

**Form ADV – Part 2A**

**Brochure**

March 31, 2011



**FOREST HILL CAPITAL, LLC**

100 Morgan Keegan Drive  
Suite 430  
Little Rock, AR 72202

(501) 663-4491

[www.foresthillcap.com](http://www.foresthillcap.com)

This brochure provides information about the qualifications and business practices of Forest Hill Capital, LLC (Forest Hill, we or us). If you have any questions about the contents of this brochure, please contact us at (501) 663-4491. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

A copy of this brochure and additional information about Forest Hill are also available on the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Forest Hill has been registered as an investment adviser with the SEC since 2004. Our registration does not imply a certain level of skill or training.

## Item 2 – Material Changes

---

We last revised our Form ADV Part II in March 2010. New requirements under the Investment Advisers Act of 1940 (Act) adopted by the SEC in July 2010 require us to file Form ADV-Part 2 in a new brochure format. This is our initial filing of the Part 2 brochure. We do not feel our previous filing would be materially different if filed in this new format. Additionally, this brochure includes mandatory sections and organization not required by the former Part II. This section of the brochure will be updated annually when material changes occur since the previous release of our Form ADV-Part 2 brochure.

## Item 3 – Table of Contents

---

Item 1 – Cover Page-----	1
Item 2 – Material Changes-----	2
Item 3 – Table of Contents-----	2
Item 4 – Advisory Business-----	3
Item 5 – Fees and Compensation-----	4
Item 6 – Performance-Based Fees-----	5
Item 7 – Types of Clients-----	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss-----	5
Item 9 – Disciplinary Information-----	8
Item 10 – Other Financial Industry Activities and Affiliations-----	8
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading-----	9
Item 12 – Brokerage Practices-----	10
Item 13 – Review of Accounts-----	12
Item 14 – Client Referrals and Other Compensation-----	12
Item 15 – Custody-----	12
Item 16 – Investment Discretion-----	13
Item 17 – Voting Client Securities-----	13
Item 18 – Financial Information-----	13

#### **Item 4 – Advisory Business**

---

Forest Hill Capital, LLC was established in 1999 to manage internal partner capital as well as that of a few select investors. Over the years, the firm has grown to serve clients worldwide including foundations and endowments, pension funds, high net worth individuals, and family offices. Forest Hill has been registered as an investment adviser with the SEC since January 2004.

Mark A. Lee, Founder and Principal owner of Forest Hill, has served as Chief Investment Officer as well as Senior Portfolio Manager since inception. The firm oversees approximately \$460.5 million in total capital as of December 31, 2010 via multiple alternative investment strategies on a discretionary basis, specializing in long/short equities utilizing both limited partnerships as well as separately managed account structures. Investment subscriptions are private transactions made available only to the firm's employees and affiliates, accredited investors, and qualified purchasers. Any offer of investment services or any offer to sell or solicitation to purchase interests in the Forest Hill's investment strategies will be made through a private placement memorandum or investment management agreement for a separately managed account. Forest Hill is general partner or investment manager to the following strategies:

##### **Forest Hill Select Fund, L.P.**

Forest Hill Select Fund, L.P. (FHS), established in January 2002, is a long biased, long/short equity strategy predominantly focused on investing in the common equity of publicly traded companies that are headquartered or have meaningful operations in the Sunbelt region of the United States. The fund's returns are dependent upon individual stock selection and the tactical portfolio management of the collective exposure levels. The fund seeks to profit from long investments that are purchased at discounts relative to historical averages with the expectation of mean reversion due to improving financial performance. The fund seeks to profit from short investments that are overvalued and are expected to experience deterioration in financial performance. FHS is designed to achieve a more favorable long-term risk adjusted return versus the broader equity market.

##### **Forest Hill Regional Bank Strategy**

Forest Hill Regional Bank Strategy (FHRB) was established in February 2009 to recapture value in healthy community and regional business focused banks that were negatively impacted during the industry's devaluation resulting from the global financial crisis of 2008. FHRB is a directionally long investment strategy dedicated to deploying capital in the common equity of publicly traded community and regional banks located primarily in the Sunbelt region of the United States that possess strong capital ratios, trade at discount valuations relative to historical averages, and have the ability to enhance shareholder value through execution of offensive consolidation strategies. FHRB seeks investments in attractively positioned business focused banks located in viable markets that are expected to benefit from diminished competition and a more favorable pricing environment. Investment returns are dependent upon individual stock selection, portfolio construction and tactical management.

## **Forest Hill Partners, L.P.**

Forest Hill Partners, L.P. (FHP), established in October 2000, is a fund of funds designed as an equity alternative with the objective of generating superior long term returns while exhibiting lower market volatility. The fund is dedicated to investing in a diversified portfolio of highly selective, experienced, proven and uncorrelated group of long/short fund managers. The portfolio's managers are selected based on their specific areas of expertise and ability to consistently manage portfolio risk in order to duplicate their respective investment strategies. The fund's focus is on capital preservation with an emphasis toward long term growth. Investment returns are dependent on individual manager selection, portfolio composition and tactical management of overall market exposure levels. FHP is designed to achieve a more favorable long-term risk adjusted return versus the broader equity market.

## **Item 5 – Fees and Compensation**

---

Forest Hill is compensated as general partner or investment manager generally based on a percentage of assets under management and performance based fees. Our basic fee schedule is as follows:

**Forest Hill Select Fund, L.P.:** Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.5% of the value of the account on the first day of the month. Forest Hill may also charge an annual performance fee in an amount equal to 20% of an account's net annual return for its fiscal, subject to a high water mark provision. Fees are non-negotiable.

**Forest Hill Partners, L.P.:** Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.5% of the value of the account on the first day of the month. Fees are non-negotiable.

FHS and FHP may incur other expenses borne by the limited partnerships. Such expenses include, if applicable, but are not limited to: fund administration including accounting, audit, and legal expenses, brokerage commissions, custody fees, taxes, proxies and interest charges on debit balances.

Please refer to the funds' private placement memorandum, respectively, for further details on fees and expenses charged to accounts, if applicable.

**Separately Managed Accounts:** Fees on separately managed accounts are negotiable and detailed in the investment management agreement for each account. Accounts can be tailored to the specific needs of the institutional investor or other qualified client. Forest Hill may charge management and performance based fees on such accounts. Accounts are billed quarterly in arrears based on month end account values or quarterly in arrears based on the quarter end account value for management fees, and performance fees are billed at the end of the performance period.

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

---

Forest Hill charges a performance based fee to FHS which is non- negotiable and detailed further in the fund’s private placement memorandum. Institutional clients with separately managed accounts under investment management agreements have negotiable terms for performance based fees.

All performance based fee arrangements are intended to comply with SEC rule 205-3 under the Act. The performance fees are charged annually, but only to the extent that such profits for each limited partner or institutional client exceeds any loss carried forward from prior years. As Forest Hill is compensated on the trading profits, this fact may create an incentive for Forest Hill to make investments on behalf of the limited partners in the fund or the account owner that are riskier or more speculative than would be the case without a performance based fee arrangement.

We do not believe that investors are subject to a risk that Forest Hill will favor funds or accounts on the basis of performance fee arrangements as FHS, FHRB, and FHP all have distinctively different investment objectives.

## **Item 7 – Types of Clients**

---

Forest Hill provides investment advisory services to private investment funds formed as limited partnerships and qualified clients including: foundations and endowments, pension funds, high net worth individuals, corporations, charitable organizations and family offices.

Interests in the limited partnerships which are collective investment vehicles sponsored by Forest Hill are not registered under the Securities Act of 1933, as amended, and such limited partnerships are not registered under the Investment Company Act of 1940, as amended. Accordingly, interests in the limited partnerships and investor services for the separately managed accounts are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions with the United States or in offshore transactions. The minimum investment is \$1,000,000 for the limited partnerships. The minimum investment is negotiable for services requiring a separately managed account under an investment management agreement.

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

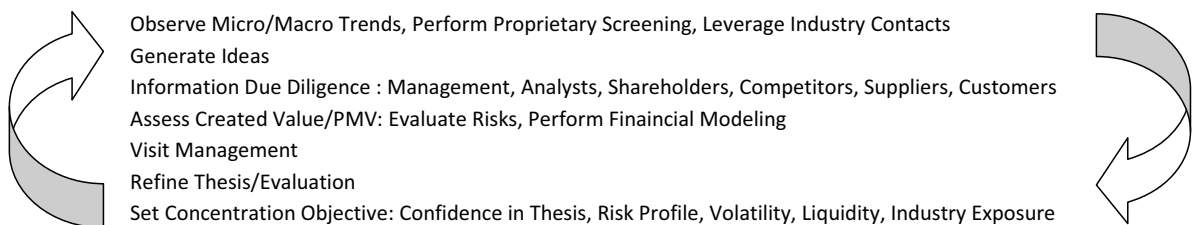
---

### **Forest Hill Select Fund, L.P.**

FHS is a value based long/short public equity fund driven by a comprehensive fundamental research process. FHS engages in the purchases of securities as well as selling securities short, investing across all major sectors of the economy, (e.g., financials, energy, industrials, basic materials, consumer cyclical & non-cyclical, communications, utilities and technology). The fund targets long investments in high quality management teams operating solid long-term businesses that possess manageable levels of debt

are in a position to generate attractive cash flows and trade at deep discounts to what we believe to be their true intrinsic value. Emphasis is placed on companies that possess multiple positive catalysts that should enhance financial performance. We look to redeem investment capital when value has been recognized and the then current inherent risk of investment outweighs the magnitude of future returns. The fund targets short sales in companies that the manager believes have reached peak financial performance, are overvalued, and are expected to face near term business challenges that should serve to negatively affect the current level of profitability.

Forest Hill Select Fund, L.P.'s research process:



Mark Lee, Senior Portfolio Manager and Joseph Perrone, Portfolio Manager oversee the day-to-day investment management of the Forest Hill Select Fund, L.P. However, Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. In addition, Mr. Lee maintains all trading authority.

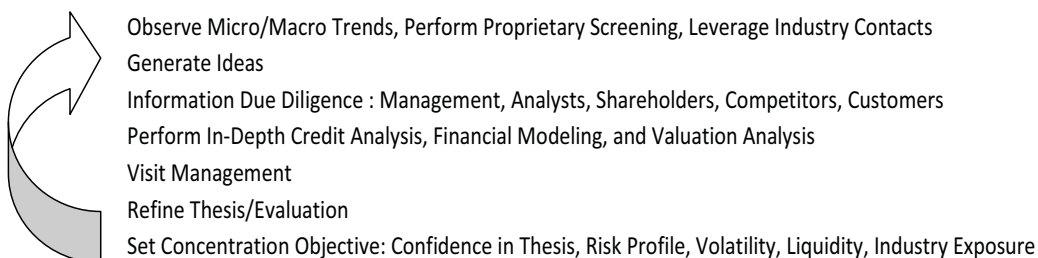
Forest Hill Select Fund, L.P. seeks to construct and manage an investment portfolio of publicly traded companies that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measure to minimize investment risk, the Fund does carry the possibility of loss which an investor must be willing to bear.

Additionally, please refer to the fund's private placement memorandum for more discussion regarding methods of analysis and risks of loss.

### **Forest Hill Regional Bank Strategy**

FHRB, managed through a separately managed account, is a public equity fund driven by a comprehensive due diligence process that seeks to invest in healthy community and regional banks who despite growing market share, are trading at deep discounts compared to their historical averages of price-to-tangible book value. The portfolio's cornerstone investment theme is centered upon mean regression of value for the healthiest and most dominant community/regional banks in the industry. FHRB primarily invests in banks that possess experienced, high quality management teams, strong capital ratios, and offensive consolidation strategies. Emphasis is placed upon investing in banks that serve local and regional business customers, possess low cost deposits and hold loans with short term maturities or variable rate credits. Although FHRB is predominately a dedicated long investment strategy, the manager does employ short selling tactics in an effort to enhance investment returns.

Forest Hill Regional Bank Strategy's research process:



Mark Lee, Senior Portfolio Manager oversees the day-to-day investment management of the FHRB. Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. Mr. Lee maintains all trading authority.

Forest Hill Select Fund, L.P. seeks to construct and manage an investment portfolio of publicly traded banks that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measure to minimize investment risk, the strategy does carry the possibility of loss which an investor must be willing to bear.

#### **Forest Hill Partners, L.P.**

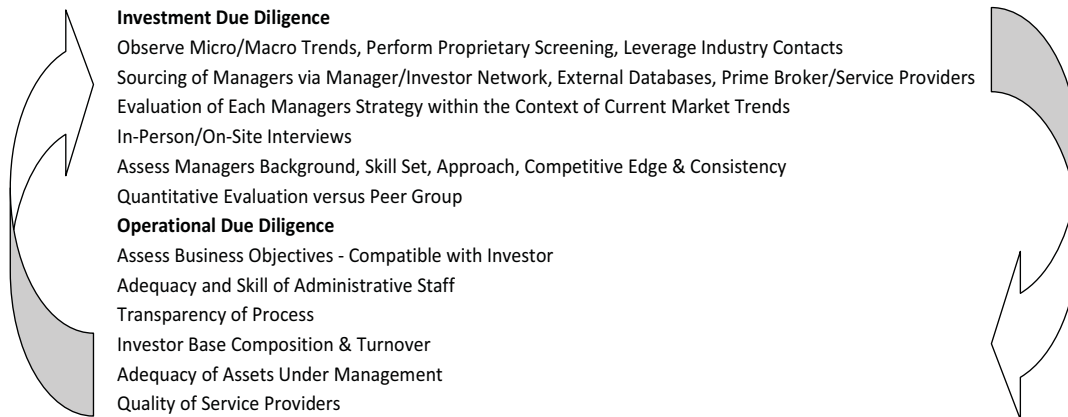
FHP is an equity alternative fund of funds designed to generate superior long-term returns with lower volatility than the broader equity market. The fund primarily invests with a select and concentrated group of long/short equity funds that are uncorrelated to one another. Each underlying manager is selected based on their area of expertise, experience, consistency in process and track record, liquidity and transparency, as well as strength of their overall business operations. We look to redeem capital under the following circumstances: a change in our macro investment view; a manager has enjoyed superior performance and, as a result, has become too large and requires rebalancing within the portfolio; evidence suggests a drift away from the managers stated investment style; an extended timeframe of underperformance; a breakdown in operational controls is revealed in our review process; the manager becomes disengaged and/or experiences a key employee departure.

Mark Lee, Senior Portfolio Manager and Joseph Perrone, Portfolio Manager oversee the day-to-day investment management of Forest Hill Partners, L.P. However, Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, and portfolio exposures. Mr. Lee maintains all authority over capital deployments and redemptions.

Forest Hill Partners, L.P. seeks to construct and manage an investment portfolio of long/short managers that possess attractive risk/reward characteristics. The manager implements consistent risk controls that include the analysis of liquidity, exposures, and overall portfolio construction. Despite the extensive

measure to minimize investment risk, the strategy does carry the possibility of loss which an investor must be willing to bear.

Forest Hill Partners, L.P.'s research process:



Additionally, please refer to the fund's private placement memorandum for more discussion regarding methods of analysis and risks of loss.

## Item 9 – Disciplinary Information

---

Forest Hill and its employees have not been involved in any legal or disciplinary events that would be material to our investment advisory business or to an investor's evaluation of our company or our employees.

## Item 10 – Other Financial Industry Activities and Affiliations

---

Forest Hill is the general partner and investment manager of FHS and FHP, private investment funds formed as Delaware limited partnerships. Further details of the funds, including investment strategies, are described in their prospective private placement memorandums and other offering documents. Forest Hill does not believe the contemporaneous management of the limited partnerships above or FHRB causes a conflict of interest as our funds and separately managed accounts may have limited overlapping investments but overall different investment objectives.



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

---

Forest Hill is committed to the highest standards of ethical behavior. Our Code of Business Conduct and Ethics (Code) details the principles that guide our business and the conduct of employees. We have adopted our Code pursuant to SEC rule 204A-1. The Code is designed to ensure compliance with laws, avoid conflicts of interest, ensure each employee understands the duty of loyalty to investors, as well as protection of investor or client information.

Neither Forest Hill nor its principal or employees are prohibited from buying and selling securities for their own account and may take positions different than those of advised client accounts. Principal and employees are prohibited from owning securities also owned by client accounts to avoid potential conflicts of interest. Forest Hill maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest. We maintain certain policies and procedures designed to prevent the principal or employees from misusing material non-public information or trading the same security ahead of the client accounts.

Forest Hill additionally maintains a Compliance Manual (Manual) which supplements the Code and is distributed to each employee upon hire date. The Code and Manual is updated on an annual basis and executed by each principal and employee acknowledging that they will abide by the Code and Manual at all times. The Code details how principals and employees are required to have duplicate copies of their personal trading accounts and trade confirmations sent to Forest Hill for review by the Chief Compliance Officer (CCO) and principal of the firm at a minimum of a calendar quarter basis. New employees must submit a list of their personal security holdings and a copy of their statement at hire date. Principal and employees are required to notify the CCO immediately once they are in receipt of material non-public information for review and monitoring. We will not be able to use such information for the benefit of any client account or principal or employee. Personal trades by the principal and employees must obtain pre-clearance approval by the CCO and principal before they can be executed in a personal account.

A written copy of our Code may be obtained by contacting us at Forest Hill Capital LLC, 100 Morgan Keegan Drive, Suite 430, Little Rock, AR 72202.

## Item 12 – Brokerage Practices

---

Forest Hill has complete investment and brokerage discretion. We are responsible for the selection of portfolio transactions of FHS and FHRB (clients). These portfolio transactions are expected to incur a substantial amount of brokerage commissions or other transaction based fees. Forest Hill is responsible for the negotiation of such commissions and fees all of which will be paid by the clients.

Securities transactions are executed by brokers selected by Forest Hill in its sole discretion and without the consent of the clients. In performing portfolio transactions, we will seek to obtain the best execution for the clients based on a number of factors, including the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which these transactions are effected, taking into account the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

Forest Hill may pay higher prices for the purchase of securities from or accept lower prices for the sale of securities (markups or markdowns) to brokerage firms that provide it with such investment and research information or to pay higher commissions to such brokers if we determine such prices or commissions are reasonable in relation to the overall services provided. Research services could include both services generated internally by a broker's own research staff and services obtained by the broker from a third party research firm. Forest Hill receives a benefit from such research as we do not have to produce or pay for the research, products or services and we believe such research usage ultimately benefits the clients. Research may include reports and analyses concerning specific issuers, industries, or sectors; market, financial and economic forecasts and other data; and statistics and pricing services. It may also include discussions with research personnel and invitations to attend conferences or meetings with management or industry consultants. Information so received is in addition to and not in lieu of services required to be performed by Forest Hill and we do not need to weigh any of these factors equally in our broker selection. The research related services may be utilized by Forest Hill in connection with other investment services provided to other client accounts. The availability of research benefits may influence us to select one broker rather than another to perform securities transactions rather than clients' interest in best execution.

From time to time, Forest Hill may become a party to "soft dollar" arrangements with various brokerage firms, pursuant to which the costs of certain research and other services and products used by Forest Hill is paid with commissions generated by securities transactions in client accounts. The products and services available from brokers includes both internally generated items such as research reports prepared by the broker's research staff as well as items acquired by the broker from third parties such as quotation equipment or company specific conference call transcripts. Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to Forest Hill in the performance of investment

decision-making responsibilities. Forest Hill also enters into arrangements with brokers to use “soft dollars” to pay expenses otherwise payable by the clients such as legal fees and accountant fees. The use of soft dollars would have the effect of enhancing the returns associated with such client accounts from the returns that would exist absent such uses. Forest Hill’s usage of soft dollars paid by client accounts may benefit all client accounts and not just the accounts paying up for the securities transaction under the soft dollar arrangement. The receipt of such soft dollar benefits may incentivize us to select a broker for the benefit rather than the client’s interest in receiving best execution.

Through our relationship with brokers, periodically a broker may refer investors to one of Forest Hill’s investment strategies. The referrals may or may not be subject to formal compensation agreements. These referrals may give us an incentive to select a broker based on our interest in receiving referrals for client accounts, rather than the client account’s interest in receiving most favorable execution. Forest Hill will compensate brokers on what we consider to be an arm’s length basis.

Forest Hill will act in a fair and equitable manner in allocating securities transactions among client accounts. Trades are typically aggregated to brokers if the investment opportunity or portfolio holding is held in more than one client account. We typically allocate shared portfolio holdings between different client accounts on a proportional basis based on net asset value of the shared client accounts. If client accounts have targeted parameters, such as position size, we allocate based on reaching such target parameters between the accounts. Such aggregation of orders may not be to the benefit of individual client accounts on a stand-alone basis.

Forest Hill Partners, L.P. invests in a portfolio of interests in hedge fund managers (fund of funds) and does not incur brokerage commissions nor utilize soft dollar arrangements or receive benefits for soft dollar arrangements of other client accounts.

### **Item 13 – Review of Accounts**

---

All limited partnerships and separately managed accounts are reviewed on a continual basis by Forest Hill and at a minimum on a monthly basis. Various levels of review are performed based on factors such as position size and exposures, short and long term rates of return, investment diversification and risk allocation and statistics, as well as the overall outlook for securities markets. The Portfolio Managers and the Chief Compliance Officer of Forest Hill perform all account reviews.

Each investor receives monthly or quarterly account statements and commentary with detailed performance returns. Investors in limited partnerships receive an annual audited financial statement for the fund along with information necessary to complete their annual federal income tax return, if applicable. Additionally, investors may contact Forest Hill for additional information requests.

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

---

Forest Hill may pay qualified persons for client referrals. Compensation for such referrals is set at a negotiated rate of the management and performance fees generated from the referred client's assets placed with Forest Hill's limited partnerships or in separately managed accounts. Each referral arrangement is designed to comply with SEC rule 206(4)-3. Additionally, see further discussion of broker referrals to Forest Hill in Item 12 herein.

### **Item 15 – Custody**

---

Forest Hill does not maintain custody of client funds or securities. Funds and securities are held by unaffiliated qualified custodians (banks or brokers) as referenced by the Act. Forest Hill receives monthly statements from the qualified custodians for FHS, FHRB, and FHP and individual investors in the limited partnerships do not receive statements from the custodians. FHS and FHP are audited by Independent Public Accountants on an annual basis. Forest Hill's investors in separately managed accounts receive monthly statements directly from the qualified custodians. Additionally, our managed account clients receive statements from Forest Hill and are encouraged to compare the account statements from us with the statements received from the qualified custodian directly.

**Item 16 – Investment Discretion**

---

Pursuant to investment management agreements or private placement memorandums and subscription documents, Forest Hill has been granted discretionary authority to manage the securities accounts of its clients. Forest Hill Select Fund, L.P. and Forest Hill Partners, L.P. place no restrictions on our discretionary authority. Investors with investment management agreements for separately managed accounts may negotiate restrictions relevant to their account.

**Item 17 – Voting Client Securities**

---

As required under SEC rule 206(4)-6 of the Act, Forest Hill follows an established policy to vote proxies on behalf of client accounts. Our proxy policy is to vote for the recommendation of management unless we become aware of circumstances that dictate otherwise. Forest Hill retains relevant information as part of its books and records relating to proxies voted.

Retention or delegation of voting rights may be negotiated by institutional and other qualified clients under their respective investment management agreements for their separately managed account.

A written copy of our proxy policy and how we voted client securities may be obtained by contacting us at Forest Hill Capital LLC, 100 Morgan Keegan Drive, Suite 430, Little Rock, AR 72202.

**Item 18 – Financial Information**

---

Forest Hill is not aware of any financial condition that is expected to affect its ability to manage client accounts.