

**Item 1. Part 2A of Form ADV: Firm Brochure**

# **CAPITAL PROSPECTS LLC**

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**March 10, 2011**

**This brochure provides information about the qualifications and business practices of Capital Prospects LLC. If you have any questions about the contents of this brochure, please contact us at 203-388-4220. 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 Capital Prospects LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2. Material Changes**

Capital Prospects LLC has no material changes to report since its last annual update of Form ADV Part II.

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Form ADV: Part 2B Brochure Supplements

## **Item 4. Advisory Business**

### **Structure; History and Ownership**

Capital Prospects LLC is a manager-of-managers investment advisory firm specializing in emerging, woman-and minority-owned manager programs. The firm was founded as a multiple-manager limited liability company in the fall of 2002 by co-owners Marilyn R. Freeman and Elizabeth A. Knope. The firm may be referred to in this brochure as “Capital Prospects,” the “firm” or “we.”

As a manager-of-managers, we are responsible for the selection of investment managers for specific client programs and the allocation of program assets across those selected managers. We also at times provide advice to other clients as to the investment strategy and selection and oversight of investment managers, without having the discretion to allocate assets to those managers.

Our services are typically tailored to the specific needs of a client. We develop with our clients the program parameters, investment objectives and guidelines, and establish the program benchmark, return expectations, risk tolerances, evaluation time frame and permitted/prohibited transactions.

### **Assets Under Management**

As at December 31, 2010, Capital Prospects managed \$1,017,900,000 of client assets on a discretionary basis. We do not currently manage any assets on a non-discretionary basis.

## **Item 5. Fees and Compensation**

Where retained as a discretionary manager-of-managers, the firm receives an annual management fee based on the market value of account assets. Our annualized fee schedule is 0.20% on the first \$50 million of assets, 0.15% on the next \$50 million of assets and 0.10% on assets above \$100 million. These fees are negotiable.

Fees are payable quarterly in arrears. The quarterly fee amount is typically calculated by applying one quarter of the annual fee rate to the average of the month-end market values of the client’s account for each of the three months in the quarter.

An account initiated or terminated during a calendar quarter is charged a prorated fee.

Where we are retained as a consultant, our fees are quoted on a project basis. Such fees are also negotiable. Retainer arrangements may be entered into and terms are negotiable among all parties. Fees for services rendered either on a project or retainer basis are billed and payable quarterly in arrears.

Clients are invoiced for fees.

Additional fees and expenses which may be payable by a client in connection with a manager-of-managers program include: sub-manager fees, custodial fees to the client’s custodian, and brokerage and other transaction costs (please see Item 12).

The specific manner in which we charge fees is established in a client’s written agreement with the firm. As a manager-of-managers, the programs we manage are also subject to the fees of the sub-managers to which we allocate client assets, in addition to our fees.

Some clients choose to pay a single fee to us and we are responsible for compensating the sub-managers. In these cases, we agree the total program management fee with the client, and we are responsible for negotiating fees with each sub-manager. Our fee is then the residual between the client's program management fee and the sum of the underlying sub-managers fees. In such cases, our residual fee may be different from the fee rates described above.

Other clients choose to pay us our fees separately, and pay the sub-manager fees directly to the sub-managers. In this type of arrangement, our fee is as stated in the first paragraph of this Item 5.

We typically negotiate all sub-manager fees, regardless of whether the sub-manager fees are paid directly to the sub-managers by the client.

The client makes the decision as to which fee process it prefers to use. No client must pay fees in advance.

Neither the firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

Capital Prospects has no current performance-based fee compensation arrangements with clients, but we would consider such arrangements if properly structured.

## **Item 7. Types of Clients**

Capital Prospects generally provides investment management services to institutional pension plans. The firm's strategy could also be applicable to individuals and trusts.

We do not have a hard and fast minimum account size, but as a practical matter, a well diversified multiple manager program would call for an account size of \$40 million or more.

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

### **Methods of Analysis and Investment Strategies**

Capital Prospects serves as a manager-of-managers and also offers advice on the selection of investment managers in a consultative capacity. As manager-of-managers, we are responsible for both the initial selection of investment managers and for the management of the investment program comprised of those managers (i.e., allocation of client assets across those managers).

As consultant, we are responsible for rendering advice on the selection and oversight of managers, the allocation of funds to those managers, and on general investment strategy with respect to those managers.

In all cases, the underlying investment managers are responsible for implementation of investment strategy in client portfolios.

Our investment officers meet with key professionals at investment management firms and evaluate the organizational structure and business plan, investment professionals and support personnel, investment philosophy, investment process and performance and portfolio history of such firms. We use industry sources, business relationships and databases to identify investment managers of interest.

We select managers for a client's program that are consistent with the client's mandate. Typically, those managers employ long only U.S. active equity strategies across the entire U.S. market capitalization spectrum. We also select managers that employ active U.S. fixed income strategies where mandated.

We specialize in programs that are focused on emerging, woman-owned and minority-owned managers.

## **Risk of Loss**

Investing in securities through the programs we develop for clients involves risks of loss which investors should be prepared to bear.

The material risks involved in our investment strategy encompass both investment risk and business risk of the underlying sub-managers. Our strategy involves allocating client assets to sub-managers for investment in securities, which carries a risk of loss that clients should be prepared to bear. The underlying sub-managers to which we allocate assets are typically firms with relatively fewer assets under management and carry risks relating to capitalization structure, financial condition and ownership structure, among others.

Material risks of the firm's multi-manager approach include the following:

**General.** The investment performance of a client's investment program will ultimately depend upon the strategies, skills and abilities of the sub-managers to which a client's capital is allocated, coupled with our program construction decisions. Although we endeavor to select sub-managers with individual strategies and investment policies consistent with a program's objectives, we do not have control over the specific investments that the sub-managers make.

As a manager-of-managers, the programs we manage are subject to two levels of fees—Capital Prospects' fees and the fees of the sub-managers to which we allocate client assets.

**Nature of Sub-Managers.** We anticipate that many sub-managers selected to serve our clients with respect to the program assets will rely on the services of a small number of key personnel in managing such assets. The death, disability or departure of the key personnel of a sub-manager could adversely affect the sub-manager's ability to manage a client's assets. Moreover, no assurance can be given that suitable replacement personnel will be retained by the sub-manager. Furthermore, a client's assets may be allocated to firms with limited operating histories. Such sub-managers may have a very small number of individuals (sometimes, only one or two) managing the assets of their clients and performing administrative functions.

Other material investment risks include the following:

**Risks of Investments in Securities Generally.** All securities investments risk the loss of capital. We can make no guarantee or representation that a client's investment program will be successful. As is true of any investment, there is a risk that amounts that a client invests in a program will be lost. Our strategy is not intended to be a complete investment program and should represent only a portion of a client's portfolio management strategy.

**Equity Risks.** The sub-managers we appoint for clients with equity mandates invest primarily in U.S. equity securities. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets.

While equity securities have shown greater growth than other types of securities over time, in the short-term, share prices fluctuate widely in response to company, market, economic or other news.

The risks associated with investing in equity securities of companies include the financial risk of selecting individual companies that do not perform as anticipated, the risk that the stock market may experience periods of turbulence and instability, and the general risk that domestic and global economies may go through periods of decline and cyclical change.

Investments in large cap companies may underperform securities of small and mid cap companies in certain economic environments. Larger, more established companies might be unable to react as quickly to new competitive challenges, such as changes in technology and consumer tastes. Some larger companies may be unable to grow at rates higher than the fastest growing smaller companies, especially during extended periods of economic expansion.

Investments in mid cap companies may entail greater risks than investments in larger, more established companies. Mid cap companies generally have narrower product lines, more limited financial resources and a more limited trading market for their shares compared to larger companies. As a result, their stock prices may experience greater volatility and may decline significantly in market downturns.

Investments in small cap and micro cap companies may involve greater risks than investing in larger, more established companies. Small cap and micro cap companies generally have limited product lines, markets, and financial resources. Their securities may trade less frequently and in more limited volume than the securities of larger, more established companies. Also, small cap and micro cap companies are typically subject to greater changes in earnings and business prospects than larger companies. Consequently, small cap and micro cap company share prices tend to rise and fall in value more than other stocks. The risks of investing in micro cap stocks and companies are even greater than those of investing in small cap companies.

**Fixed Income Risks.** The sub-managers we appoint for clients with fixed income mandates invest in U.S. fixed income securities.

Risks of fixed income investments include: interest rate risk, reinvestment risk, inflation risk, market risk, specific security selection risk, and potential liquidity risk. Certain strategies may also carry credit and default risk.

**General Economic and Market Conditions.** The success of our and the sub-managers' strategies will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of a client's investments. Volatility or illiquidity could impair a program's profitability or result in losses.

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the firm's advisory business or the integrity of its management.

## **Item 10. Other Financial Industry Activities and Affiliations**

Capital Prospects and its management persons do not engage in any financial industry activities apart from the investment advisory services described above. Neither the firm nor any of its management persons has any financial industry affiliation that is material to the firm's business.

The firm receives no compensation directly or indirectly from the sub-managers it selects. Our business relationships with those sub-managers are limited to their appointment to manage portions of clients' programs and ongoing oversight.

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

Capital Prospects has established a Code of Ethics and Professional Conduct to protect the reputation and integrity of the firm and that of its managers, officers, Principals and employees (collectively its "Supervised Persons"), to assist our Supervised Persons in following uniform standards of ethical conduct and to ensure that the firm will act in a manner that is consistent with the applicable requirements of the Investment Advisers Act of 1940, as amended, and the rules and regulations that have been promulgated thereunder.

Our Code of Ethics and Professional Conduct includes the following:

- standards of business conduct required of our Supervised Persons, which standards reflect our fiduciary obligations and those of our Supervised Persons;
- provisions requiring our Supervised Persons to comply with applicable federal securities laws;
- provisions that require certain of our Supervised Persons to report, and the firm to review, their personal securities transactions and holdings periodically;
- provisions requiring our Supervised Persons to report any violations of the Code of Ethics and Professional Conduct promptly to our Chief Compliance Officer; and
- provisions requiring the firm to provide each of our Supervised Persons with a copy of the Code of Ethics and Professional Conduct and any amendments, and requiring our Supervised Persons to provide to the firm a written acknowledgement of their receipt of the Code of Ethics and Professional Conduct and any amendments.

A copy of the Code of Ethics and Professional Conduct of Capital Prospects LLC is available to any client or prospective client of the firm upon request.

We do not directly implement investment strategies in client portfolios but select, or advise regarding the selection of, sub-managers who do. The sub-managers in turn have the authority to determine, without obtaining specific client consent (unless mandated), the securities to be brought or sold, the amount of the securities to be bought or sold, the broker or dealer to be used and the commission rates to be paid.



We do not directly trade client portfolios.

## **Item 12. Brokerage Practices**

Capital Prospects does not directly implement investment strategies in client portfolios but selects or advises on the selection of sub-managers who do. We select sub-managers who in turn have the authority to determine, without obtaining specific client consent (unless mandated), the securities to be bought or sold, the amount of the securities to be bought or sold, the broker or dealer to be used and the commission rates to be paid.

Certain clients maintain brokerage policies that may specify targeted inclusion of emerging, local, woman-owned, minority-owned and/or disabled veteran-owned broker dealers or soft dollar or commission recapture brokers. Our role is to communicate such policies to the sub-managers and to periodically report to the client on usage.

## **Item 13. Review of Accounts**

As a standard procedure, Capital Prospects internally reviews client accounts monthly. In addition, our investment officers communicate regularly (and at least quarterly) with each of the sub-managers utilized in client programs to review current performance and investment strategy. We meet with clients as required, but typically no less frequently than annually. Elizabeth A. Knope, Principal & Manager, is the key investment officer of the firm responsible for conducting reviews of the managers. Marilyn R. Freeman, Principal & Manager, is the key investment officer of the firm responsible for conducting reviews with clients.

In addition to the reviews described above, if there is concern that a sub-manager's risk profile is shifting or if we believe that the market environment warrants, additional intra-month analysis may be completed.

On a monthly basis, we generate an investment performance report which is distributed as directed by the client, typically via e-mail. On a quarterly basis, we provide each client with a comprehensive analytic report that includes a written market summary with an economic and market review, a program performance review narrative, and performance information broken down by sub-manager with written commentary on each sub-manager's portfolio and strategy, asset allocation, investment characteristics and sector analysis.

We can also accommodate additional client-specific reporting requests.

## **Item 14. Client Referrals and Other Compensation**

We do not receive any economic benefit from anyone other than our clients for providing investment advice or other advisory services to our clients.

With one exception, we do not have any current arrangements whereby any person who is not a Supervised Person is compensated directly or indirectly for client referrals. One client introduction made in 2006 (by what was then Phoenix Investment Partners and is now Virtus Investment Partners) led to a portion of our fees in respect of that client being paid to Virtus Investment Partners. That arrangement ends on June 30, 2011.

**Item 15. Custody**

Capital Prospects does not have custody of client funds or securities.

**Item 16. Investment Discretion**

Capital Prospects' advisory business is described in response to Item 4. Before assuming discretionary authority, the firm enters into an Investment Management Agreement with its clients, which includes all specifics of the mandate including responsibilities, investment authority and investment guidelines.

**Item 17. Voting Client Securities**

Capital Prospects does not have proxy voting authority over any of its clients' securities.

Some clients retain proxy voting responsibility themselves and some delegate authority to vote proxies to the sub-managers. Our clients are institutional and establish their own proxy voting procedures.

**Item 18. Financial Information**

Capital Prospects does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

There is no financial condition of the firm that is reasonably likely to impair our ability to meet our contractual commitments to our clients. The firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Item 1. Part 2B of Form ADV: Brochure Supplement**

### **Supervised Person:**

Marilyn R. Freeman  
Principal & Manager  
Capital Prospects LLC  
One Dock Street, Suite 405  
Stamford, CT 06902  
203-388-4220

### **Firm Name:**

Capital Prospects LLC  
One Dock Street, Suite 405  
Stamford, CT 06902  
203-388-4220

**Date:** March 10, 2011

This brochure supplement provides information about Marilyn R. Freeman that supplements the Capital Prospects LLC brochure. You should have received a copy of that brochure. Please contact Marilyn R. Freeman if you did not receive Capital Prospects LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about Marilyn R. Freeman is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Educational Background and Business Experience**

Marilyn R. Freeman

Born in 1953. Graduated from the State University of New York at Stony Brook (BA), 1974; University of Connecticut School of Business (MBA), 1984.

Principal & Manager of Capital Prospects LLC from 2001 to present.  
Executive Vice President of Northern Trust Global Advisors from 1995 to 2001.

## **Item 3. Disciplinary information**

Not applicable.

## **Item 4. Other Business Activities**

Not applicable.

## **Item 5. Additional Compensation**

Not applicable.

## **Item 6. Supervision**

Both Principals of Capital Prospects LLC are responsible for the advice provided to clients. Elizabeth A. Knope leads the investment manager research effort and Marilyn R. Freeman leads the client service effort. Final decisions are made by Elizabeth A. Knope and Marilyn R. Freeman, both Principals & Managers of Capital Prospects LLC (phone: 203-388-4220).

## **Item 1. Part 2B of Form ADV: Brochure Supplement**

### **Supervised Person:**

Elizabeth A. Knope  
Principal & Manager  
Capital Prospects LLC  
One Dock Street, Suite 405  
Stamford, CT 06902  
203-388-4220

### **Firm Name:**

Capital Prospects LLC  
One Dock Street, Suite 405  
Stamford, CT 06902  
203-388-4220

**Date:** March 10, 2011

This brochure supplement provides information about Elizabeth A. Knope that supplements the Capital Prospects LLC brochure. You should have received a copy of that brochure. Please contact Marilyn R. Freeman if you did not receive Capital Prospects LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about Elizabeth A. Knope is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Educational Background and Business Experience**

Elizabeth A. Knope

Born in 1947. Graduated from Skidmore College (BA), 1969; Boston University Graduate School of Management (MBA), 1978; Chartered Financial Analyst (CFA).

Principal & Manager of Capital Prospects LLC from 2002 to present.  
Executive Vice President at Northern Trust Global Advisors from 1995 to 2002.

A CFA candidate must meet one of the following requirements:

- § Undergraduate degree and four years of professional experience involving investment decision making, or
- § Four years of qualified work experience (full time, but not necessarily investment related)

It is a self-study program, 250 hours of study for each of three levels, and it is comprised of three course exams.

## **Item 3. Disciplinary information**

Not applicable.

## **Item 4. Other Business Activities**

Not applicable.

## **Item 5. Additional Compensation**

Not applicable.

## **Item 6. Supervision**

Both Principals of Capital Prospects LLC are responsible for the advice provided to clients. Elizabeth A. Knope leads the investment manager research effort and Marilyn R. Freeman leads the client service effort. Final decisions are made by Elizabeth A. Knope and Marilyn R. Freeman, both Principals & Managers of Capital Prospects LLC (phone: 203-388-4220).