

Form ADV Part 2A: Firm Brochure

Clover Partners, L.P.

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This brochure provides information about the qualifications and business practices of Clover Partners, L.P. If you have any questions about the contents of this brochure, please contact us at 214-273-5200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about Clover Partners, L.P. also is available on the SEC's website www.adviserinfo.sec.gov (click on the link, select "investment adviser firm" and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.

If you would like another copy of this brochure, please download it from the SEC's website as indicated above or you may contact our Chief Compliance Officer, Jennifer Boling, at 214-273-5213 or jboling@cloverpartners.com.

We are a registered investment adviser with the United States Securities and Exchange Commission. Our registration as an investment adviser does not imply any level of skill or training.

Material Changes

The SEC has changed the required form and content of Part 2 of Form ADV, and this is the first version of our Form ADV Part 2 since the new requirements became effective. Therefore, we recommend that you read this ADV Part 2 in its entirety.

Material Changes in this Brochure:

Since we last updated our ADV, we have begun providing advisory services to a second unaffiliated managed account. We also may enter into third party referral arrangements, as we explain in greater detail in Section 11: Client Referrals and Other Compensation.

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1. Advisory Business

Clover Partners, L.P., founded in 1999, is an investment services firm specializing in discretionary investment management for private investment funds. Our investment fund clients may be pooled investment vehicles affiliated with us or may be separately managed accounts. The principal owner of our firm is Michael C. Mewhinney.

In providing our advisory services, we specialize in investing our clients' assets in financial service companies, with a particular focus on investing in mutual savings banks. Our fundamental investment strategy emphasizes owning undervalued securities and holding them until we believe they have reached their fair value.

Our firm tailors our advisory services to the individual needs and specified investment mandates of our clients. In the case of our affiliated pooled investment fund client, our portfolio managers adhere to the investment strategy set forth in its private placement memorandum. We do not tailor our advisory services to the individual needs of investors in our affiliated pooled investment fund client and generally investors may not impose restrictions on investing in certain securities or types of securities. However, our separately managed account clients can impose upon us restrictions on investing in certain types of securities or instruments. For managed account clients, we typically execute an agreement that defines a particular client's investment objective and restrictions to which our portfolio managers adhere.

Our firm does not participate in any wrap fee programs.

Our firm currently manages, on a discretionary basis, three accounts totaling \$146,003,438.00 in client assets under management as of March 28, 2011. We do not manage any client assets on a non-discretionary basis.

2. Fees and Compensation

Our firm typically receives compensation from each of our clients based on both the percentage of assets we manage and on performance achieved for each client's account. For some of our clients, we structure our performance-based compensation as profit-sharing allocations through interests that we hold in the clients. For investors in our affiliated pooled investment fund client, our fees are generally not negotiable, except under certain limited circumstances in which employees or certain of their affiliates may not pay any performance-based compensation. Our fees may, however, be negotiable for unaffiliated client accounts.

Asset-Based Fees

The asset-based fees we charge our clients are:

MHC Mutual Conversion Fund, L.P.: 1.0% annually of each investor's capital account balance. We base this fee on the market value of each investor's account on the last

business day of the previous month. We deduct this fee from each investor's account at the beginning of each month. Although we charge this fee in advance, because the investors in this client can only withdraw money on the last day of a quarter (or, in other words, at the end of a month), they will not pay a management fee in excess of what they owe.

Managed Account #1: 0.7% annually of the account's value. We base this fee on the market value of this account on the last business day of the applicable quarter. We bill this client by providing it with a quarterly invoice after the end of each quarter.

Managed Account #2: 1.0% annually of the investors' total capital account balance. We base this fee on the investors' aggregate account balances on the first business day of the applicable quarter. We bill this client by providing it with an invoice at the beginning of each quarter. If an investor makes a partial or full withdrawal of assets in the middle of a quarter, we will calculate and refund any unearned prepaid fees on the withdrawn amount.

Performance-Based Compensation

The performance-based compensation we charge our clients is:

MHC Mutual Conversion Fund, L.P.: 20% annually of each investor's share of this client's net profits for the year, subject to a loss carryforward requirement or cumulative "high water mark." A high water mark ensures that we only receive performance compensation when an investor's account value for the year has recovered any losses from prior years. This performance-based compensation is allocated to us from each investor's account at the end of each year, or whenever an investor is making a withdrawal, but only on the withdrawn amount.

Managed Account #1: on December 31, 2011, 20% of the account's net profits since the account's inception, May 11, 2008, subject to a 10% hurdle rate (compounded monthly) and a cumulative high water mark; after December 31, 2011, 20% annually of the account's net profits for the year, subject to a 10% hurdle rate (compounded monthly) and a cumulative high water mark. A hurdle rate requires our client's profits to exceed a specified rate of return (in this case, 10%) before we receive our performance-based compensation. Once our client meets its hurdle rate, we receive our performance-based compensation on all of the net profits for the relevant period that exceed the hurdle rate. We bill this client by providing it with an annual invoice after the end of each year, starting with the year ending December 31, 2011.

Managed Account #2: 20% annually of each investor's share of the account's net profits for the year, subject to a cumulative high water mark. We send an invoice to this client reflecting performance-based compensation owed to us after the end of each year. This performance-based compensation is allocated to us from each investor's account at the end of each year, or whenever an investor is making a withdrawal, but only on the withdrawn amount.

Other Fees and Expenses

In addition to the asset-based fees and performance-based compensation we describe above, our affiliated pooled investment fund client bears all costs and expenses directly related to its investment program, including expenses related to:

- proxies,
- underwriting and private placements,
- brokerage commissions,
- interest on debit balances or borrowings,
- custody fees and
- any withholding or transfer taxes.

It also bears all out-of-pocket costs related to its administration and operation, including:

- accounting, audit and legal expenses,
- costs of any litigation or investigation involving its activities,
- costs associated with reporting and providing information to existing and prospective investors,
- organizational expenses and
- expenses incurred in the offering of its interests.

Our managed account clients are responsible for all of the expenses incurred in connection with our investment of their assets, including:

- brokerage and other transaction costs,
- clearing and settlement charges,
- trade break fees,
- consulting expenses,
- research expenses, including related travel expenses,
- legal fees and other expenses in connection with conducting due diligence and negotiating the terms of certain investments,
- custodial fees,

- initial and variation margin,
- proxy solicitation expenses and
- any issue or transfer taxes chargeable in connection with any securities transactions.

In addition, our managed account clients may also pay for the costs of reporting and providing them with information. Our managed account clients may also be responsible for additional expenses unrelated to our management of their accounts.

We may choose to absorb some of the expenses we describe above on behalf of any of our clients. In addition, the fees and expenses we have enumerated above may not contemplate every type of fee or expense our clients may incur.

None of our employees receives (directly or indirectly) any compensation for the sale of securities or other investment products.

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

Clover Partners, L.P. receives performance-based compensation from all of our clients. Please see Section 2: Fees and Compensation for a more detailed explanation of the performance-based compensation we receive. We do not manage any funds or accounts that do not pay performance-based compensation.

4. Types of Clients

Through investments in both the affiliated and unaffiliated clients that we manage, our firm typically provides investment services to investors that are:

- Individuals,
- Pension and profit sharing plans,
- Trusts, estates or charitable organizations,
- Partnerships and
- Corporations.

Investment Requirements

To invest in our affiliated investment fund, we generally require a minimum investment of \$1,000,000. We do not have any stated minimum investment amount in connection with the unaffiliated accounts that we advise.

To comply with Securities and Exchange Commission regulation, we require that U.S. investors in our affiliated investment fund qualify as both accredited investors and qualified clients. Accredited investors are generally (i) individuals with \$1,000,000 of net worth (excluding their primary residence) or who have made \$200,000 in each of the two previous years (or \$300,000 joint income with one's spouse) or (ii) entities with assets totaling over \$5,000,000. Qualified clients are individuals or entities with over \$1,500,000 of net worth. Any non-U.S. investors are not subject to any particular wealth requirements. The unaffiliated accounts that we advise must also be qualified clients and may have minimum wealth requirements as well, though we do not determine those standards.

This firm brochure is not an offer to invest in our investment fund.

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

Our firm's primary objective is to achieve long-term capital appreciation while minimizing risk. Our investment program consists primarily of applying a value strategy that emphasizes owning securities that we believe are undervalued and holding them until they reach their fair value.

We tend to concentrate our clients' assets in securities issued by financial services companies and, particularly, in securities issued by mutual savings banks. Specifically, we attempt to identify mutual savings banks that we believe have the most potential to thrive. We then invest along their conversion lifecycles from partial public ownership to a fully public company. Some mutual savings banks may effect their conversion by creating a mutual holding company, which retains more than 50% of its shares outstanding.

We maintain a proprietary database of all mutual holdings companies. We utilize this database to identify attractive investments based on any of the following criteria, among others:

- inside ownership as a percentage of total shares outstanding,
- the ages of the executive officers, particularly the chief executive officer,
- valuation,
- potential for return,
- franchise value, including state and country demographics and projected population growth,
- comparable acquisition multiples and
- potential acquisition targets coupled with merger and acquisition analysis.

Despite our methodologies, the possibility exists that we may not correctly predict or evaluate the future performance of certain securities. Investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

Certain risks associated with an investment in any client we advise include:

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and option trading can, in certain circumstances, substantially exacerbate the impact of unfavorable price movements on our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.
- *Financial Markets and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.

Although our clients may authorize us to invest in a wider variety of securities, the following is a description of the various strategies that we currently utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategies.

- *Investments in Financial Institutions, Specifically Mutual Savings Banks:* We primarily effect our investment strategy through investing our clients' assets in publicly-traded mutual savings banks. Publicly-traded mutual savings banks are banks that were, at one time, owned by the bank's depositors, instead of being owned by private or public shareholders, but have since converted to a stock form of ownership. Our clients' investments in mutual savings banks depend on the banks' abilities to grow and survive as publicly-traded companies. In particular, the success of a mutual savings bank may depend on its ability to make loans (that is, attract borrowers) and attract depositors. In addition, mutual savings banks may hold

unperforming loans, particularly mortgage loans, under which borrowers are not making their loan payments. Any inability to collect on their loans may affect the performance of mutual savings banks in which we invest.

Financial institutions operate in a heavily regulated environment. The cost of compliance with regulatory requirements could adversely affect a mutual savings bank's ability to operate profitably. Changes in regulation and oversight, including in the form of changes to statutes, regulations or regulatory policies or changes in interpretation or implementation of statutes, regulations or policies, could affect the service and products that banks offer, increase their operating expenses, increase compliance challenges and otherwise adversely impact their financial performance and condition. Financial institutions are also particularly sensitive to movements in interest rates. All of these factors may contribute to the volatility of our clients' holdings.

We may make initial investments as interest-bearing deposits in a mutual savings bank immediately before the bank's conversion to public stock ownership. Doing so may be advantageous for our clients because often existing depositors receive first priority to purchase stock in a mutual savings bank's initial public offering, typically at a price lower than the price offered to the public. Following an initial public offering, these mutual savings banks' expenses are likely to increase as a result of the financial accounting, legal and various other additional expenses usually associated with operating as a public company. Increased operating expenses could affect overall profits of the banks, which, in turn, could weaken the value of their securities.

- *Equity Securities:* We buy, on our clients' behalf, equity securities we believe to be undervalued, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Consequently, our clients may suffer losses if we invest their assets in equity instruments of issuers whose performance diverges from our expectations.
- *Investing in Undervalued Securities:* A primary aspect of our investment strategy involves making long investments in securities that we believe are undervalued. However, identifying investment opportunities in undervalued securities is difficult and we cannot assure any clients that we will be able to recognize or acquire undervalued securities. While investments in undervalued securities offer our clients the opportunity for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

In addition, clients may need to sell securities that do not end up being undervalued at a substantial loss. Clients may also need to sell securities before they reach their anticipated values in order to fulfill withdrawal requests or pay certain fees or taxes. Often times, a client must hold undervalued securities for a substantial period of time before realizing their anticipated value. During this period, a portion of a client's capital is committed to the undervalued securities it has purchased, possibly preventing it from investing in other opportunities.

- *Short Selling:* Short selling of securities occurs when we borrow securities, promising to buy them at a later date. If the price drops, we can buy the securities at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at the higher price, and the investment loses money. Buying the securities can itself cause the price of the securities to rise further which would exacerbate the potential for loss.
- *Concentration of Investments:* Although we typically spread our clients' capital among many investments, there are times when we may determine that any of our clients should hold a few, relatively large investments in relation to a client's capital. Consequently, the success of each of those clients could be substantially adversely affected by the unfavorable performance of a single investment. In any event, investments on behalf of our clients are concentrated in the securities of publicly-traded mutual savings banks and other financial institutions.
- *Short-Term Trades:* Short-term trading involves a certain degree of risk. Short-term trading denies a client the strategy of minimizing risk by holding a position over a longer time period. In addition, frequent trading results in high turnover and brokerage commission expenses which can adversely affect a client's performance if its trading is not sufficiently profitable.
- *Borrowing/Leverage:* Although not typically a major component of our clients' strategies, we may borrow against the assets of our clients when we believe that the proceeds from doing so will exceed the interest paid on the borrowing. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, there is always a possibility that the value of the securities purchased with the borrowed amount can decline below the amount borrowed. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case.

- *Margin Transactions:* To increase their buying power, sometimes we engage in margin transactions on behalf of our clients. Trading on margin is a form of leverage. Specifically, when we trade on margin, our clients are borrowing from a broker to purchase more securities than they otherwise would be able to with their initial cash investment. The securities purchased on margin serve as collateral for the broker's loan. Trading on margin is risky because it not only can increase gains, but also can amplify losses to the point where a client may lose more than its initial investment.

- *Hedging Transactions:* We may employ hedging techniques, seeking to reduce a portfolio's vulnerability to various risks. Hedging entails determining certain risks in one's portfolio and making trades seeking to offset those risks. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of these positions decline, but rather it establishes other positions designed to gain from those same developments, moderating the decline in the portfolio positions' value. On the other hand, hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase.

The success of a client's hedging strategy is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. The risk exists that we may not always choose the right variable to hedge against. Also, it is important to note that we may not always choose to hedge against, or might not anticipate, certain risks, and, our clients' portfolios will always be exposed to certain risks that cannot be hedged.

Loss of the ability to hedge, from either a change in the law or an inability to borrow a security when necessary, may result in losses to our clients from the resulting unhedged exposure or depreciation in the retained instrument's value.

Other investment strategies that we employ can be used as hedging techniques, such as arbitrage, options and short selling.

- *Arbitrage:* We may, occasionally, employ an arbitrage strategy, which contemplates buying or selling an investment and simultaneously taking an offsetting position in options in the same or a related investment to profit from a difference in the price. If the price relationship between the two positions remains constant, our clients will not experience a gain or a loss. However, a risk exists that the price differential between the positions could change unfavorably, causing a loss to our clients.
- *Derivatives:* At times, we may invest in options and/or warrants, which are types of derivative contracts, on behalf of our clients. A derivative is a financial instrument that is a contract between two parties, the value of which is linked to another security or commodity, or an "underlying asset." Most often the options in which we may trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs. In addition, the risk of nonperformance by opposing parties on over-the-counter derivatives is typically greater than the risk of nonperformance on exchange-traded derivatives. Also, derivative instruments not traded on exchanges are not subject to the same level of government regulation as are exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with over-the-counter derivative transactions.

Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the price of the underlying asset can result in a loss to our clients that is larger than would have resulted from an investment that did not involve the use of leverage inherent in a derivative contract. Finally, derivative contracts are risky because, ultimately, their success depends in part on the counterparty's financial condition; that is, the counterparty's ability to turn over the cash flow it promised.

- *Options:* There are certain risks associated with the sale and purchase of options. We may, on our clients' behalf, invest in call and/or put options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period.
- *Option Writing:* Our clients may write (sell) call and put options on securities. The applicable client receives a premium from writing a call or put option, which increases the client's return if the option expires unexercised or is closed out or exercised at a net profit. When a client writes a call option, it gives up the opportunity to profit from any increase in the price of a security above the exercise price of the option; when it writes a put option, the client takes the risk that it will be required to purchase a security from the option holder at a price above the current market price of the security.
- *Warrants:* Warrants are derivative instruments that entitle the holder to buy the underlying stock of the issuing company at a fixed exercise price until an expiration date. Warrants are similar to options, except that warrants are issued by the issuing company (instead of a third party), are typically attached to bonds or preferred stock and usually have longer exercise windows. Warrants typically can be detached from bonds or stock and sold separately. The values of warrants do not necessarily change with the values of the underlying stock and warrants cease to have value if they are not exercised prior to their expiration dates.
- *Index Options:* We may utilize exchange-traded equity index options and/or over-the-counter index options. An index option is a call or put option on a financial index. These indices can reflect the characteristics of either the broad equity market as a whole or specific industry sectors within the marketplace. Index options enable our clients to gain exposure to the market as a whole or to specific segments of the market with one trading decision and frequently with one transaction. To obtain the same level of diversification using individual stock issues or individual option classes, numerous decisions and transactions would be

required. Employing index options can defray both the costs and complexities of doing so.

Risks associated with investing in index options include possible default by the opposing party to the transaction, illiquidity (especially for those traded over-the-counter) and, to the extent our predictions as to certain market movements are incorrect, the risk that the use of index options could result in greater losses to our clients than if we had not utilized them.

- *Foreign Securities:* While investing in foreign securities is not a principal focus of our investment strategies, we occasionally buy and sell foreign securities for our clients' accounts. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients' income. Additionally, when investing in foreign bonds, there is always a risk that their issuer will default and be unable to pay the interest and/or principal payments due on the bonds, as the financial stability of foreign issuers may be more precarious than that of U.S. issuers.

Finally, non-U.S. markets have different clearance and settlement procedures which, in some markets, have difficulty keeping pace with large volumes of transactions. This can lead to substantial delays and settlement failures that could adversely affect our clients' performance.

As previously mentioned, our clients invest primarily in financial institutions with an emphasis on mutual savings banks. Consequently, our clients' success is largely dependent upon the success of the financial institution sector and specifically, on the financial companies in which they invest. Please see above for the risks associated with investing in mutual savings banks and other financial institutions.

6. Disciplinary Information

Neither our firm, nor any of our partners, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.

Neither our firm, nor any of our partners, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither our firm, nor any of our partners, officers or principals has been involved in any self-regulatory organization proceedings.

7. Other Financial Industry Activities and Affiliations

Neither our firm, nor any of our partners, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our partners, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or is an associated person of any of the above.

Relationships with Pooled Investment Vehicles

In addition to serving as its investment adviser, our firm also serves as the general partner to our affiliated pooled investment fund client, MHC Mutual Conversion Fund, L.P. Because we control MHC Mutual Conversion Fund, L.P. as its general partner, there was no independent negotiation of our fees or other terms of its partnership agreement. Although this arrangement may give us heightened control and discretion over MHC Mutual Conversion Fund, L.P., we manage any potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in its offering documents.

Relationships with Other Investment Advisers

Our firm owns an interest in another federally registered investment adviser, Capital Tactics Advisors, LLC, and in one of its affiliates. Through our interests in these Capital Tactics entities, we receive a portion of the asset-based fees and performance-based compensation that Capital Tactics Advisors, LLC and its affiliate receive from their investment fund clients. We provide Capital Tactics Advisors, LLC with certain client relations services.

In addition, one of our employees (and a minority interest owner of our firm), John A. Guerry, is also an employee of Capital Tactics Advisors, LLC. Mr. Guerry receives a salary from Capital Tactics Advisors, LLC for providing it with investment advisory services. We do not believe this arrangement creates a conflict of interest because Mr. Guerry does not need to divide his time and investment recommendations between our clients and Capital Tactics Advisors, LLC's clients. In his role as an employee of Capital Tactics Advisors, LLC, Mr. Guerry does not conduct separate or independent research or analysis from the research and analysis he conducts as an employee of our firm. For this reason, we do not believe that Mr. Guerry's advisory services to Capital Tactics Advisors, LLC detract from or infringe upon the time and attention he needs to provide investment advice to our clients.

Typically, because of the variation in investment strategies, our clients already own securities in long-standing positions that Mr. Guerry may later recommend to Capital Tactics Advisors, LLC's clients when he believes that an investment in the same

securities would serve its clients' event-driven mandate. If, on a rare occasion, Mr. Guerry recommends that our clients and Capital Tactics Advisors, LLC's clients buy a certain security about the same time, Mr. Guerry will ensure that we and Capital Tactics Advisors, LLC execute trades simultaneously. In addition, because our firm's and Capital Tactics Advisors, LLC's strategies generally focus on liquid securities, we do not anticipate encountering any investment opportunities limited in supply.

Because there may be some overlap in investment positions between our clients and those of Capital Tactics Advisors, LLC, we have a policy that dictates procedures in the event that Mr. Guerry determines that our clients and Capital Tactics Advisors, LLC's clients should exit the same positions but there is limited market capacity to absorb the securities. In this situation, Mr. Guerry would discuss his determinations with Capital Tactics Advisors, LLC's principal, who would be responsible for selling, including deciding whether to sell, the positions on behalf of Capital Tactics Advisors, LLC's clients.

We may recommend that investors or prospective investors in our clients invest in the investment funds that Capital Tactics Advisors, LLC and its affiliate sponsor. By virtue of our ownership interests in Capital Tactics Advisors, LLC and its affiliate, we may indirectly receive compensation from investors' or prospective investors' investments with Capital Tactics Advisors, LLC. Because we may indirectly receive compensation from any successful recommendations, we may have an incentive to recommend that our investors or prospective investors invest in the investment funds that Capital Tactics Advisors, LLC and its affiliates sponsor.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Our firm has adopted a written Code of Ethics in accordance with Securities and Exchange Commission requirements that is designed to address and avoid potential conflicts of interest. Our Code of Ethics reinforces that our firm and our employees have a fiduciary duty to our clients and the investors in our clients and that we and our employees must abide by all applicable laws and regulations at all times. It contains detailed rules concerning insider trading, treatment of confidential information and personal securities transactions.

Our Code of Ethics requires all of our employees to submit quarterly personal trading activity reports and annual personal securities holdings reports. Each quarter, our Compliance Officer reviews a sample of these reports to confirm that employees have obtained the requisite pre-clearance for their personal trading activities and complied with our personal trading restrictions (which we describe in more detail below).

We provide a copy of our Code of Ethics to any client or any investor in our clients, or any prospective client or prospective investor, that requests one.

Neither our firm nor any of our employees recommends to clients, nor do we or our employees buy or sell for client accounts, securities in which we or our employees have a material financial interest. We may, however, on occasion, determine that it is in line with certain clients' investment strategy and in the best interests of our clients to have one client purchase a security from another client that is selling the same security, otherwise known as a "cross trade." Cross trades may create conflicts of interest because they are not independently negotiated and may provide an opportunity for an investment adviser to collect related commissions. However, we engage brokers to effect our clients' cross trades and, therefore, the trades are executed on market terms and we do not receive any commissions or fees in connection with effecting cross trades between our clients.

Our employees may personally invest in the same securities, or related securities, in which we invest for our clients. Also, under limited circumstances, our employees may trade securities for their personal accounts at or about the same time that we buy or sell the same securities for our clients. This could create a conflict of interest if our employees receive more favorable execution prices than do our clients because our employees' trades might have driven up the market prices of target securities. However, we mitigate this conflict by setting forth a number of restrictions upon the personal trading activities of our employees.

First, employees must obtain pre-clearance from our Compliance Officer before buying or selling any publicly-traded security for their personal accounts, subject to a few exceptions (for example, when an external adviser has complete discretionary authority over an employee's account or when trades are made through an automatic stock option plan). In addition, employees must also receive prior approval from our Compliance Officer before personally acquiring any securities in an initial public offering or a private placement. Finally, employees are generally not allowed to buy or sell any security within 48 hours before or after our firm buys or sells the same security on behalf of any of our clients, unless none of our clients holds the security and the employee obtains the prior written approval of the Compliance Officer. Our Compliance Officer has the discretion to waive the 48-hour restricted period, but may only do so if she believes that granting a waiver would not compromise our clients' interests.

As we previously mentioned, our Compliance Officer reviews a selection of our employees' personal securities transaction and holdings reports to monitor compliance with our personal securities trading policies.

The personal trading policies and procedures we have described above apply not only to employees and their personal accounts but to certain of their immediate family members and their accounts as well.

9. Brokerage Practices

Our firm strives to obtain best execution of securities trades for our clients. In our opinion, best execution does not necessarily equate to the lowest possible commission cost, but rather, whether the transaction represents the best qualitative execution—a combination of price and execution. Attempting to achieve best qualitative execution, when selecting broker-dealers, we engage in a qualitative assessment in which we consider the full range and quality of a broker-dealer’s services, such as:

- our knowledge of negotiated commission rates currently available and other transaction costs,
- the nature of the security being traded,
- the size of the transaction,
- the desired timing of the trade,
- the activity existing and expected in the market for the particular security,
- a broker-dealer’s ability to maintain confidentiality,
- a broker-dealer’s execution rate,
- a broker-dealer’s clearance and settlement capabilities,
- our knowledge of the financial stability of a broker-dealer,
- the quality, comprehensiveness and frequency of available research services and other services a broker-dealer may provide that we consider to be of value and
- our knowledge of actual or apparent operational problems of a broker-dealer.

Recognizing the value of these factors, we may cause our clients to pay commissions or prices that are greater than those another broker-dealer might charge.

In addition, our employees occasionally participate in “capital introduction” events sponsored by broker-dealers. Capital introduction events are events designed to bring asset managers together with investors in one forum. While we do not commit to allocate certain brokerage business or otherwise compensate broker-dealers for organizing these events or for any successful investor relationships we make at these events, we may consider potential invitations to capital introduction events when selecting broker-dealers to execute our clients’ trades, subject to our duty to seek best qualitative execution.

Significantly, in some instances, we may decide to execute our clients’ orders through a low cost alternative trading system, such as BTRADE.

We Utilize Research and Other Soft Dollar Benefits. When we believe that more than one broker or dealer is capable of providing the best combination of price and execution with respect to a particular transaction, our firm may pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us with investment and research information. This investment and research information is often referred to as “soft dollar” benefits. The research products and services that we generally obtain from broker-dealers include both products and services generated internally by a broker-dealer’s own research staff (such as research reports that its employees prepare) and products and services obtained by a broker-dealer from a third party research firm (such as Bloomberg). Specifically, the research products and services that broker-dealers provide us with include:

- research reports and analyses concerning specific issuers, industries or sectors,
- market, financial and economic forecasts and other data,
- pricing services,
- subscriptions to financial publications, such as SNL Financial, and
- services of economists and other consultants.

We also utilize soft dollars to pay for, in whole or in part:

- hardware,
- portfolio management software,
- trade order management systems,
- databases with news and financial information, such as Bloomberg, and
- telecommunications services, equipment and facilities (such as network administration and monitoring of our computer infrastructure).

We use these research services and products only in connection with our advisory services for the account that “paid” for them. When research services and products benefit multiple clients, we allocate soft dollar benefits to each client account in proportion to the soft dollar credits each client generates.

Our Use of Soft Dollar Benefits Does Not Always Fall Within the Safe Harbor. The Securities and Exchange Commission created a safe harbor that protects financial advisers from liability for a possible breach of fiduciary duty to their clients when advisers engage in soft dollar arrangements for certain services at other than the lowest transaction costs. The safe harbor protects advisers if they make a good faith determination that the amount of the commission paid was reasonable in relation to the value of the services received. Investment advisers can choose to operate outside of the

safe harbor, in which case they must be able to defend the payment of excess commissions for non-qualifying services on a fiduciary basis. Although we only use soft dollar benefits for costs and expenses to the extent they are reasonably related to the investment decision-making process, we may use soft dollars outside of the safe harbor when advising our affiliated investment fund client. We do not utilize soft dollars outside of the safe harbor in performing our advisory services for unaffiliated managed account clients.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. When we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to produce or pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research services creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

We Use Particular Procedures to Direct Transactions in Return for Soft Dollars. We direct our clients' transactions to broker-dealers based on best qualitative execution, as we explain above. However, we may have an incentive to execute clients' trades through BTRADE because we receive soft dollar credits for all of our trades through BTRADE.

We Do Not Consider Referrals in Selecting or Recommending Broker-Dealers.

Our Clients Do Not Direct Brokerage. Our firm does not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer. We do, however, engage in soft dollar arrangements with broker-dealers as we describe above.

Trade Aggregation and Allocation

All of our clients invest similarly in the same strategy. As a result, all of our clients often participate in the same investment opportunities. For each collective investment opportunity, we typically place one aggregate order which is then allocated among our participating clients' accounts. If an order cannot be fully executed under current market conditions, we generally allocate the executed portion of the trade among the different client accounts on a *pro rata* basis according to the allocation we originally anticipated. After aggregating a transaction, on a given day, each participating client pays the average

share price for each share it is allocated and all participating clients pay transactions costs *pro rata* to the amounts allocated.

We may allocate an aggregated order on a basis other than that which we have described above if we believe that all of our participating clients are receiving fair and equitable treatment. Ultimately, clients benefit when we aggregate trades because they receive volume discounts on execution costs.

10. Review of Accounts

Our Portfolio Supervisor, Michael C. Mewhinney, and our Portfolio Manager, John A. Guerry, review our clients' accounts continuously on a daily basis. In reviewing our clients' accounts, Mr. Mewhinney and Mr. Guerry monitor (1) our adherence to each client's investment objective, policies and restrictions and (2) the reasonableness of brokerage commissions that our clients incur in light of our best qualitative execution policy (see Section 9). In addition, Mr. Mewhinney and Mr. Guerry periodically review the general level of brokerage commissions that our clients pay.

We may conduct additional reviews if requested by a client or if we believe that a trade, allocation, or operational error may have occurred.

Our firm provides quarterly written investment reports to our affiliated pooled investment fund's investors that contain information such as valuations, realized and unrealized capital gains and losses, investment income, performance information and management fees. We also provide them with written quarterly newsletters that summarize the previous quarter's happenings and what our investment personnel predict and know about the mutual savings banks sector. In addition, we provide these investors with annual written reports containing audited financial statements and tax information. Some investors may receive additional or more frequent information on a case-by-case basis.

Our managed account clients also receive written quarterly newsletters that summarize the previous quarter's happenings and what our investment personnel predict and know about the mutual savings banks sector. We also deliver to our managed account clients written statements, typically quarterly (and perhaps more frequently, depending on the client), containing valuation information. In addition, our managed account clients receive additional reports containing account information directly from their custodians.

11. Client Referrals and Other Compensation

Our firm does not, nor do any employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients. However, in exchange for placing our clients' assets in the custody of our prime broker, we do receive some economic benefits through our prime brokerage arrangement, such as portfolio management software, access to our prime broker's trading desk and capital introduction services.

From time to time, we enter into arrangements with third parties to introduce us to potential investors for the pooled investment fund we advise. Any referral fees we may pay to a third party for successful introductions will be borne solely by our firm, and not by our client or its investors.

12. Custody

While it is our firm's practice not to accept or maintain physical possession of any of our clients' assets, we may be deemed to have custody of client assets under Rule 206(4)-2 of the Investment Advisers Act of 1940 because we have the authority to access client funds and deduct fees and expenses from client accounts.

Affiliated Pooled Investment Fund Client

In order to comply with Rule 206(4)-2, we utilize the services of a qualified custodian (as defined under Rule 206(4)-2) to hold all assets of our affiliated investment fund client. We also ensure that the qualified custodian maintains these funds in accounts that contain only our client's funds and securities, under the client's name. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our affiliated investment fund client at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our affiliated investment fund client within 120 days after the end of its fiscal year.

Unaffiliated Managed Account Clients

We do not custody the assets of our managed account clients. Our managed account clients establish their accounts with their own qualified custodian. These clients will receive account statements directly from their custodian and should review them carefully. They should compare the account statements they receive from their custodian with the reports that we send them. Please see Section 10: Review of Accounts for a more detailed explanation of the reports we send our clients.

13. Investment Discretion

Our firm maintains discretionary authority to manage our clients' securities accounts. Essentially, this means that, on behalf of our clients, we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, the brokers through which we effect trades and the commission rates at which we effect trades. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' private placement memorandum and/or applicable agreement with our firm. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist, including position limits, and the degree of risk assumed by a client's portfolio, including leverage limits.

Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in our affiliated investment fund client with a private placement memorandum that sets forth, in detail, our fund's investment strategy and program. By completing our subscription documents to acquire an interest in our pooled investment fund, investors give us complete authority to manage their investments in accordance with the private placement memorandum they each received.

Prior to providing investment advice to our managed account clients, we require each client to execute an agreement in which it gives us complete discretionary authority to manage its assets, subject to the applicable investment guidelines set forth in each agreement. This gives us complete discretionary authority to buy and sell investment securities and instruments in the amounts and at the prices that we determine.

14. Voting Client Securities

Proxy Voting Policies and Procedures

Because clients have delegated the power to vote their securities to our firm, we have implemented proxy voting policies and procedures designed to ensure that we vote proxies in the best interest of each of our clients. In determining how to vote a particular proxy, we study each proxy's materials and any other materials that may be necessary or beneficial to voting. We generally vote in favor of matters that:

- follow an agreeable corporate strategic direction,
- support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders or
- present compensation plans that are commensurate with enhanced manager performance and common market practices.

However, we cast all proxy votes on a case-by case basis.

Clients cannot direct our proxy votes. We may agree with certain managed account clients to provide them with periodic updates of non-standard or unique issues for which we have exercised proxies on their behalf.

Potential Conflicts of Interest

If there are any potential conflicts of interest in connection with voting a client proxy, it is our policy to resolve the conflict before voting the proxy. If a potential conflict of interest exists, we either disclose the conflict to the affected client and obtain its consent to vote or we take other steps designed to ensure that our decision to vote the proxy is based on our determination of the applicable client's best interest and was not affected by the potential conflict.

Recordkeeping

Our firm maintains the following records relating to proxy voting:

- All proxy statements and materials we receive on behalf of our clients.
- All proxy votes we make on behalf of our clients.
- All documents that were material to a proxy vote.
- All written requests from clients regarding their proxy voting history.
- All written and oral responses to clients' requests.

By contacting Jennifer Boling at the telephone number on the cover of this brochure, any of our clients or any of the investors in our clients can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on its behalf.

15. Financial Information

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

Clover Partners, L.P. has never been the subject of a bankruptcy petition.