Pocket Account; provided, however, that interests in such Side Pocket Account relating to such Follow-Up Investment will not be allocated to investors who have submitted a withdrawal or redemption request to a Fund. Notwithstanding the foregoing, the Adviser may elect to place a Follow-Up Investment in a separate Side Pocket Account.

Upon the occurrence of a Realization Event, all (or, if only a portion of the related Side Pocket Account can be withdrawn, a portion) of any increase or decrease in net asset value from such realized Side Pocket Account will be taken into account in determining the Performance Allocation with respect to each investor participating in such Side Pocket Account.

A "Realization Event" occurs when: (i) the Side Pocket Investment and Follow-Up Investments (if any) become liquid (including, without limitation, when there is a public offering of the securities constituting the Side Pocket Investment and Follow-Up Investments (if any) that provides a reasonable value); (ii) the Side Pocket Investment and Follow-Up Investments (if any) are liquidated, sold or otherwise disposed of by the Adviser on behalf of a Fund; or (iii) circumstances otherwise exist that, in the judgment of the Adviser, conclusively establish a value for the Side Pocket Investment and Follow-Up Investments (if any) other than fair value or cost (including, without limitation, when additional securities substantially similar to the Side Pocket Investment and Follow-Up Investments (if any) have been issued by the issuer of such Side Pocket Investment and Follow-Up Investments (if any)).

The Adviser will not receive a Performance Allocation with respect to a Side Pocket Account until the occurrence of a Realization Event. However, to the extent that any Side Pocket Account generates income (in the form of dividends or otherwise), the income will generally be combined with the applicable Fund's other income and gains and included in the calculation of net asset value for purposes of calculating the Performance Allocation.

In addition, if an investor in a Fund completely withdraws or redeems from such Fund, and after giving effect to such withdrawal or redemption, such investor still has an interest in such Fund attributable to a Side Pocket Account, then upon the occurrence of a Realization Event, the Fund shall allocate the increase or decrease in net asset value (or, if only a portion of the related Side Pocket Account can be withdrawn, a portion of the value) resulting from the Realization Event for the applicable Side Pocket Account to such investor, and will be taken into account in determining the Performance Allocation with respect to investor.

With respect to the HCO Funds, interests in Side Pocket Accounts are generally not expected to comprise more than twenty percent (20%) of the net asset value of the HCO Funds and with respect to the FIP Funds, interests in Side Pocket Accounts are generally not expected to comprise: (i) more than 5% of the net asset value of each of FIP LP and/or FIP Ltd; and (ii) in the aggregate with all such securities held in Side Pocket Accounts with respect to an investor in a FIP Fund, shall not comprise more than 10% of the value of such investor's interest in the FIP Funds, without the consent of such investor, in each case determined at the time such securities are allocated to a Side Pocket Account, and measured by the Adviser.

For purposes of calculating the above guidelines, existing Side Pocket Accounts will be valued at the last reported value of the related Side Pocket Investment. Notwithstanding the foregoing, over time, Side Pocket Accounts may comprise more than the respective guidelines described above due to withdrawals, redemptions or other factors.

The Adviser's investment program entails substantial risks and there can be no assurance that its investment objectives will be achieved. The practices of options trading, short selling, private placement investing, use of leverage and other investment techniques employed by the Adviser can, in certain circumstances, maximize the adverse impact to which the Funds and investors investment portfolio may be subject.

The investors' investment involves significant risks not associated with other investment vehicles and is suitable only for persons of adequate financial means who have no need for liquidity in this investment. There can be no assurances or guarantees that (i) the Adviser's investment objectives will prove successful or (ii) investors will not lose all or a portion of their investment.

Investors should consider the investment that the Adviser has discretion over as a supplement to an overall investment program and should only invest if you are willing to undertake the risks involved. In addition, investors who are subject to income tax should be aware that an investment in a Partnership (the Funds business structure) is likely (if the Partnership is successful) to create taxable income or tax liabilities in excess of cash distributions to pay such liabilities. Investors should, therefore, bear in mind the following risk factors and conflicts of interest before making such investment.

Risk of Loss. Investments in the Funds are speculative. Investors may incur substantial losses on their investments.

Dependence upon the Adviser. Investors success will depend on the management of the Adviser and on the skill and acumen of the founder and possibly other personnel of the Adviser. If the founder and/or one or more of these other individuals, if any, should die, become disabled or otherwise cease to participate in the Adviser's business, the Adviser's ability to select attractive investments and manage its portfolio could be severely impaired.

Neither investors nor the Funds have any right or opportunity to select or evaluate any of the Adviser's investments or strategies. Accordingly, investors should not invest in the Funds unless they are willing to entrust all aspects of the management of the Funds and its investments to the discretion of the Adviser. Although the Adviser and their respective affiliates intend to devote a substantial part of their time to the business of the Funds', they will not devote all of their time.

Limited Liquidity. A portion of the Funds' assets may from time to time be invested in securities and other financial instruments or obligations for which no market exists and/or which are restricted as to their transferability under federal or state securities laws. Because of the absence of any trading market for these investments, it may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by the Funds. Further, companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Concentration of Investments in Financial Services and Real Estate-Related Industries. Due to the nature of the Funds' investment strategy, a significant amount of the Funds' and the investors' equity will be invested in the financial services and real estate-related industries. Therefore, any economic downturn in these industries could have a material adverse effect on the Funds' portfolios.

Investment Expenses. The investment expenses (e.g., expenses related to the investment and custody of the Funds' assets, such as brokerage commissions, custodial fees and other trading and investment charges and fees) as well as other expenses, including investors' pro rata portion of the Funds' expenses (e.g., the Management Fee and operating expenses) may, in the aggregate, constitute a high percentage relative to other investment entities. The Funds will bear these costs regardless of its profitability.

Frequency of Trading. Some of the techniques employed by the Adviser may require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commission may be greater than for other investment entities of similar size.

Performance Allocation. The Performance Allocation creates an incentive for the Adviser to effect transactions in securities that are riskier or more speculative than would be the case in the absence of such an allocation. Since the Performance Allocation is calculated on a basis which includes unrealized appreciation of assets, such allocation may be greater than if it were based solely on realized gains.

Hedging Transactions. Hedging strategies in general are usually intended to limit or reduce investment risk, but can also be expected to limit or reduce the potential for profit. No assurance can be given that any particular hedging strategy will be successful.

Custodial Risks of Brokers. U.S. registered broker-dealers and their affiliates, which may carry the accounts of the Funds, generally segregate all customer funds to be allocated to listed securities trading in compliance with SEC and FINRA regulations. Even given proper segregation, various brokers will trade with the relevant exchange as principal on behalf of the Funds, in a “debtor-creditor” relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Funds, as applicable (for example, transactions the broker has entered into on behalf of the Funds, as applicable, as a principal as well as the margin payments which the Funds provide). In the event of such broker’s insolvency, the transactions which the broker has entered into as a principal could, therefore, default and the Funds’ assets, as applicable, could become part of the insolvent broker’s estate to the detriment of the Funds, as applicable. In addition, under certain circumstances, such as the inability of another client of the broker or the broker itself to satisfy substantial deficiencies in such other client’s account, a customer (the Funds) may be subject to a risk of loss of its funds on deposit with a broker, even if such funds are properly segregated. In the case of any such bankruptcy or loss, the Funds, as applicable, might recover, even in respect of property specifically traceable to the Funds, as applicable, only a pro rata share of all property available for distribution to all of the broker’s clients. The Funds may trade with or hold accounts at foreign broker-dealers registered under the laws and regulations of other countries. Such brokers and/or dealers may not be subject to the same or similar customer fund regulations (including, without limitation, customer segregation requirements) as those existing in the United States. The financial failure of the parties with which the Funds trade in the over-the-counter markets could also result in substantial losses, as the Funds, as applicable, will deal with such persons as principals, and, furthermore, there is no requirement that such parties segregate counterparty funds held by them in respect of such trading.

Change in Investment Strategies. The investment strategies, approaches and techniques discussed herein may evolve over time due to, among other things, market developments and trends, the emergence of new or enhanced investment products, changes in laws and regulations, changing industry practice and/or technological innovation. As a result, these investment strategies, approaches and techniques may not reflect the investment strategies, approaches and techniques actually employed by the Adviser. Nevertheless, the investments made on behalf of the Funds will be consistent with the Funds’ investment objective.

Forward Looking Statements. The Funds’ offering documents contain forward-looking statements. These forward-looking statements reflect the view of the Adviser with respect to future events. Actual results could differ materially from those in the forward-looking statements as a result of factors beyond the Funds’ control. Prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Other Clients and Funds. The Adviser and/or its respective affiliates will, from time to time, sponsor, organize and/or advise other clients and/or investment vehicles. In connection with the operation of accounts of such clients and/or vehicles, the Adviser and/or its respective affiliates may employ substantially similar investment strategies and/or invest in substantially similar

securities to the strategies employed or securities invested in by the Funds. In either case, the Adviser and/or its respective affiliates may receive fees from the Funds or allocations from the Funds and such other clients and/or vehicles.

Competition. The securities industry and the varied strategies and techniques to be engaged in by the Adviser Manager are extremely competitive and each involves a degree of risk. The Funds will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

Market Volatility. The profitability of the Funds substantially depends not only on the Adviser's ability to correctly assess trends in the financial services and real estate-related industries but also upon the Adviser correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. The Adviser cannot guarantee that it will be successful in accurately assessing trends in these industries or in accurately predicting price and interest rate movements.

The Funds' Investment Activities. The Funds' investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by the Adviser. Such factors include a wide range of economic, political, competitive and other conditions, including acts of war or terrorism, which may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of the Funds to realize profits. As a result of the nature of the Funds' investing activities, it is possible that the Funds' financial performance may fluctuate substantially from period to period.

In addition, segments of the financial services and real estate-related industries are subject to extensive regulation and supervision. Any changes in such laws or regulations, or the interpretations thereof by the relevant federal and state authorities, may have a material adverse effect on a particular institution or industry segment which may, in turn, adversely affect the Funds' portfolios.

Accuracy of Public Information. The Adviser selects investments for the Funds, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the Adviser by the issuers or through sources other than the issuers. Although the Adviser evaluates all such information and data and ordinarily seeks independent corroboration when the Adviser considers it is appropriate and reasonably available, the Adviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

Leverage. When deemed appropriate by the Adviser and subject to applicable regulations, the Funds intend to use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Funds purchase securities on margin (that is, by depositing a portion of the price with its broker, who in effect lends the rest of the price to the Funds), then a

small change in price may result in a loss for the Funds that exceeds the margin deposited with the broker. To the extent the Funds purchase securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Funds. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged.

If the amount of borrowings which the Funds may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Funds' portfolios will have disproportionately large effects in relation to the Funds' capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of the Funds to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies borrowed fails to cover their cost to the Funds, the net asset value of the Funds will generally decline faster than would otherwise be the case.

Short Sales. The Funds' may sell securities short. Short selling involves the sale of a security that the Funds do not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, the Funds must borrow securities from a third-party lender. The Funds subsequently return the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities in the open market. The Funds must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays the Funds a fee for the use of the Funds' cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. The Funds may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Real Estate and Real Estate-Related Risks. Investing in a pooled investment vehicle that invests a significant portion of its assets in real estate and real estate-related securities involves special risks, such as declines in the value of real estate as well as increased susceptibility to adverse economic, political or regulatory developments affecting the industry. Changes in interest rates may also affect the value of the Funds' investments in real estate-related securities. The real estate industry tends to be cyclical and, therefore, such cycles may adversely affect the value of the Funds' portfolios. The Funds' may invest in smaller and mid-size companies that are engaged primarily in the real estate industry and certain of these companies may have a relatively small market capitalization, which may tend to increase the volatility of the market

price of their securities. Small and mid-size companies often have narrower markets and more limited managerial and financial resources than larger, more established companies.

Options. The Funds may intend to use a number of option strategies. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

With certain exceptions, exchange listed options generally settle by physical delivery of the underlying security or currency although, in the future, cash settlement may become available. Index options are cash settled for the net amount, if any, by which the option is “in-the-money” (*i.e.*, where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option. The Funds’ ability to close out its position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Over-the-counter (“OTC”) options are purchased from or sold to securities dealers, financial institutions or other parties through direct bilateral agreement with the counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantee, and security, are set by negotiation of the parties. Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with the Funds or fails to make a cash settlement payment due in accordance with the terms of that option, the Funds will lose any premium it paid for the option as well as any anticipated benefit of the transaction.

If a put or call option purchased by the Funds were permitted to expire without being sold or exercised, its premium would be lost by the Funds. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying security would then be sold to the Funds at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying security would then be sold by the Funds at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks.

Foreign Securities. Although the Funds invest largely through the U.S. securities markets, the Funds intend to invest a portion of its assets in securities of companies domiciled or operating in

one or more foreign countries. Investing in foreign securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some foreign governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, foreign currency risk, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in foreign securities. Higher expenses may result from investment in foreign securities than would from investment in domestic securities because of the costs that must be incurred in connection with conversion between various currencies and foreign brokerage commissions that may be higher than in the United States. Foreign securities markets also may be less liquid, more volatile and subject to less governmental supervision than in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

Investments in Undervalued Securities. The Adviser may intend to invest the Funds capital in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Fund's investments may not adequately compensate for the business and financial risks assumed. The Funds will make certain speculative investments in securities which the Adviser understands to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the Funds may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Funds' capital would be committed to the securities purchased, thus possibly preventing the Funds from investing in other opportunities.

Event Driven Investments. The Funds may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in, or undergoing, work outs, liquidations, spin offs or other catalytic changes or similar transactions. Investing in the securities of such companies will be subject to so-called "event risk", i.e., the risk that the transaction in question will simply fail to conclude as contemplated or will be delayed or modified in a manner detrimental to the Funds. Numerous factors, including market or industry developments, economic factors, regulatory clearance requirements and management or workforce issues, can cause an announced transaction to be abandoned, delayed or modified. Where a security to be issued in a proposed merger or exchange offer has been sold short by the Funds in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may force the Funds to cover its short position in the market at a higher price than its short sale, resulting in a loss. These losses can be substantial. If a transaction is delayed significantly, the Funds' capital may be committed to the transaction during the period of the delay and interest charges may be greater than the profit realized upon the disposition of the securities, in which case the Funds would realize a loss on the transaction. In addition, "spreads" on some merger opportunities may be initially small or may be impacted in a manner that precludes investment or causes a position to be limited in profitability or become unprofitable. Merger strategies can also be adversely

affected by the costs of borrowed funds, hedging issues, including the ability or inability to hedge and the attendant costs, and the strength of competing investors in the marketplace.

Derivative Instruments. The Funds may invest capital with or through third parties through swaps, total return swaps and other derivative instruments. The Adviser may take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the Funds' investment objectives and legally permissible. Special risks may apply to instruments that are invested in by a Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by a Fund. Certain swaps, total return swaps and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Futures. The Funds may employ future contracts, or options on such contracts, which may involve the future purchase or sale of securities or other financial instruments or market baskets of securities, such as various securities indices, as part of the Adviser's hedging strategy, or opportunistically as modest directional investments. Use of futures contracts and options thereon involve the contractual commitment to purchase or sell the underlying instrument at a future date. The eventual price of such instrument may be influenced by a broad variety of market, economic and issuer-specific events and risks, many of which may be difficult to predict or assess. Futures' trading involves relatively small invested capital relative to risk exposure and, therefore, can increase, perhaps significantly, portfolio volatility and exposure to loss.

Market Dislocation and Liquidity. Recent events in the sub-prime mortgage, credit, financial and other markets in the United States have caused significant dislocations, illiquidity and volatility and have had repercussions on the global financial markets, including the markets in which the Funds trade and invest, by restricting the availability of credit generally and reducing liquidity levels across virtually all markets globally. The foregoing events could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of the Funds' investments. Such marketplace events also may restrict the ability of the Funds to sell or liquidate investments at favorable times and/or for favorable prices and/or cause the Funds to have limited access to credit. The Funds may be adversely affected by a decrease in market liquidity (e.g., by impairing the Adviser's ability to adjust positions and risk in response to trading losses or other adverse developments). The size of positions may magnify the effect of a decrease in market liquidity for the instruments traded. Changes in the overall market leverage (e.g., deleveraging or liquidations by other market participants of the same or similar positions) also may adversely affect a Fund's positions.

Currency Risk. The Funds may make investments denominated in one or more currencies other than U.S. Dollars. The Adviser may, to the degree it deems appropriate, cause a Fund to enter into arrangements in an attempt to profit from, and/or hedge a Fund's exposure to, significant currency fluctuations between the U.S. Dollar and the applicable currency or currencies. Price movements of currencies, however, are difficult to predict accurately because they are influenced by, among other things, changing supply and demand relationships; governmental, trade, fiscal, monetary and exchange control programs and policies; national and international political and

economic events; and changes in interest rates. In addition, governments from time to time intervene in certain markets in order to influence prices directly. The Adviser cannot guarantee that it will be successful in accurately predicting currency price and interest rate movements. There can be no assurance that the hedging arrangements, if any, entered into on behalf of a Fund will be sufficient to address all currency risks. More particularly, the profitability of a Fund's portfolio depends, in part, upon, and the success of any hedging arrangements is subject to, the ability of the Adviser to correctly hedge against movements in the direction of currency rates. Therefore, while the Adviser may enter into such transactions to seek to reduce currency exchange rate risks, unanticipated changes in currency rates may result in a poorer overall performance for a Fund than if the Adviser had not engaged in any such hedging transaction.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if a Fund purchases a 5-year bond in which it can realize a coupon rate of five percent (5%), but the rate of inflation is six percent (6%), then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, a Fund is exposed to inflation risk because the interest rate the issuer promises to pay is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

Systemic Risk. World events and/or the activities of one or more large participants in the financial markets and/or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. Such events could result in a Fund losing substantial value caused predominantly by liquidity and counterparty issues (as noted above), which could result in a Fund incurring substantial losses.

General Economic Conditions. The success of any investment activity is affected by general economic conditions, which include the level and volatility of interest rates, credit spreads and equity valuations, and the extent and timing of investor participation in the markets for both equities and interest-sensitive instruments. Unexpected volatility or illiquidity in the markets in which a Fund holds positions could cause such Fund to incur losses.

Risk of Default or Bankruptcy of Third Parties. The Funds may intend to engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, the Funds could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, the Funds could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which the Funds do business or to which securities have been entrusted for custodial purposes.

Strategy Restrictions. Certain investors may be restricted from directly utilizing investment strategies of the type in which the Funds or the Adviser may engage. Such investors should consult their own Advisers, counsel and accountants.

Trading Limitations. For all securities listed on a securities exchange, including options listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or

continue and subject the Funds to loss. Also, such a suspension could render it impossible for the Adviser to liquidate positions and thereby expose the Funds to potential losses.

Affiliated Companies. From time to time and subject to the information barrier policies and procedures, the Adviser may consult with personnel in other affiliated companies, so long as the identity (or other client specific information) of the investment is not disclosed. Although the personnel of such affiliated companies may, subject to restrictions imposed by applicable law, share certain information or strategies known to them or developed in connection with their own client, proprietary or other activities relating to their areas of primary responsibility within the Adviser, such personnel shall be under no obligation to share such information with the Adviser. Moreover, certain personnel may be in possession of information not available to all personnel (including the Adviser's personnel or other personnel advising or otherwise providing services to the Funds), and such personnel may act on the basis of such information in ways that have adverse effects on the Funds. The Adviser's legal, compliance, risk and accounting department personnel may be in possession of information in respect of certain securities, commodities or other financial interests and may, but are under no obligation to, share any such information with the Adviser. Also, such departments shall be permitted to use such information for such department's own business purposes, which may conflict with the interests of the Adviser and/or the Funds and/or investors. From time to time, the Adviser may come into possession of material, non-public information or other information that could limit the ability of the Funds to invest in certain securities, commodities or other financial instruments. In accordance with applicable law, the Funds' investment flexibility may be constrained as a consequence.

Certain Risks Related to HCOM and the Credit Opportunities Funds:

Bank Loans. The Credit Opportunities Funds' investment program may include investments in bank loans and participations. These positions are typically illiquid and difficult to value. In addition, in the case of such trading, the Adviser may come into possession of material non-public information relating to the borrower, preventing the Credit Opportunities Funds from trading in any securities of such issuer. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Credit Opportunities Funds to directly enforce its rights with respect to participations. Bank loans are privately negotiated transactions, each of which has individualized terms. Analyzing these transactions requires in-depth review of the relevant documents as well as in-depth analysis of the often precarious financial condition of the borrower. In analyzing each bank loan or participation, the Adviser compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Credit Opportunities Funds.

Loan Participations. The Credit Opportunities Funds may invest in loan participations. Investment in loan participations involves certain risks in addition to those associated with direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a

syndicated loan generally does not have the voting rights, which are retained by the lender. In addition, a loan participant is subject to the credit risk of the lender as well as the borrower, since a loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan. The Credit Opportunities Funds will acquire participations only if the seller of the participation is determined by the Adviser to be creditworthy.

Collateralized Debt Obligations. The Credit Opportunities Funds will invest in CDOs and CLOs and other related instruments. The portfolio may consist of CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO mezzanine debt. CDO securities are subject to credit, liquidity and interest rate risks. The CDO equity and other tranches purchased by the Credit Opportunities Funds may be unrated or non-investment grade, which means that a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative. In addition, as a holder of CDO equity, the Credit Opportunities Funds will have limited remedies available upon the default of the CDO.

The value of the CDO securities owned by the Credit Opportunities Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDO securities must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDO securities, no other assets will be available for payment of the deficiency and following realization of the CDO securities, the obligations of such issuer to pay such deficiency generally will be extinguished.

Issuers of CDO securities will sometimes acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution. In purchasing participations, an issuer of CDO securities will usually have a contractual relationship only with the selling institution, and not the borrower. The CDO generally will have neither the right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The CDO may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, the CDO may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the CDO may be subject to the credit risk of the selling institution as well as of the borrower.

ABS and MBS. The investment characteristics of ABS and mortgage-backed securities ("MBS"), including RMBS and CMBS, differ from traditional debt securities. The major

differences include, but are not limited to, the facts that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors, including, without limitation, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investments may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property.

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through CDOs, the Credit Opportunities Funds may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques, such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Fraud. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the

Credit Opportunities Funds to perfect or effectuate a lien on the collateral securing the loan. The Credit Opportunities Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Credit Opportunities Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). The Credit Opportunities Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Credit Opportunities Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by the Adviser for the Credit Opportunities Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Contingent Liabilities. From time to time the Credit Opportunities Funds may incur contingent liabilities in connection with an investment. For example, the Credit Opportunities Funds may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Credit Opportunities Funds would be obligated to fund the amounts due. The Credit Opportunities Funds may also enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third-party, and may, on the other hand, enter into agreements through which third-parties offer default protection to the Credit Opportunities Funds.

The Credit Opportunities Funds may be called upon to provide additional funding for its investments or have the opportunity to increase its investment in the assets which it acquires. There can be no assurance that the Credit Opportunities Funds will seek such follow-on investments or that it will have sufficient capital to do so. Any decision by the Credit Opportunities Funds not to make follow-on investments or its inability to make such investments may have a substantial negative impact on the asset in need of such an investment and may diminish the Credit Opportunities Funds’ ability to influence the investment’s future development. Furthermore, no assurance can be made that any follow-on investment made by the Adviser will be profitable to the Credit Opportunities Funds.

Item 9. Disciplinary Information

Not applicable

Item 10. Other Financial Industry Activities and Affiliations

Affiliates

Eric D. Hovde, Richard J. Perry, Jr., Jason A. Swanson and Jeffrey A. Kashdin are management and/or controlling persons (directly or indirectly) of each of the general partners to the Funds as set forth below:

1. Hovde Capital I LLC, general partner of FIP Master Fund and FIP LP;
2. Hovde Capital, Ltd., general partner of FIP III; and
3. Hovde Capital Limited IV, LLC, general partner of FIP IV.

Eric D. Hovde, Richard J. Perry, Jr. and Jason Swanson are also management and controlling persons of HCOM a related person to HCA that provides investment management services to a private investment funds (i.e. hedge fund). The investment management services provided by HCOM to the Credit Opportunities Funds include, among other things, providing advice regarding asset allocation and the selection of investments. HCOM is a related person of HCA. HCOM may in the future provide investment management services to other pooled investment vehicles similar to the Credit Opportunities Funds, or to other affiliates of HCA. In addition, HCOM and HCA are also parties to a services agreement whereby HCA has agreed to provide HCOM with certain administrative, operational, personnel, and back-office functions and services in connection with HCOM's investment management services to the Credit Opportunities Funds. HCA receives compensation from HCOM in connection with the provision of such services. Accordingly, as a result of HCOM's status as related person to HCA, HCOM and its personnel are subject to the same policies and procedures applicable to HCA in the conduct of its business.

Eric D. Hovde and Richard J. Perry, Jr. are management and controlling persons of Western Acquisitions, L.L.C. ("Western Acquisitions"), a top-tier bank holding company registered with the Board of Governors of the Federal Reserve System. Western Acquisitions is an affiliate of HCA through common ownership. Additionally, Eric D. Hovde holds an interest in Sunwest Bancorp, Inc., an indirect subsidiary of Western Acquisitions.

Eric D. Hovde, Richard J. Perry, Jr. and Jeffrey A. Kashdin are management and controlling persons of Hovde Private Equity Advisors LLC, a Delaware limited liability company ("HPEA") provides investment management services to a private equity fund, Financial Services Partners Fund I LLC ("FSPF") and its managing member, Hovde Acquisition I LLC, a Delaware limited liability company ("HACQ"), and Jefferson Bancorp, Inc., a Delaware corporation and majority owned subsidiary of FSPF. Each of HPEA, FSPF, HACQ and Jefferson Bancorp, Inc. is a related person to HCA and each is registered as a savings and loan holding company with the Office of Thrift Supervision for Bay Bank, FSB, a federal savings bank. Eric D. Hovde also serves on the board of directors of each of Jefferson Bancorp, Inc. and Bay Bank, FSB.

Richard J. Perry Jr. is also a managing member and controlling person of Perry & Associates PLLC, a professional limited liability company organized under the laws of the District of Columbia. Perry & Associates PLLC provides legal services to HCA, its affiliates, and related persons. Perry & Associates PLLC may be deemed to be an affiliate of HCA through common

ownership or control. Perry & Associates PLLC provides certain legal services to HCA and the related persons.

Richard J. Perry Jr. and Jeffrey A. Kashdin are the President and Chief Executive Officer and Executive Vice President and Treasurer, respectively, of HCPM, Inc., corporation organized under the laws of the State of Delaware. HCPM, Inc. is a professional employer organization that principally provides employment and related benefits services to HCA, its affiliates, and related persons. HCPM, Inc. may be deemed to be an affiliate of HCA through common ownership or control.

HCA and its affiliates or related persons may be limited in their ability to divulge or act upon certain information in their possession derived from investment banking and other confidential sources.

Each general partner or managing member of the Funds is an affiliate or related person of HCA through common ownership and/or control. HCA's clients that have established separately managed accounts, may elect to invest in the Funds and/or the Credit Opportunities Funds. In such cases, because HCA and the general partners or managing members are affiliated, HCA may be deemed to be soliciting clients to make investments in an investment vehicle where a related person is a general partner or managing member. Similarly, HCA's related persons and affiliates may be deemed to be soliciting clients to make investments in an entity where HCA is the investment manager.

Conflicts of Interest

General. The Adviser is accountable to the Funds as a fiduciary and, consequently, must exercise good faith and integrity in handling the business of the Funds. Nevertheless, in the conduct of such business, conflicts may arise between the interests of the Adviser and/or its respective affiliates on the one hand, and those of investors, on the other hand.

No Obligation of Full-Time Service. The Adviser is not restricted by an agreement not to compete with the Funds. The Adviser and its managers, members, officers, affiliates and employees engage in other activities or ventures which may result in various conflicts of interest between such persons or entities and the Funds. Neither the Adviser nor its managers, members, officers, affiliates and employees have any obligation to devote their full time to the business of the Funds. Such persons and entities are required to devote only such time and attention to the affairs of the Funds as they may deem appropriate in their discretion. Certain of the principals of the Adviser also devote a portion of their time to their responsibilities at affiliates of the Adviser, including, without limitation, the private equity and merchant banking business in addition to other private investment funds managed by them and their affiliates.

Advisory Services to Others. The Adviser and/or certain of its managers, members, officers, affiliates and employees provide investment advice to other parties and manage other private investment vehicles similar to the Funds. Specifically, in addition to managing the Funds' investments, the principals of the Adviser and their affiliates also provide investment management services to other private investment funds (the "Affiliated Funds"), which employ investment programs and/or strategies substantially similar to that of the Funds.

In connection with such other investment management activities, the Adviser and/or its managers, members, officers, affiliates and employees may decide to invest the funds of one or more of the Affiliated Funds, or recommend the investment of funds by other parties, rather than the Funds, in a particular security or strategy. In addition, the Adviser and/or such other persons will determine the allocation of funds from the Funds and one or more of the Affiliated Funds to investment strategies and techniques on whatever basis they consider appropriate or desirable in their sole and absolute discretion.

Diverse Limited Partners. The investors are expected to include taxable and tax-exempt entities and persons or entities resident of or organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by the Adviser that may be more beneficial for one type of investor. In making such decisions, the Adviser intends to consider the investment objectives of the Funds as a whole, not the investment objectives of any investor individually.

Lack of Separate Representation. None of the agreements, contracts and arrangements between the Funds, on the one hand, and the Adviser, on the other hand, were or will be the result of arm's-length negotiations. The attorneys, accountants and others who have performed services for the Funds in connection with this offering, and who will perform services for the Funds in the future, have been and will be selected by the Adviser. No independent counsel has been retained to represent the interests of investors, and none of the agreements has been reviewed by any attorney on their behalf. Investors are urged to consult their own counsel as to the terms and provisions thereof and all other related documents.

Affiliated Companies. From time to time and subject to the information barrier policies and procedures, the Adviser may consult with personnel in other affiliated companies, so long as the identity (or other client specific information) of the investment is not disclosed. Although the personnel of such affiliated companies may, subject to restrictions imposed by applicable law, share certain information or strategies known to them or developed in connection with their own client, proprietary or other activities relating to their areas of primary responsibility with the Adviser, such personnel shall be under no obligation to share such information with the Adviser. Moreover, certain advisory personnel may be in possession of information not available to all advisory personnel (including the Adviser's personnel or other personnel advising or otherwise providing services to the Funds), and such personnel may act on the basis of such information in ways that have adverse effects on the Funds. The Adviser's legal, compliance, risk and accounting department personnel may be in possession of information in respect of certain securities, commodities or other financial interests and may, but are under no obligation to, share any such information with the Adviser. Also, such departments shall be permitted to use such information for the their own business purposes, which may conflict with the interests of the Adviser and/or the investors. From time to time, the Adviser may come into possession of material, non-public information or other information that could limit the ability of the Funds to invest in certain securities, commodities or other financial instruments. In accordance with applicable law, the Funds' investment flexibility may be constrained as a consequence.

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

The Adviser has adopted a code of ethics (the “Code”) pursuant to SEC rule 204A-1. It is the policy of the Adviser that its operations are to be conducted in compliance with the law and with the highest ethical standards. This policy applies to all employees and others working on behalf of the Adviser wherever located.

The Code confirms the Adviser’s policy and provides a statement of the general standards of conduct required by the Adviser, including such areas as conflicts of interest and confidential information, among others. The Code is available for current and prospective clients and investors to review.

The Code provides that all employees and others working on the Adviser’s behalf act in good faith and in the best interests of Adviser and its clients. To this end, such persons must not place themselves or the Adviser in a position that would create even the appearance of a conflict of interest. No person may represent the Adviser in any transaction if an outside business interest or personal relationship might compromise or otherwise affect his or her ability to represent the Adviser’s or client interests fairly and impartially.

No employee or other person working on the Adviser’s behalf, individual members of their immediate families or persons living in their households may own, directly or indirectly, any interest in any corporation or other entity if ownership of such an interest could compromise the loyalty or judgment of such employee or person working on the Adviser’s behalf. Whether a particular financial interest constitutes a conflict of interest or the appearance thereof varies depending on the circumstances.

No employee may act as a director, trustee, officer, employee or agent of any other business or institution with which Adviser has a competitive or significant business relationship, regardless of whether or not payment is received, without the written consent of the Adviser. The Adviser’s policies require its personnel to report to their supervisors any situation in which a member of that person’s immediate household holds a position that is likely to cause the person to have a conflict between the interests of Adviser, its clients and another institution.

Additionally, the Adviser has trading policies and procedures that protect the interests of the clients and investors. The Adviser monitors personal trading activities of all employees and/or related persons.

Conflicts of interest are brought to the attention of the Adviser’s legal and compliance department immediately for an investigation and review. Non-adherence to the Code by the Adviser and/or its employees is subject to disciplinary action up to and including termination of employment.

Item 12. Brokerage Practices

The Adviser is responsible for the placement of the portfolio transactions of advisory clients and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price. The Adviser generally does not commit to provide any level of brokerage business to any broker. The Adviser may utilize the services of one or more introducing brokers who will execute advisory client's brokerage transactions through the prime broker and custodian who will clear advisory client's transactions.

Securities transactions for advisory clients will also be executed through brokers selected by the Adviser in its sole discretion and without the consent of advisory clients. In placing portfolio transactions, the Adviser will seek to obtain the best execution for advisory clients, generally taking into account the following factors: 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 considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria.

The Adviser is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. The Adviser is 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 the Adviser, and the Adviser's fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by advisory clients may be utilized by the Adviser or its affiliates in connection with its investment services for other clients and, likewise, research services provided by broker-dealers used for transactions of other clients may be utilized by the Adviser in performing its services for advisory 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.

ECNs and individual broker-dealers are chosen by the Adviser for each trade in order to achieve best execution for the individual security being traded. Factors considered by the Adviser when evaluating best execution include:

- Execution and operational capabilities of the broker-dealer (e.g., adequacy of order entry systems; sufficiency of lines of communication; promptness of execution; promptness and accuracy of reports of execution; efficiency in the clearance and settlement of trades; ability and willingness to correct errors, as well as frequency of trade errors; availability of prime brokerage arrangements; and willingness and ability to step-out trades).
- Expertise of the broker-dealer (e.g., to execute trades for the particular type of security; to maintain anonymity for the adviser; to access various market centers; and to locate liquidity and minimize implementation costs).
- Access to people, products and services through the broker-dealer (e.g., research (if any) provided by the broker-dealer; research analysts and company insiders; initial public offerings (IPOs) for clients; non-transaction fee mutual funds; and third-party managers).
- Financial condition and business reputation of the broker-dealer.
- Trade implementation costs (e.g., market impact; lost opportunities to trade; time-to-market cost; and commission costs or spreads).

The Adviser periodically reviews, but not less than quarterly, client accounts in order to ensure that the Adviser is obtaining best execution for client transactions. The Adviser generally shall review and make determinations relating to:

- the selection of criteria pursuant to which broker-dealers may be evaluated and approved for purposes of executing client transactions;
- the composition of the list of approved broker-dealers through whom the Adviser may execute client transactions (the “Approved Broker List”);
- soft dollar arrangements, if any (to be considering in conjunction with the soft dollar procedures);
- the Adviser’s compliance with its relevant legal and fiduciary obligations, including its obligation to obtain best execution in connection with client transactions;
- the amount of commissions and other fees that each broker-dealer charged the Adviser and/or its clients for transactions (and the volume per trade, if appropriate); and
- any unusual activity regarding certain brokers or certain transactions that occurred since the last report.

Applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is effected, and the extent to which it is possible to select from among multiple brokers or dealers capable of effecting the transaction.

In selecting broker-dealers to execute transactions, the Adviser does not have an obligation to seek the lowest available transaction cost (e.g., commission cost). The Adviser will make

reasonable efforts to keep informed of commission rate structures and prevalent bid/ask spread characteristics of the markets and securities in which transactions entered into on behalf of the Adviser or any client account occur. The Adviser may or may not solicit competitive bids on behalf of the Adviser or any client account based on its judgment of the expected benefit or harm to the execution process for that transaction. In those instances where the Adviser solicits competitive bids where practicable or where required by law, the trader and/or the portfolio manager (or assistant portfolio manager) will maintain all necessary records to document such process. The Adviser is responsible for monitoring changes in market conditions, the quality of execution of securities transactions, and the availability of new or alternative methods for executing transactions.

Establishment of an Approved Broker List:

The Adviser establishes an Approved Broker List based generally upon an evaluation of the criteria set forth above. Broker-dealers may, from time to time, be added or deleted from the Approved Broker List. The Approved Broker List shall be updated as new relationships are established or existing relationships are terminated or modified.

The Adviser monitors all trades to ensure that only those brokers appearing on the Approved Broker List, or that have otherwise been approved in writing, execute trades on behalf of the Adviser and its clients.

Execution of Client Transactions with Broker-Dealers Not on the Approved Broker List:

There may be legitimate reasons at times for the Adviser to deal with a broker-dealer that is not on the Approved Broker List (e.g., if a trade cannot be executed by any of the brokers appearing on the Approved Broker List, or an unapproved broker-dealer offers the best execution, etc.). In such instances, the Adviser documents and approves the use of such broker one a case by case basis.

Aggregation of Orders:

The Adviser may aggregate purchase and sale orders of securities held by the Funds with similar orders being made simultaneously for other accounts or entities if, in the Adviser's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to a Fund based on an evaluation that the fund will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities for a Fund will be affected simultaneously with the purchase or sale of like securities for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions may be determined, at the Adviser's sole discretion, and the fund may be charged or credited, as the case may be, with the average transaction price. The Adviser shall avoid any action that could result in an unfair or inequitable disadvantage to any client account. The Adviser will conduct a review of client trade allocations periodically, but not less than quarterly, to determine whether, and to what extent, trades have been aggregated, and whether the price

received is consistent with the foregoing. The Adviser will maintain appropriate documentation of such reviews.

Process for Allocating Block Trades:

The Adviser generally allocates all block trades immediately upon the close of the trading day. The pricing for all block trades is calculated using the average price method in order to ensure that no client is given preferential pricing. Prior to purchasing the block, the Adviser will have determined the targeted position for each managed account and communicated this information to the trader. Once the order has been executed, the block of stock is then allocated based on these pre-determined instructions. If the block is to be allocated across numerous accounts, the stock will be allocated equally based upon the amount of capital in each respective account. The allocation of block trades process is also further discussed in each Fund's private placement memorandum.

The Adviser may employ an allocation method other than the foregoing, provided that under the circumstances, such other allocation method is reasonable, employed in good faith and does not result in an unfair or inequitable disadvantage to any client account, the Adviser specifies in writing the reason for the departure on the order ticket/instant message relating to such order, and prior to or contemporaneously with entering into any trade, the trader and/or the portfolio manager (or assistant portfolio manager) shall prepare a written allocation statement, specifying (i) the participating client accounts, and (ii) the method of allocation. the Adviser will conduct a review of client trade allocations periodically, but not less than quarterly, to determine whether, and to what extent, block trades have been allocated, and whether the price received is consistent with the foregoing. the Adviser will maintain appropriate documentation of such reviews.

Soft Dollar Arrangements:

The term "soft dollars" refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of the investment manager's clients. The Adviser may use "soft dollar" commissions or a rebate by brokerage firms of commissions generated by the Funds' securities transactions executed through those firms, to pay certain expenses that the Adviser might otherwise have to bear or that otherwise provide benefits to the Adviser and its affiliates.

Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities. The Adviser will pay its own general operating, administrative and overhead type expenses which are part of its day-to-day administration of the Funds and intends to use any "soft dollar" commissions to cover expenses that fall within the scope of the "safe harbor" provided under Section 28(e) of the Exchange Act.

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the

Adviser and the advisory clients, including the Funds, because the advisory clients pay for such products and services that are not exclusively for the benefit of the advisory clients and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including management fees paid by the advisory clients), the Adviser's use of soft dollars would tend to increase the Adviser's profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for the advisory clients. The investment advisory agreements for the Adviser's clients and the governing organizational documents for the Funds specifically authorize these practices to the fullest extent permitted by law. Nevertheless, the Adviser will attempt to assure either that the fees and costs for services provided to the Funds by brokers offering these benefits are reasonable in relation to the fees and costs charged by other equally capable brokers not offering such services or that the Funds also will benefit from the services.

The following soft dollar procedures apply to ensure compliance with SEC rules regarding the use of soft dollars.

1. The Adviser's accounting department will maintain a list of all brokers with a description of all related soft dollar arrangements. Any new soft dollar arrangements must be reviewed and approved by the Adviser's legal and compliance department prior to execution, as well as receive approval from the relevant broker's compliance department.
2. To ensure that soft dollars are used only in compliance with SEC rules and the disclosures made to investors in our offering materials and other documents, soft dollars can only be used with the prior written approval of the Adviser's legal and compliance department. Written requests, which contain information regarding the proposed use of soft dollars (e.g., research materials, software, information/data feeds, etc.), the cost of the purchase (i.e., the amount of soft dollars to be used as payment), and any other information deemed relevant by the requesting party should be submitted in advance to the Adviser's legal and compliance department in either hard copy format or by e-mail.
3. Once a request has been approved by the Adviser's legal and compliance department, a trader may then use soft dollars up to the amount authorized in payment of the approved expenditure.
4. The Adviser's accounting and legal and compliance departments will maintain records detailing each soft dollar payment, the payee/recipient of the soft dollar payment, the date of approval, and the date that a broker is instructed to make the payment.
5. All periodic statements from third parties reflecting soft dollar balances, credits and usage are to be sent to trader with a concurrent copy to the Adviser's legal and compliance department and its chief financial officer.
6. A trader and the Adviser's accounting department will verify previous balances, earned credits, soft dollar debits, and ending statement balances to reconcile trading activity subject to soft dollar credits as well as soft dollars expended during the period. Such trader and the Adviser's accounting department should resolve promptly any

discrepancies noted in the amount of soft dollars credited, debited or in the beginning and ending balances reflected on the statements with the respective broker. In the event that a discrepancy cannot be resolved by either the trader or the Adviser's accounting department, such discrepancy must be reported to the Adviser's legal and compliance department immediately.

Item 13. Review of Accounts

All accounts managed by the Adviser are reviewed not less than on a monthly basis by Eric D. Hovde and/or Jason A. Swanson, to assure conformity with client objectives and guidelines. All accounts are reviewed in light of emerging trends and developments as well as market volatility.

Item 14. *Client Referrals and Other Compensation*

The Adviser does not currently use any solicitors or pay referral fees. To the extent the Adviser becomes affiliated with a solicitor or pays referral fees, it will develop and implement policies and procedures to ensure compliance with the requirements under the Investment Advisers Act of 1940 (the “Advisers Act”), as well as the applicable rules promulgated thereunder.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Pursuant to investment management agreements and the governing agreements of the Funds, the Adviser and its affiliates have discretionary authority to manage the Funds. These agreements generally include a power of attorney given by the Funds to the Adviser and our affiliates.

There generally are no limitations placed on this authority.

Item 17. Voting *Client* Securities

The Adviser has established the following policies and procedures for voting proxies:

1. All proxies are to be voted in a timely manner either for, against, or abstain.
2. When received, all proxy materials are to be forwarded to the junior analysts in the Adviser's asset management department.
3. A junior analyst will open proxy materials in a timely manner, review the proxy statement, summarize the terms, and make a preliminary recommendation documented in an Excel file located on the Adviser's local area network.
4. In general, if all matters appear reasonable, the Adviser will vote in favor of the board of directors recommendations.
5. When making a recommendation for management recognition plans, it is the Adviser's general policy to vote against an option plan that authorizes the company to issue options that equate to greater than 12% of the current outstanding shares. If the total options issued are to be greater than 12%, then the Adviser's investment committee will evaluate the circumstances and make the final decision regarding the vote. A junior analyst will indicate the recognition plan ratio in the "reason" column of the proxy spreadsheet.
6. There may be certain circumstances in which the best interests of the client(s) are served by the Adviser electing to not vote. Any such determination will be made on a case-by-case basis after discussion with the portfolio manager.
7. In the event that there is a proxy matter which presents a material conflict of interest between the Adviser and the client(s), the Adviser will disclose the conflict of interest and obtain the client(s) consent prior to voting the proxy.
8. If proxy votes are pending, or require additional review/evaluation, a junior analyst will vote on a case-by-case basis after discussion with and recommendation from the portfolio manager or assistant portfolio manager.
9. After final approval is given, a junior analyst will execute the vote following the procedures on the proxy card (either via mail with an authorized signature or electronically via the internet).
10. The due date that votes are to be made will be documented in the proxy summary file. For electronic proxies, confirmation e-mails that are received will be stored in a file located on the Adviser's local area network.
11. Proxy statement, annual reports and proxy cards are to be retained in the Adviser's proxy file records or as otherwise permitted by Rule 204-2.

12. Clients of the Adviser can obtain a copy of the Adviser's proxy voting policies and procedures and information on how client proxies were voted by making a written request for such information to:

Hovde Capital Advisors LLC
1824 Jefferson Place, NW
Washington, DC 20036
Attn: Trader

Item 18. Financial Information

Not Applicable.

If you are registering or are registered with one or more *state securities authorities*, you must respond to the following additional Item.

Item 19. Requirements for State-Registered Advisers

Not applicable.