

## **BROCHURE OF**

### **Caldwell Asset Management Inc.**

A Delaware corporation registered with the Securities and Exchange Commission as an  
Investment Adviser (CRD # 126450)

Caldwell Asset Management Inc.  
450 Park Avenue, Ste. 1900  
New York, New York 10022  
Telephone: (212) 220-4260  
Facsimile: (212) 644-6344  
[www.caldwellsecurities.com](http://www.caldwellsecurities.com)

Attn: Thomas S. Caldwell, Chairman, Chief Executive Officer and Director

**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF CALDWELL ASSET MANAGEMENT INC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (212) 220-4260 AND/OR TCALDWELL@CALDWELLSECURITIES.COM.**

**NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION, NOR THE STATE OF DELAWARE, NOR ANY STATE SECURITIES AUTHORITY, HAS PASSED UPON THE ADEQUACY OR ACCURACY OF THIS BROCHURE. REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING. ADDITIONAL INFORMATION ABOUT CALDWELL ASSET MANAGEMENT INC. ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).**

The Date of this Brochure is

March 31, 2011

The delivery of the Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Brochure will supersede all other such documents containing information about our Firm. If you have any questions about the contents of this Brochure, please contact us at (212) 220-4260.

Item 2.

**Material Changes to Brochure**

The following summary describes material changes in the business or operations of Caldwell Asset Management Inc. since its previous annual update filed on June 29, 2010.

Closure of Florida Office. In March, 2010, Caldwell Asset Management Inc. closed its office located in Longboat Key, Florida thereby consolidating its investment advisory business to its principal office and principal place of business in New York, New York.

Item 3.

## TABLE OF CONTENTS

### Part 2A – Disclosures about the Firm

<b><u>Item</u></b>	<b><u>Title</u></b>	<b><u>Page Number</u></b>
Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	5
Item 6	Performance-Based Fees and Side-by-Side Management	9
Item 7	Types of Clients	11
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	11
Item 9	Disciplinary Information	23
Item 10	Other Financial Industry Activities and Affiliations	23
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	24
Item 12	Brokerage Practices	29
Item 13	Review of Accounts	32
Item 14	Client Referrals and Other Compensation	33
Item 15	Custody	33
Item 16	Investment Discretion	33
Item 17	Voting Client Securities	34
Item 18	Financial Information	35
Item 19	Requirements for State Registered Advisers	35

## I. Part 2A – DISCLOSURE ITEMS ABOUT THE FIRM

### Item 4. Advisory Business:

- (A) **Operational and Organizational Information:** Caldwell Asset Management Inc. (the “Firm”, “we” or “our”), a Delaware corporation, is an investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”). The Firm provides investment management services to a pooled investment vehicle, Caldwell Advantage, LP (the “Partnership”), a Delaware limited partnership. Caldwell Fund Management, LLC, a Delaware limited liability company (the “General Partner”), is the general partner of the Partnership. The Firm has been in business since 1996. The Firm is a wholly-owned subsidiary of Caldwell Financial Ltd., a [jurisdiction] company located in Toronto, Ontario Canada (“CFL”). CFL is 100% employee owned company. Thomas S. Caldwell owns approximately 45% of CFL. CFL is also the direct parent of three other subsidiaries besides the Firm: Caldwell Securities Ltd., an Ontario company that provides investment and financial planning for Canadian investors, Caldwell Investment Management Ltd., an Ontario company that provides investment and portfolio managers for clients in Canada and internationally, and Caldwell Insurance Services Ltd., an Ontario company that provides life, health and disability insurance for individuals and groups.
- (B) **Types of Advisory Services Offered:** The Firm provides investment management services to separately managed accounts according to the terms of its investment management agreement with such Clients. The Firm also provides investment management services to the Partnership. The Partnership invests primarily in publicly traded equity securities and fixed income securities, as well as in interests in memberships and seats on private securities exchanges globally. “Client” may include a pooled investment vehicle, investors in the Partnership (also known as “Limited Partners”), and separately managed account clients.
- (C) **Individual Tailoring of Advice:** Advisory services include, among other things, providing advice regarding asset allocation, the selection of investments and performance monitoring. Decisions relating to investment advice are based on an analysis of the merits of the investment involved and on the investment guidelines and restrictions of the Client.

The Firm provides discretionary investment advisory services to all fee paying client accounts. The Firm may trade and invest in a

wide variety of securities and financial instruments, domestic and foreign, 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, limited partnership interests, mutual fund shares, options, warrants, commodities, futures, derivatives (including swaps, forward contracts and structured instruments), currencies, monetary instruments and cash and cash equivalents.

With respect to separately managed accounts, the Firm assists the Client in determining its investment objectives and needs, and the account is managed in accordance with those objectives and needs.

(D) **Wrap Fee Programs:** Not Applicable.

(E) **Client Assets Under Management:** *(rounded to the nearest \$100,000)*

(i) Discretionary: \$30,900,000 as of March 1, 2011.

(ii) Non-discretionary: \$0 as of March 1, 2011.

**Item 5. Fees and Compensation:**

(A) **Description of Fees:**

The Firm's separately managed account Clients are charged an asset management fee for the Firm's investment management services. These fees may vary according to account size and the length and scope of the client relationship, and adjusted fee schedules may be negotiated on a case-by-case basis. Asset management fees are generally based on a percentage of the market value of all assets in the client account. The Firm's annual asset management fees for separately managed accounts are as follows:

For balanced and equity separately managed accounts, the annual asset management fee is:

- 1% of assets under management on accounts equal to or less than \$5,000,000; and
- negotiable on accounts over \$5,000,000.

For fixed income separately managed accounts, the annual asset management fee is:

- 0.5% of assets under management on accounts equal to or less than \$10,000,000;
- 0.25% of assets under management on accounts between \$10,000,000 and \$25,000,000; and
- negotiable on accounts over \$25,000,000.

With respect to the Partnership, the Firm has entered into an investment management agreement (“Investment Management Agreement”) to manage the Partnership’s portfolio. In consideration for services provided pursuant to the Investment Management Agreement, the Firm receives a management fee (“Management Fee”) based on a percentage of the value of the assets under management.

The General Partner receives a performance allocation (the “Performance Allocation”) from the Partnership at the close of each fiscal year (or other applicable period) equal to 20% of the portion of the Partnership’s annual net income (including realized and unrealized gains and net of the Management Fee and expenses) attributable to each Limited Partner with respect to such fiscal year (or other applicable period). The Performance Allocation is subject to a high water mark or Loss Carryforward provision (as described below). With respect to a security held in a side pocket account, the Performance Allocation shall be deferred until the close of the fiscal year (or other applicable period) in which the General Partner determines that the security should no longer be maintained in a side pocket account or the security becomes marketable or its sale or disposition occurs, in whole or in part.

The General Partner also receives a Performance Allocation upon any withdrawal by a Limited Partner, whether voluntary or involuntary, and upon dissolution of the Partnership. The Performance Allocation shall be in addition to the proportionate allocations of income and profits, or losses, to the General Partner and/or its affiliates based upon their capital accounts relative to the capital accounts of all partners in the Partnership. The General Partner, in its sole discretion, may waive or reduce the Performance Allocation with respect to any Limited Partner for any period of time, or agree to apply a different Performance Allocation for that Limited Partner. The General Partner may, in its discretion, reallocate all or any portion of its Performance Allocation to certain Limited Partners.

The Performance Allocation is subject to what is commonly known as a “high water mark” procedure. That is, if the Partnership has a net loss in any fiscal year (or other applicable period), this loss will be carried forward as to each Limited Partner to future fiscal years (or other applicable periods) (such amount is referred to as the “Loss Carryforward”). Whenever there is a Loss Carryforward for a Limited Partner with respect to a fiscal year (or other applicable period), the General Partner will not receive the Performance Allocation from such Limited Partner for future fiscal years (or other applicable periods) until the Loss Carryforward amount for such Limited Partner has been recovered (i.e., when the Loss Carryforward amount has been exceeded by the cumulative profits allocable to such Limited Partner for the fiscal years (or other applicable periods) following the Loss Carryforward). Once the Loss Carryforward has been recovered, the Performance Allocation shall be based on the excess profits (over the Loss Carryforward amount) as to each Limited Partner, rather than on all profits.

When a Limited Partner withdraws capital, any Loss Carryforward will be adjusted downward in proportion to the withdrawal. The General Partner may agree with any Limited Partner to apply a different Loss Carryforward provision for such Limited Partner.

**(B) Payment of Fees:**

With respect to separately managed accounts, all asset management fees are billed quarterly, in arrears. If for any reason a Client or the Firm should wish to terminate an investment management agreement, the terminating party must give, on average, thirty (30) days prior written notice and asset management fees will be on a prorated basis, if applicable.

The Management Fee payable to the Firm pursuant to the Investment Management Agreement equals 0.1667% per month (approximately 2% annually) of each Limited Partner’s share of the Partnership’s net asset value. The Management Fee is payable monthly in advance and calculated as of the first day of each month. A *pro rata* Management Fee is charged to Limited Partners on any amounts permitted to be invested during any month. No part of the Management Fee is refunded in the event that a Limited Partner withdraws all or any of the value in the Limited Partner’s capital account during a month, whether on a voluntary or involuntary basis. The Firm, in its sole discretion, may waive or reduce the Management Fee with respect to one or

more Limited Partners for any period of time, or agree to apply a different Management Fee for that Limited Partner.

The Performance Allocation shall be reallocated by credit to the General Partner's capital account and debited from each Limited Partner's capital account at the close of each fiscal year (or such other period, as the case may be); *provided, however*, that the Performance Allocation shall be subject to a Loss Carryforward (as described above). The General Partner may, in its sole discretion, reallocate all or any portion of the Performance Allocation to certain Limited Partners.

- (C) **Additional Fees and Expenses:** In addition to management fees and performance based fees or allocations, in the case of an investment in the Partnership. Clients incur brokerage and other transaction costs. Clients should carefully review Item 12 which discusses conflicts of interest related to brokerage practices. Brokerage commissions and/or transaction ticket fees charged by the custodian will be billed directly to the Client. The Firm will not receive any portion of such commissions or fees from the custodian or Client.

*Organizational Expenses of the Partnership:* The Partnership has paid or reimbursed the Firm, the General Partner and their affiliates for all expenses relating to organizing the Partnership, including, but not limited to, legal and accounting fees, printing and mailing expenses and government filing fees (including blue sky filing fees).

*Operating Expenses of the Partnership:* The Partnership shall pay or reimburse the Firm for: (A) all expenses incurred in connection with the ongoing offer and sale of the limited partner interests in the Partnership, including, but not limited to, marketing expenses, documentation of performance and the admission of Limited Partners, (B) all operating expenses of the Partnership such as tax preparation fees, governmental fees and taxes, administrator fees, communications with Limited Partners and ongoing legal, accounting, auditing, bookkeeping, consulting and other professional fees and expenses, (C) all Partnership trading costs and expenses (e.g. brokerage commissions, margin interest, expenses related to short sales, custodial fees and clearing and settlement charges), (D) professional and other advisory and consulting expenses and travel expenses incurred in connection with investment due diligence, monitoring or the assertion of rights or pursuit of remedies (including, without limitation, pursuant to bankruptcy or other legal proceedings, or participation in informal



committees of creditors or other security holders of an issuer), (E) external data services (including, but not limited to, bond pricing and rating data feed) and software expenses included in identifying and monitoring investment opportunities, and (F) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims by or against the Partnership. The Firm, the General Partner or their affiliates, in their sole discretion, may from time to time pay for any of the foregoing Partnership expenses or waive their right to reimbursement for any such expenses, as well as terminate any such voluntary payment or waiver of reimbursement.

*Firm Expenses in Connection with the Partnership:* The Firm will pay its own general operating and overhead type expenses associated with providing the investment management services required under the Investment Management Agreement. These expenses include all expenses incurred by the Firm in providing for its normal operating overhead, including, but not limited to, the cost of providing relevant support and administrative services (e.g., employee compensation and benefits, rent, office equipment, insurance, utilities, telephone, secretarial and bookkeeping services, etc.), but not including any Partnership operating expenses described above.

- (D) **Fees Paid in Advance:** In connection with the Partnership, the Management Fee is payable monthly *in advance* and calculated as of the first day of each month. No part of the Management Fee will be refunded in the event that a Limited Partner withdraws all or any of the value in the Limited Partner's capital account during a month. The Firm may, in its sole discretion, waive or reduce the Management Fee with respect to one or more Limited Partners for any period of time, or agree to apply a different Management Fee for that Limited Partner.

Separately managed accounts are charged management fees in arrears, on a quarterly basis. Please refer to Item 5(B).

- (E) **Additional Compensation of Supervised Persons:** No supervised person accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

**The Partnership:** As described in *Item 5(A)* above, the General Partner receives a Performance Allocation at the close of each

fiscal year (or other applicable period) equal to 20% of the portion of the Partnership's annual net income (including realized and unrealized gains and net of the Management Fee and expenses) attributable to each Limited Partner with respect to such fiscal year (or other applicable period).

The General Partner also receives a Performance Allocation upon any withdrawal by a Limited Partner, whether voluntary or involuntary, and upon dissolution of the Partnership. The Performance Allocation shall be in addition to the proportionate allocations of income and profits, or losses, to the General Partner and/or its affiliates based upon their capital accounts relative to the capital accounts of all partners in the Partnership. The General Partner, in its sole discretion, may waive or reduce the Performance Allocation with respect to any Limited Partner for any period of time, or agree to apply a different Performance Allocation for that Limited Partner. The General Partner may, in its discretion, reallocate all or any portion of its Performance Allocation to certain Limited Partners.

The Performance Allocation is subject to a Loss Carryforward. *See Item 5(A).*

When a Limited Partner withdraws capital, any Loss Carryforward will be adjusted downward in proportion to the withdrawal. The General Partner may agree with any Limited Partner to apply a different Loss Carryforward provision for such Limited Partner.

An incentive or performance fee arrangement may create an incentive for the Firm, an affiliate of the General Partner, to make investments that are riskier or more speculative than would be the case in the absence of the Performance Allocation. Where any part of the Firm's (or the General Partner's) compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, the Firm shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently. To the extent the Firm values any such securities or instruments it has a conflict of interest as the Firm and the General Partner will receive higher Management Fees and Performance Allocation, respectively, if the Firm gives such securities and instruments a higher valuation. The Firm does not represent that the amount of the Performance Allocation or the manner of calculating the Performance Allocation is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The Performance Allocation received by

the General Partner may be higher or lower than the performance fees charged by other investment advisers for the same or similar services.

In addition, in the event that the Firm manages an account from which it (or the General Partner) collects performance fees and also manages at the same time an account from which it does *not* collect performance fees, the Firm has an incentive to favor accounts for which it (or the General Partner) receives performance fees because it (or the General Partner) will receive a greater profit from the accounts that are charged performance fees. Therefore, the Firm has an incentive to allocate investments that are expected to be more profitable to accounts from which it (or the General Partner) collects performance fees, on the one hand, and that are riskier on the other hand, since in both scenarios, the Firm (or the General Partner) may receive greater fees if the investment generates a positive return. Notwithstanding the foregoing, the Firm does not favor accounts that pay performance fees.

**Item 7. Types of Clients:**

The Firm's Clients are separately managed accounts and a private investment fund whose investors are individuals, high net worth individuals, corporations, trusts, estates, charitable organizations and foundations. The minimum investment in the Partnership is \$250,000. The minimum investment for a separately managed account is \$1,000,000. In each case, however, the Firm has discretion to accept lesser amounts.

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

**(A) Methods of Analysis and Investment Strategies:**

*Investment Strategies of Separately Managed Accounts:* With respect to separately managed accounts, the Firm typically invests in large cap equities. The Firm's style is to examine macro events in order to develop an overall economic overview. In order to enhance value, the Firm attempts to purchase the shares of larger corporations during periods of adversity or crisis. The Firm is both a producer and consumer of individual corporate research. Ideally, the Firm attempts to sell during euphoric times either for a specific company or the market as a whole. As described above, the Firm also invests in "special situations investments." Fixed income holdings are restricted to government guaranteed bonds. The Firm's style with respect to separately managed accounts could be described as "value based" and "long" only. The Firm also

discourages Clients from taking on debt in order to invest in publicly traded securities.

***Investment Strategies of the Partnership:*** The investment strategies that the Partnership will use to achieve its investment objective may include:

- acquiring interests in memberships and seats on private securities exchanges globally;
- acquiring the common and special shares of public and non-public securities exchanges;
- identifying and acquiring securities of companies that appear attractive based on valuation;
- participating in private placements by companies that have publicly traded securities;
- purchasing securities of unlisted companies and other illiquid entities;
- acquiring royalty interests;
- investing in equity securities or equity-related securities including common shares and preferred shares and to a lesser extent in other kinds of securities, including units and warrants, and writing or acquiring put and call options;
- investing in issuers trading at a discount due to temporary events caused by market reactions to negative news; and
- investing by way of short sale opportunities in companies with deteriorating financial conditions, negative surprises and unattractive valuations.

The Partnership anticipates investing in publicly traded equity securities and other less liquid investments. In carrying out the Partnership's investment objective, the Firm may employ an intrinsic value-based investment discipline. The Firm believes that capital markets are efficient over the long term, however, in the short term the capital markets are inefficient and therefore opportunities exist to capitalize on such inefficiencies. The Partnership purchases securities that the Firm believes to be undervalued, and may sell short equities that the Firm believes to be overvalued. The Firm invests in companies without regard to market capitalization, geographic location or market sector. The Partnership's investment strategy may also include options, event-driven investments, fixed income securities and use of leverage. Further, the Firm may write covered options on some of the securities held by the Partnership in an attempt to supplement income derived from corporate dividends, as well as invest in

derivative instruments.

In summary, the Partnership seeks to provide its Limited Partners with superior and sustainable returns combined with effective risk management. Although the strategy and asset allocation utilized by the Partnership may be currently centered on acquiring interests in private and public securities and derivatives exchanges globally, the Firm intends to follow a flexible approach in order to place the Partnership in the best position to capitalize on opportunities in the financial markets. For example, a certain portion of the Partnership's portfolio may be invested in publicly traded equity securities and other less liquid investments. Accordingly, the Firm may employ other strategies and take advantage of opportunities in diverse asset classes if they meet the Firm's standards of investment merit.

The Partnership's investment program may also include the following characteristics:

Concentration. The Firm believes that in order to sustain superior investment results, it may be necessary to concentrate the Partnership's portfolio in investments that will produce high absolute returns while at the same time reducing risk to the overall portfolio. Thus, the Firm may have limited diversification. There is no limit to the concentration or diversification the Partnership may have.

Event-Driven and Special Situation Investments. The Partnership may invest in companies based upon certain situations or events, including (but not limited to) spin-offs, mergers and acquisitions, rights offerings, restructurings and bankruptcies. The Firm believes that many such special situations and events carry a high probability of indiscriminate selling or neglect of valuable assets for reasons other than a lack of investment merits.

Occasionally, the Partnership may engage in arbitrage transactions that the Firm believes represent an exceptional risk/reward opportunity. Risk arbitrage opportunities generally arise during corporate mergers, leverage buyouts or takeovers. Frequently the stock of the company being acquired will trade at a significant discount to the announced deal price. This discount compensates investors for the time value of money and the risk that the transaction may be canceled. If the discount is significantly greater than the Firm's assessment of the underlying risk, the strategy will be implemented.

Options. The Firm may utilize derivative securities, primarily options. The Firm may 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 (“ECNs”). 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 Partnership may also utilize certain options, such as various types of index or “market basket” options, in an effort to hedge against certain market related risks, as the Firm deems appropriate. The Firm believes that the use of options and other derivatives should help reduce risk and enhance investment performance.

Fixed Income Securities. The Firm may invest in fixed income securities (bonds) as part of the strategic operations of the Partnership. [The Firm may take advantage of special investment opportunities in the high yield and convertible segments of the fixed income market. The Firm considers these investments to be equity substitutes, with the expectation of providing both current income and capital appreciation.][CONFIRM] The Firm may also seek opportunities in government issued fixed-income securities as deemed appropriate. Further, the Firm may write covered options on some of the securities held by the Partnership in an attempt to supplement income derived from corporate dividends.

Leverage. The Partnership may 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 Partnership’s use of leverage. The amount of any borrowing by the Partnership may be limited by regulations imposed by the Federal Reserve Board and by the availability and cost of credit. The Firm does not expect that the Partnership will incur indebtedness in connection with its operations, other than interest on margin debts or deposits with respect to securities positions.

Other Investments. The Firm may also invest some of the Partnership’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 Partnership to make investments quickly and to serve as collateral with respect to certain of its investments. If the Firm believes that a defensive position is appropriate because of expected economic or business conditions or the outlook for security prices, or the Firm

determines that opportunities for investing are unattractive, then a greater percentage of Partnership assets may be invested in such obligations. The Partnership may also engage in securities lending activities. From time to time, in the sole discretion of the Firm, cash balances in the Partnership's brokerage account may be placed in a money market fund.

***Methods of Analysis:*** The Firm uses the following analyses in carrying out its investment strategies for separately managed accounts and the Partnership and:

Investment Identification. In general, the Firm performs its own research in determining investments for the Partnership and separately managed accounts, however, the Firm's investment ideas may also be generated from a wide variety of sources including industry contacts, trade and financial publications, trade shows, investment conferences and stock screens. The Firm intends to utilize a bottom-up investment process analyzing companies on an individual basis. The Firm will also consider sector themes utilizing the same process. Company analyses may include a review of public filings (10-K's, 10-Q's, 8-K's, 13-G's, etc.) and relevant research analyst reports. Particular attention will generally be paid to a company's balance sheet, cash position, gross and net working capital, tangible book value, its valuation relative to its growth and to that of its industry, the historical trading patterns of the company's securities, and forecasts and projections for the relevant industry group. Stock price valuation may be assessed from a variety of standpoints in addition to the criteria noted above, including sales and earnings history and outlook, historical and expected cash flows, historical and projected earnings growth, comparison with competing and related companies and general investor sentiment.

Relationship with Portfolio Companies. Although the Firm generally does not take an active role in the affairs of the companies in which the Partnership or a separately managed account has a position, it will be the policy of the Firm to take such steps as are necessary to protect the economic interests of the Partnership and separately managed accounts. The Firm reserves the option to accept a role on the board of directors of any company in which the Partnership or a separately managed account holds securities, if the opportunity presents itself.

Portfolio Evaluation. Once an investment opportunity is determined to be attractive, the Firm will evaluate the effect of adding that investment to the portfolio of a separately managed

account or the portfolio of the Partnership.

Investment and Portfolio Monitoring. The Firm will monitor the positions within the portfolios of the separately managed accounts and the Partnership's portfolio to ensure that the investment basis behind it has not changed. The Firm will also monitor trading prices so that profits can be taken as trading and intrinsic values converge or losses can be minimized in the event of a significant shift in an investment's fundamental premise. The Firm will further monitor investment positions in view of the portfolio as a whole in order to manage risk.

***Investing in securities involves risk of loss that Clients should be prepared to bear.***

**(B) Risks Associated with the Firm's Investment Strategies:**

***Risks Associated with Separately Managed Accounts and the Partnership:***

*Market Volatility:* The profitability of the Partnership and any separately managed account substantially depends upon the Firm correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. The Firm cannot guarantee that it will be successful in accurately predicting price and interest rate movements.

*Investment Activities:* Certain investment activities may 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 Firm. Such factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism or war) 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 any Client to realize profits. As a result of the nature of the Partnership's investing activities, it is possible that the Partnership's financial performance may fluctuate substantially from period to period.

*Terrorist Action:* There is a risk of terrorist attacks causing significant loss of life and property damage and disruptions in the global market. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and market



liquidity.

*Material Non-Public Information:* By reason of their responsibilities in connection with other activities of the Firm, the General Partner and/or their affiliates, certain principals or employees of the Firm, the General Partner and/or their affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Firm (on behalf of Clients) will not be free to act upon any such information. Due to these restrictions, the Firm (on behalf of Clients) may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

*Accuracy of Public Information:* The Firm selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the Firm by the issuers or through sources other than the issuers. Although the Firm evaluates all such information and data and ordinarily seeks independent corroboration when the Firm considers it is appropriate and reasonably available, the Firm 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.

*Investments in Undervalued Securities and Other Assets:* The Firm may invest 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 investments may not adequately compensate for the business and financial risks assumed. The Firm may make certain speculative investments in securities which it believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, a Client 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 Client's funds would be committed to the securities purchased, thus possibly preventing a Client from investing in other opportunities.

*Market or Interest Rate Risk:* The price of most fixed income securities move in the opposite direction of the change in interest

rates. For example, as interest rates rise, the prices of fixed income securities fall. If a Client holds a fixed income security to maturity, the change in its price before maturity may have little impact on the performance of such Client's account; however, if the Client has to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss to such Client.

*Call Option Risk:* Many bonds, including agency, corporate and municipal bonds, and all mortgage-backed securities, contain a provision that allows the issuer to "call" (i.e., redeem) all or part of the issue before the bond's maturity date. The issuer usually retains this right to refinance the bond in the future if market interest rates decline below the coupon rate. There are three disadvantages to the call provision. First, the cash flow pattern of a callable bond is not known with certainty. Second, because the issuer will call the bonds when interest rates have dropped, a Client is exposed to reinvestment rate risk – the Client will have to reinvest the proceeds received when the bond is called at lower interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

*Maturity Risk:* In certain situations, the Firm may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, the Firm will make an adjustment to account for the interest rate risk differential in the two bonds. This adjustment, however, makes an assumption about how the interest rates at different maturities will move. To the extent that the yield movements deviate from this assumption, there is a yield-curve or maturity risk. Another situation where yield-curve risk should be considered is in the analysis of bond swap transactions where the potential incremental returns are dependent entirely on the parallel shift assumption for the yield curve.

*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 Client purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, a Client is exposed to inflation risk because the interest rate the issuer promises to make 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.

*Investments in Non-U.S. Investments:* Certain Client accounts may invest and trade a portion of their assets in non-U.S. securities and other assets (through ADRs and otherwise), which will give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and non-U.S. issuers and markets are subject. Such risks which may include:

- Political or social instability, the seizure by foreign governments of company assets, acts of war or terrorism, withholding taxes on dividends and interest, high or confiscatory tax levels, and limitations on the use or transfer of portfolio assets.
- Enforcing legal rights in some foreign countries is difficult, costly and slow, and there are sometimes special problems enforcing claims against foreign governments.
- Non-U.S. securities and other assets often trade in currencies other than the U.S. dollar, and certain Clients may directly hold foreign currencies and purchase and sell foreign currencies through forward exchange contracts. Changes in currency exchange rates will affect the net asset value of those accounts, the value of dividends and interest earned, and gains and losses realized on the sale of investments. An increase in the strength of the U.S. dollar relative to these other currencies may cause the value of such Client's investments to decline. Some foreign currencies are particularly volatile. Foreign governments may intervene in the currency markets, causing a decline in value or liquidity of such Client's foreign currency holdings. If a Client enters into forward foreign currency exchange contracts for hedging purposes, it may lose the benefits of advantageous changes in exchange rates. On the other hand, if a Client enters forward contracts for the purpose of increasing return, it may sustain losses.
- Non-U.S. securities, commodities and other markets may be less liquid, more volatile and less closely supervised by the government than in the United States. Foreign countries often lack uniform accounting, auditing and financial reporting standards, and there may be less public information about the operations of issuers in such markets.

### ***Risks Associated with the Partnership:***

*Emerging Market Exchange Investment Risks:* Securities, commodities and derivatives exchanges in emerging markets (collectively for purposes of this section, “Exchanges”), generally lack the development and transparency of those in countries with more established securities, commodities and derivatives exchanges and capital markets.

Exchanges often have relatively short operating histories (in some cases, fewer than 10 years), and as a result may have, as compared to U.S., Canada or Western European exchanges, less developed trading infrastructure. Exchanges may not have efficient trade settlement and clearing systems such as an equivalent to the U.S. Depository Trust Company. As a result, trades may not be cleared on trade-date plus three days (T+3) basis as takes place in the U.S., Canada, Japan and Europe, and such trades may take longer to clear. Further, even if clearance takes place in a timely manner, many Exchanges lack news services to convey trading information in real-time to Exchange traders and potential investors, thereby potentially limiting liquidity and pricing efficiency. This lack of efficiency and infrastructure may cause the value of the Partnership’s investments in such Exchanges to decrease.

Exchanges may also lack adequate regulatory oversight, compliance and enforcement staff, thereby preventing such Exchange from adequately addressing and preventing trading violations. The Exchanges may also have inadequate listing standards and due diligence procedures allowing insufficiently capitalized or fraudulent issues to be listed. Such deficiencies may cause the Exchanges’ appreciation and general performance to be unpredictable, and therefore more difficult to evaluate than an exchange that is strictly governed and has a more established regulatory infrastructure.

Many Exchanges, and the capital markets on which they depend, are located in countries that do not have developed capital markets or common knowledge and understanding of the investment markets. This lack of development and sophistication may translate into less local and international interest in trading, smaller market capitalization of listed issuers and fewer opportunities for capital raising, and therefore less profitable Exchanges. In addition, Exchanges are often located in countries that historically have had high poverty rates and few institutional investors, unlike the U.S., Japan and Europe where institutional investors are

prevalent. Exchanges located in such areas may have lower trading volume, more pricing inefficiency and fewer listings.

Some Exchanges list securities in currencies that have historically undergone sustained periods of high inflation. Although the currency in which securities are listed on the Exchange may not currently be volatile, the Exchange-linked currency may be subject to substantial devaluations and/or exchange rate pegs that are outside of the Partnership's control. Further, the Exchanges may be subject to unpredictable local or national governments' decisions in respect to currency valuation movements.

All of the above factors, individually and collectively, may have a negative effect on the resale value of the Partnership's investments and the distributions or earnings that the Partnership currently expects to receive from its investments. The less developed the Exchange-related market, the more volatile the value of the Partnership's Exchange-related investments.

*Limited Number of Controlling Owners:* Securities, commodities and derivative exchanges, particularly regional exchanges, may have a limited number of controlling shareholders and/or owners that have substantial influence over the business and regulatory scheme of a particular exchange. In some cases, such exchanges may be owned by entities that are direct competitors of the Partnership.

*Regional Exchanges:* Some regional exchanges depend heavily on the trading of a particular type of option, security or other instrument. With the rise of ECNs, and the corresponding increase in competition for trading volume among exchanges, regional exchanges have had to innovate and ensure that they offer products and services superior and/or different than those offered by ECNs. As a result, some regional exchanges have trading volume concentrated around relatively few securities, options or other instruments. If the securities and/or options market were to lose interest in the particular type of security, option or other instrument traded on such a regional exchange and/or an ECN developed trading capacities similar to such regional exchange, the trading volume of such regional exchange may decrease considerably. In turn, the value of ownership interests in such regional exchanges may be substantially reduced.

*Compliance with Ownership Requirements:* The ownership and/or membership application requirements for some Exchanges may be burdensome and time consuming for prospective owners and/or

members. It may be difficult for the Partnership to comply with all ownership and/or membership requirements on terms satisfactory to such exchange and delay the acceptance of the Partnership's offer to purchase an interest in such exchange. In addition, in order to comply with such requirements and/or tax and other regulatory regimes affecting an exchange, the Partnership, the General Partner and/or the Firm may need to engage in certain structured derivative transactions in order to acquire and maintain such investment, which will increase the transactional, legal and accounting expense related to the investment. Further, there is a risk that certain Exchanges will not currently or in the future recognize the structure and acquisition vehicle used by the Partnership to make an investment, or that a law or regulation is passed that makes a then existing structure no longer viable.

*Merger Activity:* There has recently been much merger activity with respect to stock exchanges located in various jurisdictions around the world. The Partnership cannot predict the effect that mergers may have on investments or proposed investments.

*Illiquid Investments:* The value of interests in Exchanges may be difficult to determine, and may fluctuate substantially over short periods of time. As a result, it may be difficult for the Firm to purchase or sell its interest in an Exchange on terms favorable to the Partnership.

*Ownership of Foreign Interests:* In many non-U.S. jurisdictions, foreign ownership of local businesses is not always welcome and sometimes even prohibited. From time to time, the Firm may select investments that are located in countries that are hostile to U.S. based investors. As a result, the Partnership may not be able to participate in such investments with the ease or to the extent that it would if it were a private investment vehicle based in another country.

*Minority Investments:* Some of the Partnership's portfolio holding may be minority equity investments in Exchanges. Other equity holders may have economic or business interests or goals that are not consistent with those of the Partnership. The Partnership may not be in a position to limit or otherwise protect the value of its investment in the Exchanges, although as a condition of making such investments, it is expected that appropriate shareholder or applicable ownership rights generally will be sought to protect the Partnership's investments.

*Private Securities:* The Partnership's portfolio will consist mostly

of private financial instruments or investment securities. In connection with the disposition of an investment in private instruments prior to a public offering of such Exchange (or if the Firm believes that there will be no such offering), the Partnership may be required to make representations about the business and financial affairs of the Exchange typical of those made in connection with the sale of a business. The Partnership also may be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate.

*Difficulty of Locating Suitable Investments:* There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Partnership to invest its entire portfolio in opportunities that satisfy the Partnership's investment objectives or that such investment opportunities will lead to completed investments by the Partnership. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. The Partnership will compete for investment opportunities with many other investors, some of which will have greater resources than the Partnership. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

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

(C) **Security-Specific Risks:** Please refer to *Item 8.(B)* above.

**Item 9. Disciplinary Information:**

Neither the Firm nor any of its management has been involved in any legal or disciplinary events that are material to a client's or prospective client's evaluations of our advisory business or the integrity of our management.

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

(A) Neither the Firm nor any of its management persons are registered or have an application pending to register as a broker-dealer or is a registered representative of a broker-dealer.

- (B) Neither the Firm nor any of its management persons are registered or have an application pending to register as a Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), or Commodity Trading Advisor (CTA).
- (C) The Firm and/or its management persons have a relationship or arrangement that is material to its advisory business or to its clients with any related person as discussed below:
- (i) Broker-dealer, municipal securities dealer, or government securities dealer or broker. N/A
  - (ii) Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund). N/A, except as discussed at *Item 4.(A) and 4.(B)*.
  - (iii) Other investment adviser or financial planner. N/A, except as discussed at *Item 4.(A)*.
  - (iv) Futures commission merchant, commodity pool operator, or commodity trading advisor. N/A
  - (v) Banking or thrift institution. N/A
  - (vi) Accountant or accounting firm. N/A
  - (vii) Lawyer or law firm. N/A
  - (viii) Insurance company or agency. N/A
  - (ix) Pension consultant. N/A
  - (x) Real estate broker or dealer. N/A
  - (xi) Sponsor or syndicator of limited partnerships. N/A
- (D) The Firm does not recommend or select other investment advisers for clients.

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



- (A) A copy of the Firm's code of ethics ("Code of Ethics") is available upon request to clients or prospective clients.

The Code of Ethics is based upon the premise that all Firm personnel have a fiduciary responsibility to render professional, continuous, and unbiased investment advisory service. The Code of Ethics requires all personnel to (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put the clients' interests ahead of those of the Firm; (3) observe the Firm's personal trading policies so as to avoid "front-running" and other conflicts of interests between the Firm and its clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by the Chief Compliance Officer and that personnel who violate the Code of Ethics are subject to sanctions by the Firm, including termination.

*Participation or Interest in Client Transactions:* The Firm recognizes that the personal securities transactions of its employees demand the application of a high code of ethics, and the Firm requires that all such transactions be carried out in a way that does not endanger the interest of any Client. At the same time, the Firm believes that if investment goals are similar for Clients and for employees of the Firm, it is logical and even desirable that there be common ownership of some securities. Therefore, in order to address conflicts of interest, the Firm has adopted a set of procedures, included in its Code of Ethics, with respect to transactions effected by its officers, directors and employees (hereafter in this section, "Employees") for their personal accounts. In order to monitor compliance with its personal trading policy, the Firm has adopted a daily and quarterly securities transaction reporting system for all of its Employees. For purposes of the policy, an Employee's "personal account" generally includes any account (a) in the name of the Employee, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which the Employee is a trustee or executor, or (c) which the Employee controls, including the Firm's Client accounts which the Employee controls and in which the Employee or a member of his/her household has a direct or indirect beneficial interest.

Associated persons of the Firm may recommend to Clients the purchase or sale of investment products in which it or a related person may have some financial interest, including but not limited to, the receipt of compensation. Mr. Caldwell may recommend to Clients securities that he owns, both personally and for related family accounts, that are actively managed by the Firm. As such,

the Firm anticipates that in appropriate circumstances, consistent with Clients' investment objectives, Employees may trade on the same day in the same security for which the Firm will cause a transaction to be effected in a Client account. To address the possible appearance of a conflict, the Firm restricts Employees from trading the same security or securities in his/her personal account on the same day as entry of client orders, when such trades are not or cannot be aggregated/average-priced with client trades. In addition, for purposes of trading, the Partnership will not be considered a proprietary account of an Employee. Therefore, it is possible that, from time to time, the Firm may recommend to Clients, or purchase for or sell from Client portfolios, securities that are also held by Employees which may be acquired at different times and prices than the same or similar securities purchased for Client accounts. Records will be maintained of all securities bought and sold by associated persons and related persons.

Additionally, the Code of Ethics sets forth the Firm's policies and procedures with respect to material, non-public information and other confidential information, and the fiduciary duties that the Firm and each of its Employees has to each of its clients. The Code of Ethics is circulated at least annually to all Employees, and each Employee, at least annually, must certify in writing that he or she has received and followed the Code of Ethics and any amendments thereto.

*Other Activities of the Firm and its Affiliates:* Neither the Firm, nor any affiliate or employee, is required to manage Client accounts as its sole and exclusive function. Each of them may engage in other business activities, including competing ventures and/or other unrelated employment. In addition to managing Client accounts, the Firm, and its respective affiliates or employees may provide investment advice to other parties and may manage other accounts in the future.

*Trade Error Policy:* The Firm has several internal controls in place to prevent trade errors from occurring. On those occasions when such an error does occur, however, the Firm will reasonably determine how to correct the error. If the error results in the loss to a Client's account, the Firm will reimburse such losses. The Firm also maintains a record of all trade errors, which includes information about the trade and how the error was corrected.

*Privacy Policy:* The Firm has adopted a privacy policy that explains the manner in which the Firm collects, utilizes and maintains non-public personal information about Clients, as

required under federal legislation. This privacy policy only applies to non-public information of Clients who are individuals (not entities).

Collection of Investor Information: The Firm collects personal information about its Clients mainly through the following sources:

- Subscription forms, investor questionnaires and other information provided by the investor in writing, in person, by telephone, electronically or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications; and
- Transactions within entities and accounts managed by the Firm, including account balances, investments and withdrawals.

Disclosure of Non-public Personal Information: The Firm does not sell or rent investor information. The Firm does not disclose non-public personal information about its Clients to non-affiliated third parties or to affiliated entities, except as permitted by law. For example, the Firm may share non-public personal information in the following situations:

- To service providers in connection with the administration and servicing of the entities and accounts managed by the Firm, which may include attorneys, accountants, auditors and other professionals. The Firm may also share information in connection with the servicing or processing of Firm transactions;
- To affiliated companies in order to provide Clients with ongoing personal advice and assistance with respect to the products and services Clients have purchased through the Firm and to introduce Clients to other products and services that may be of value to Clients;
- To respond to a subpoena or court order, judicial process or regulatory authorities;
- To protect against fraud, unauthorized transactions (such as money laundering), claims or other liabilities; and
- Upon consent of a Client to release such information, including authorization to disclose such information to

persons acting in a fiduciary or representative capacity on behalf of such Client.

Protection of Investor Information: The Firm's policy is to require that all employees, financial professionals and companies providing services on its behalf keep client information confidential.

The Firm maintains safeguards that comply with federal standards to protect investor information. The Firm restricts access to the personal and account information of investors to those employees who need to know that information in the course of their job responsibilities. Third parties with whom the Firm shares investor information must agree to follow appropriate standards of security and confidentiality.

The Firm's privacy policy applies to both current and former investors. The Firm may disclose non-public personal information about a former investor to the same extent as for a current investor.

Changes to Privacy Policy: The Firm may make changes to its privacy policy in the future. The Firm will not make any change affecting a Client without first sending such Client a revised privacy policy describing the change.

Opt Out Provision: Please be advised that Clients have the right to "opt out" of the information sharing, as set forth above.

- (B) When appropriate, the Firm will recommend that Clients invest in the Partnership. Prior to accepting an investment, each prospective investor receives the Partnership's offering documents which disclose in detail all risks and conflicts of interest. *See also Item 11(A).*
- (C) The Firm or a related person may invest in the same securities (or related securities, e.g., warrants, options or futures) that the Firm or a related person recommends to Clients. *Please refer to Item 11.(A) and Item 11.(B).*
- (D) If the Firm or a related person recommends securities to Clients, or buys or sells securities for Client accounts, at or about the same time that a related person buys or sells the same securities for the related person's own account, describe the Firm's practice and discuss the conflicts of interest it presents. Describe generally how the Firm addresses conflicts that arise.

A related person may trade in the same securities traded for advisory clients. However, it is the Firm's policy to give preference to orders for the Client. Employees (collectively, the "Firm" for purposes of this section) may personally invest in the same securities that are purchased for Clients and may own securities that are subsequently purchased for Clients. If a security is purchased or sold for Clients and the Firm on the same day, then the Client will receive the more favorable price. *See also Item 11.(A) and Item 11.(B).*

**Item 12. Brokerage Practices:**

- (A) **Selection of Broker-Dealers:** The Firm is responsible for the placement of the portfolio transactions of the 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 ask price. The Firm will not commit to provide any level of brokerage business to any broker. The Firm may utilize the services of one or more introducing brokers who will execute the brokerage transactions through the broker and custodian who will clear the transactions.

Securities transactions for the Clients are executed through brokers selected by the Firm at its sole discretion, unless directed otherwise by the Clients. In placing portfolio transactions, the Firm will seek to obtain the best execution for the Clients, 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 Firm'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 Firm's other selection criteria

- (i) **"Soft Dollar" Policy:** 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 Firm does not engage in "Soft Dollar" Practices.**

(ii) **Brokerage for Client Referrals:**

- a. The Firm may direct some brokerage business to brokers who refer prospective investors to the Firm. Because such referrals, if any, are likely to benefit the Firm and its affiliates but will provide an insignificant (if any) benefit to investors, the Firm will have a conflict of interest with the Clients when allocating brokerage business to a broker who has referred investors to the Firm. To prevent brokerage commissions from being used to pay investor referral fees, the Firm will not allocate brokerage business to a referring broker unless the Firm determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value.
- b. To date, the Firm has not directed client transactions to a particular broker-dealer in return for client referrals.

(iii) **Directed Brokerage:**

- a. The Firm has negotiated reduced commission rates at a single broker-dealer that it uses as its primary broker-dealer for most client transactions (unless instructed otherwise by the Client). The Firm routinely recommends and requests that its clients direct it to execute transactions through this broker-dealer, primarily due to favorable pricing and execution. The Firm does not have any soft dollar arrangements with this broker-dealer. All Clients have the option to instruct us to use a different broker-dealer, and some of the Firm's Clients currently do so.

The practice of requiring or requesting clients to direct the advisor to use a single broker-dealer that is chosen by the advisor is commonly known as "directed brokerage". Not all advisors engage in

this practice. The Firm believes that there are several benefits to directed brokerage, including trade execution and reporting through its integrated systems, which may make it easier for clients to follow and analyze their trading activity and performance. The Firm also believes that directed brokerage gives its Clients the best combination of favorable pricing and execution, and centralized record-keeping.

The Firm is not an affiliate of its primary broker-dealer, and it does not have any economic relationship with them that would create a material conflict of interest with our Clients. The Firm does not have any soft dollar arrangements.

- b. All separately managed account Clients have the option of instructing the Firm to use a broker-dealer of the Client's choosing. Other broker-dealers may charge commissions that are higher or lower than those the client would pay using the Firm's primary broker-dealer. In addition, transactions executed using the client's preferred broker-dealer may result in higher costs due to our inability to aggregate trades or negotiate volume trading discounts. The use of client-directed brokerages may also result in less favorable execution and pricing.

- (B) **Aggregation of Orders:** Transactions implemented by the Firm for accounts may be effected independently or on an aggregated basis. The Firm anticipates that it may decide to purchase or sell the same securities for several clients at approximately the same time. The Firm will aggregate orders when it believes aggregation may prove advantageous to clients. When the Firm aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and execution cost and will be allocated among the Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When the Firm aggregates client orders for the purchase or sale of securities, including securities in which

its associated person(s) may invest, the Firm will do so in a fair and equitable manner. It should be noted that the Firm does not receive any additional compensation or remuneration as a result of aggregation.

**Allocation of Trades:** The Firm may at times determine that certain securities will be suitable for acquisition by one or more Clients and by other accounts managed by the Firm. If that occurs, and the Firm is not able to acquire the desired aggregate amount of such securities on terms and conditions which the Firm deems advisable, the Firm will endeavor to allocate in good faith the limited amount of such securities acquired among the various accounts for which the Firm considers them to be suitable. The Firm may make such allocations among the accounts in any manner which it considers to be fair under the circumstances, including, but not limited to, allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

**Item 13. Review of Accounts:**

- (A) All accounts managed by the Firm are reviewed daily and formally on a quarterly basis by the Chief Compliance Officer and Portfolio Manager of the Firm to assure conformity with Client objectives and guidelines. Activities are checked the day following any transactions. Except in connection with the Partnership, one-on-one account reviews are generally conducted with Clients (in person or by phone) at least once per year, and may occur more or less frequently depending on the Client's goals and objectives, the account's performance, and the client's wishes. Reviews generally cover asset allocations, performance relative to corresponding benchmarks, material changes in the Client's total assets, income and obligations, and any changes in the Client's investment goals or time horizon. Reviews are generally conducted by the [portfolio manager responsible for that account. Clients are responsible for keeping the Firm informed as to any personal changes in their financial condition. The Firm cannot make any material changes to a Client's portfolio if it is not informed of such Client's particular developments.
- (B) The calendar is the main triggering factor of a review of an account, although more frequent reviews may be also be triggered by, among other things, client capital injections and/or withdrawals and, from an investment management perspective, include



economic factors, financial results of a portfolio company, analyst commentary, and news.

- (C) Realized gains/losses, interest and dividends earned are reported to clients annually by the custodian broker. Each investor in the Partnership also will receive the following: (i) annual financial statements of the Partnership, audited by an independent certified public accounting firm; (ii) in the discretion of the Firm or an affiliate of the Firm, a periodic letter and/or report discussing the results of the accounts; (iii) copies of such investor's Schedule K-1 to the Partnership's tax returns; and (iv) other reports as determined by the Firm or an affiliate of the Firm in its sole discretion.

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

- (A) The Firm does not receive, from any non-client, any economic benefit associated with advising clients.
- (B) The Firm may use independent third-party solicitors to refer clients to the Firm and pay a portion of its advisory fees to such solicitors, in accordance with the Advisers Act. The Firm may engage underwriters, brokers, dealers or finders to assist in the offering of interests in the Partnership. In certain cases, the Firm reserves the right to pay a sales fee or charge, on a fully disclosed basis, to an underwriter, broker, dealer or finder based upon the capital contribution of the investor introduced to the Firm by such underwriter, broker, dealer or finder. Any such sales fee or charge would be assessed against the referred investor and would reduce the amount actually invested by the investor in the Partnership or a separately managed account.

**Item 15. Custody:**

The Firm is considered to have "custody" for limited purposes under the Advisers Act because it typically deducts its Management Fees automatically from client funds held by third party custodians. In accordance with best practices, however, the Firm is independent from those third party custodians. Unless the client is notified otherwise, their account custodians send to them account statements at least quarterly, and usually monthly. Clients are urged to carefully review every account statement they receive from us and from their broker-dealer or other custodian of their funds and securities. In addition, the Firm sends account statements to clients on a quarterly basis. Clients are urged to compare our account statements with those they receive from their custodians.

**Item 16. Investment Discretion:**

The Firm has discretionary investment authority over client assets that are managed by the Firm. Our discretion with respect to separately managed accounts may be limited according to various conditions or criteria specified by the Client. These limitations may include, for example, restrictions on trading securities in certain industries or sectors. In addition, some of our separately managed account clients instruct us to invest some of their assets in specific securities or categories that are outside our core focus areas. These investments typically include securities that are privately placed, illiquid or subject to limited trading.

For discretionary separately accounts, we ask clients to complete an investment management agreement that specifies their investment goals, risk tolerance, time horizon, and other factors we should use in deciding how and where to invest their assets. In most cases the investment management agreement also includes authorization by the Client for us to open a brokerage account in their name, and to buy and sell securities on their behalf.

**Item 17. Voting Client Securities – Proxy Policy:**

- (A) **Separately Managed Accounts:** The Firm's general policy is not to vote proxies on behalf of separately managed accounts, unless specifically negotiated and set forth in the individual investment management agreement. In the absence of such an agreement whereby the Firm does vote proxies, it is the responsibility of each such client to vote all proxies for securities held in the separate account. Separately managed account clients will receive proxies directly via their preferred delivery method, which is established at the time that the client opens the account with the Firm. In the presence of an investment management agreement by which the Firm is assigned proxy voting authority for a separately managed account, the Firm will notify the custodian that the Firm is authorized to vote all proxies for securities in such client's portfolio and instruct the custodian to forward to the Firm a copy of all proxies relating to shares held in the account. The Firm will vote all proxies in a prudent manner and solely in the interest of such client. In addition, the Firm will not act upon notices pertaining to class actions, but will forward such notices to the client. If a proxy is received after the termination of the advisory services by a client, then the proxy will not be voted, but will be forwarded directly to the former client.

- (B) **The Partnership:** The Firm monitors corporate actions of those securities it has purchased on behalf of its clients. Receipt of proxy materials is logged into a proxy control sheet. Proxy votes will generally be submitted electronically but may be submitted by mail. A record of the proxy votes cast will be made and retained by the Firm. Clients can obtain information on how the proxies were voted and a detailed description of the Firm's policies and procedures regarding proxy voting by requesting such information from the Chief Compliance Officer.

The Firm understands and appreciates the importance of proxy voting. To the extent that the Firm has discretion to vote the proxies of its advisory clients, the Firm will vote any such proxies in the best interests of clients and in accordance with the policies of its proxy voting provider and the procedures outlined below.

In evaluating how to vote a proxy, the Firm will first determine whether there is a conflict of interest related to the proxy in question between the Firm and its clients. This examination will include (but will not be limited to) an evaluation of whether the Firm (or any affiliate of the Firm) has any relationship with the company (or an affiliate of the company) to which the proxy relates outside an investment in such company by a client of the Firm. If a conflict is identified and deemed "material" by the Firm, on a Proxy Voting Committee organized by the Firm, the Firm will determine whether voting in accordance with these proxy voting guidelines is in the best interests of affected clients (which may include utilizing an independent third party to vote such proxies). With respect to material conflicts, the Firm will determine whether it is appropriate to disclose the conflict to affected clients and give clients the opportunity to vote the proxies in question themselves, if applicable.

**Item 18. Financial Information:**

- (A) The Firm does not require or solicit prepayment of any fees six months or more in advance.
- (B) To the best of our knowledge, there exists no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.
- (C) The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

**Item 19. Requirements for State Registered Advisers: N/A**