

FIRM BROCHURE

PARADIGM CAPITAL CORPORATION

100 Throckmorton Street, Suite 700

Fort Worth, Texas 76102

(817) 335.1145

(817) 335.1822

tmiller@apogeefund.com

www.paradigmcapitalcorp.com

THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF PARADIGM CAPITAL CORPORATION. IF YOU HAVE ANY QUESTIONS ABOUT THE INFORMATION CONTAINED IN THIS BROCHURE, PLEASE CONTACT US AT (817) 335.1145, OR BY EMAIL AT TMILLER@APOGEEFUND.COM. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR BY ANY STATE SECURITIES AUTHORITY.

THIS BROCHURE DOES NOT CONSTITUTE AN OFFER, SOLICITATION OR RECOMMENDATION TO SELL OR AN OFFER TO BUY ANY SECURITIES, INVESTMENT PRODUCTS OR INVESTMENT ADVISORY SERVICES. SUCH AN OFFER MAY ONLY BE MADE TO ELIGIBLE PERSONS BY MEANS OF DELIVERY OF A CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM AND OTHER SIMILAR MATERIALS THAT CONTAIN A DESCRIPTION OF THE MATERIAL TERMS RELATING TO SUCH INVESTMENT.

ADDITIONAL INFORMATION ABOUT PARADIGM CAPITAL CORPORATION ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.

MARCH 31, 2011

Item 2: Material Changes

On July 28, 2010, the Securities and Exchange Commission adopted amendments to Part 2 of Form ADV and related rules that require registered investment advisers to provide new and prospective clients with a brochure and brochure supplements written in plain English. This brochure has been prepared to comply with the new requirements of Part 2 of Form ADV. As this brochure is new, investors should carefully read this brochure and the applicable offering documents and/or governing documents in their entirety before making any investment decisions. The information set forth herein is qualified in its entirety by reference to the applicable offering and governing documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable governing and/or offering documents, the governing and/or offering documents shall control.

Item 3: Table of Contents

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	8
Item 7: Types of Clients	9
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	10
Item 9: Disciplinary Information	17
Item 10: Other Financial Industry Activities and Affiliations	18
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	19
Item 12: Brokerage Practices.....	20
Item 13: Review of Accounts	22
Item 14: Client Referrals and Other Compensation.....	23
Item 15: Custody	24
Item 16: Investment Discretion	25
Item 17: Voting Client Securities	26
Item 18: Financial Information.....	27
General Information	28

Item 4: Advisory Business

FIRM DESCRIPTION

Paradigm Capital Corporation, a Texas corporation and private investment advisory firm, was established in 1996. We provide investment management services to private pooled investment vehicles, interests of which are offered to investors on a private placement basis. We have full discretionary authority with respect to investment decisions, and our investment advice is made in accordance with the investment objectives and guidelines set forth in the applicable offering memoranda and governing documents.

PRINCIPAL OWNERS

We are owned and controlled by Emmett M. Murphy.

TYPES OF ADVISORY SERVICES

We and/or certain of our affiliates serve as general partner of and/or investment manager to various private pooled investment vehicles organized as Texas limited partnerships, including Apogee Fund, L.P. (the “Apogee Fund”) and Systemic Risk Hedge, L.P. (the “Systemic Risk Fund,” together with the Apogee Fund, the “Funds”). We have discretionary investment management authority to invest and reinvest the assets of the Funds in securities, financial instruments and other assets, as described in the applicable governing and offering documents.

We tailor our advisory services to the individual needs of our clients and clients generally are not permitted to impose restrictions on investments in certain securities or types of securities.

ASSETS UNDER MANAGEMENT

As of January 31, 2011, we had approximately \$120 million in assets under management for two clients. All of these assets are managed on a discretionary basis.

Item 5: Fees and Compensation

DESCRIPTION OF COMPENSATION AND BASIC FEE SCHEDULE

In consideration of our advisory services, we and/or our affiliates generally are entitled to receive management fees and/or performance-based fees or allocations from each of the Funds and with respect to each investor. The fees applicable to each Fund are described in detail in the applicable governing and offering documents. A brief summary of our advisory fees is set forth below.

Apogee Fund

With respect to each investor who was admitted to the Apogee Fund after June 30, 2005, we are entitled to receive management fees, payable quarterly in arrears, equal to 0.375% (1.5% per annum) of the net assets of the capital account of each such investor. With respect to each investor who was admitted to the Apogee Fund on or before June 30, 2005, we are entitled to receive management fees, payable quarterly in arrears, equal to 0.25% (1.0% per annum) of the net assets of the capital account of each such investor.

With respect to investors admitted to the Apogee Fund on or after June 1, 2002, we are entitled to receive incentive allocations equal to 20% of each investor's allocable share of net profits for the applicable performance period. With respect to investors admitted to the Apogee Fund prior to June 1, 2002, we are entitled to receive incentive allocations equal to 20% of each investor's allocable share of net profits for the year in excess of a "hurdle return amount." A hurdle return amount is equal to 3% per annum of the net asset value of such investor's capital account at the beginning of the year, as described more fully in the offering memorandum. Incentive allocations are subject to a "high water mark" limitation. As a result, we receive no incentive allocation when the amount of an investor's interest has fallen below an amount at which the incentive allocation was previously assessed.

Systemic Risk Fund

With respect to the Systemic Risk Fund, we are entitled to receive management fees, payable monthly in advance, equal to one-twelfth of 1.5% (1.5% per annum) of the capital account balance of each investor.

In addition, one of our affiliates is entitled to receive carried interest distributions equal to 12.5% of the amount distributable to each investor whose aggregate capital contributions are \$500,000 or more and 15% of the amount distributable to each investor whose aggregate capital contributions are less than \$500,000. The carried interest distribution will be applied after an investor has received cumulative distributions equal to such investor's total capital contribution, less any amounts paid as an Early Withdrawal Management Fee (as defined below) and any costs associated with withdrawing from the Systemic Risk Fund.

General

We and/or certain of our affiliates may alter the management fees, Early Withdrawal Management Fees (as defined below), performance allocations and/or carried interests in our discretion.

Our advisory fees with respect to each Fund and each investor generally are not negotiable. However, we may enter into arrangements with certain investors that grant different terms (including lower fees) to such investors than the terms generally applicable to other investors.

PAYMENT OF FEES

Apogee Fund

Management fees are payable by investors quarterly, in arrears, as of the last business day of each calendar quarter. Management fees are deducted directly from the capital account of each investor. Incentive allocations are allocated directly from the capital account of each investor as of the end of each applicable calendar year.

Systemic Risk Fund

Management fees are payable by investors monthly, in advance, as of the beginning of each calendar month. Management fees are deducted directly from the capital account of each investor. The carried interest is calculated and distributed when a distribution is made, including liquidating distributions or distributions made upon a withdrawal by an investor.

OTHER FEES AND EXPENSES

Apogee Fund

In addition to management fees and incentive allocations, the Apogee Fund generally bears all legal, accounting, auditing and other expenses incurred in connection with offering interests and the operation of the Apogee Fund, and all extraordinary expenses. The Apogee Fund generally is responsible for and pays all brokerage fees. See **“Item 12: Brokerage Practices.”**

Systemic Risk Fund

In addition to management fees, the Systemic Risk Fund generally bears the expenses of the organization of the Fund and the offering of interests (including legal and accounting fees, “blue sky” filing fees and expenses and out-of-pocket expenses), up to a maximum amount of \$75,000. The Systemic Risk Fund also bears all costs and expenses directly related to its investment program and all out-of-pocket costs of the administration and operation of the Systemic Risk Fund, including (i) expenses related to proxies, underwriting and private placements; (ii) interest on debit balances or borrowings; (iii) custody fees; (iv) any withholding or transfer taxes; (v) accounting, audit and legal expenses; (vi) costs of litigation or investigation involving the Systemic Risk Fund’s activities; and (vii) costs associated with reporting and providing information to investors and prospective investors. The Systemic Risk Fund generally is responsible for and pays all brokerage fees. See **“Item 12: Brokerage Practices.”**

TERMINATION OF ADVISORY SERVICES

Systemic Risk Fund

The investment management agreement with the Systemic Risk Fund may be terminated by any party upon at least 75 days’ prior written notice.

WITHDRAWALS

Apogee Fund

As described more fully in the applicable offering memorandum, each investor in the Apogee Fund generally is permitted to make complete or partial withdrawals of amounts from its capital account balance as of the last business day of each calendar quarter after the first anniversary of the date of its initial investment in the Apogee Fund. Notice of any withdrawal generally must be given in writing at least 45 days prior to the proposed withdrawal date. We may allow an investor to withdraw at other times and/or accept less than 45 days’ prior written notice for withdrawal in our discretion. We will use our best efforts to distribute to a withdrawing investor that portion of such investor’s capital account beneficially invested in public companies, which we deem liquid, as soon as possible following the end of the quarter. We may withhold 15% of the proceeds until completion of the Apogee Fund’s audit for the year in which withdrawal occurs. Any remaining balance will be settled as promptly as possible following completion of the audit of the Apogee Fund’s financial statements for the applicable fiscal year. If the Apogee Fund’s assets are invested in private companies, it may be impossible to liquidate such investments. In such case, we may delay payment to the withdrawing investor as described more fully in the offering memorandum.

Systemic Risk Fund

As described more fully in the applicable offering memorandum, each investor in the Systemic Risk Fund generally is permitted to make complete or partial withdrawals of amounts from its capital account balance as of the close of business on the last day of each calendar quarter. However, if an investor makes a capital contribution at any time other than the beginning of a calendar quarter, the first withdrawal date for such investor is the close of business on the last day of the subsequent calendar quarter. Subject to certain exceptions, an investor withdrawing from the Systemic Risk Fund prior to the end of the two-year anniversary of its initial investment will be required to pay us an amount equal to the management fee applicable to the withdrawn amount for the time remaining in such two-year period (the “Early Withdrawal Management Fee”). If an investor withdraws before the end of any month, such investor will receive a pro-rated rebate of the management fee paid in advance. Notice of any withdrawal generally must be received by the general partner at least 45 days prior to the requested withdrawal date. In general, a withdrawing investor will receive at least 90% of the estimated amount due within 30 business days after the requested withdrawal date, provided that the general partner may delay such payment if the delay is reasonably necessary to prevent such withdrawal from having a material adverse effect on the Systemic Risk Fund. Any remaining balance will be settled promptly following completion of the audit of the Systemic Risk Fund’s financial

statements for the applicable fiscal year.

COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

Item 6: Performance-Based Fees and Side-By-Side Management

PERFORMANCE-BASED FEES

As noted under “**Item 5: Fees and Compensation—Description of Compensation and Fee Schedule**” above, we or our affiliates generally are entitled to receive performance-based allocations or carried interest with respect to each of the Funds. Performance-based allocations and carried interest could motivate us to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect.

SIDE-BY-SIDE MANAGEMENT

We do not manage accounts for which we or our affiliates are entitled to receive performance-based fees or allocations alongside accounts for which we or our affiliates are not entitled to receive any performance-based fees or allocations.

Item 7: Types of Clients

DESCRIPTION

We currently provide investment advisory and supervisory services with respect to the Funds, our sole advisory clients. We may provide investment advisory services to other clients in the future.

ACCOUNT REQUIREMENTS

The minimum initial capital contribution required for an investor in the Apogee Fund is \$1,000,000. With respect to the Apogee Fund, we may waive, reduce or increase the minimum initial capital contribution required in our discretion.

The minimum initial capital contribution required for an investor in the Systemic Risk Fund is \$250,000 (subject to reduction).

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

METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

Apogee Fund

With respect to the Apogee Fund, we will seek to achieve superior capital appreciation by investing in equity and debt securities of domestic and foreign issuers. We may also invest in private placements and may sell short equity securities. We believe that fundamental research, combined with sophisticated investment strategies, such as the use of options, creates superior investment results over time. We will utilize fundamental research to identify both undervalued and overvalued situations.

Systemic Risk Fund

With respect to the Systemic Risk Fund, our investment strategy is focused on asymmetrical risk/reward trades that historically have provided outstanding returns during times of global financial instability, crisis and economic uncertainty. We will focus on the potential failure or restructuring of global sovereign debt and state's debt. Our major focus will be on sovereigns who are perceived to be lower risk and have greater upside during a downturn.

CERTAIN RISK FACTORS

There can be no assurance that we will achieve our investment objectives. Our investment program involves a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that our investment program is low risk or risk free. Our investment program is appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. Prospective investors should consider the following risks, among others, before making any investment decisions. The various risks outlined below are not the only risks associated with our investment strategies and processes. Investors are urged to consult with their own independent financial, legal and tax advisors before making any investment decisions. These risks are qualified in their entirety by the risks set forth in the applicable offering document of each Fund.

Apogee Fund

General Economic and Market Conditions. The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the securities markets. Unexpected volatility or illiquidity in the markets in which the Apogee Fund (directly or indirectly) holds positions could impair the Apogee Fund's ability to carry out its business or cause it to incur losses.

Institutional Risk. Institutions (such as brokerage firms, banks or limited partnerships) will have custody of the Apogee Fund's assets. Often these assets will not be registered in the name of the Apogee Fund or of the entity in which the Apogee Fund has invested. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Apogee Fund or of any entity in which the Apogee Fund has invested.

Investments in Equity Securities. Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

Investment in Lower Rated Securities. The Apogee Fund may invest in debt securities that are unrated or rated the lowest rating category by Standard & Poor's or Moody's. The Apogee Fund may have difficulty disposing of lower quality debt securities because there may be a thin trading market for such debt securities. There may be no established secondary market for many of these debt securities, and the Apogee Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market also may have an adverse impact on market prices of such instruments and may make it more difficult for the Apogee Fund to obtain accurate market quotations for purposes of valuing its portfolio securities. Adverse publicity

and investor perceptions, whether or not based on fundamental analysis, also may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. The Apogee Fund also may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio securities. We attempt to minimize the speculative risks associated with investments in lower quality securities through research analysis and by carefully monitoring current trends in interest rates, political developments and other factors. Nonetheless, investors should carefully review the investment objective and policies of the Apogee Fund, and consider their ability to assume the investment risks involved before making an investment in the Apogee Fund.

Investment in Thinly Traded Securities. The Apogee Fund may invest in thinly traded securities. As a result, the Apogee Fund may be required to hold such securities despite an adverse price movement. In addition, to the extent the Apogee Fund makes a short sale of an illiquid security, it may have difficulty in covering the short sale.

Long-Term Investment Horizon. Because of the long development cycle of most small and mid-capitalization companies, it is expected that a long investment horizon will be required (i.e. years as opposed to days). Accordingly, investors should view their investments in the Apogee Fund as long-term.

Lack of Diversification. Although we generally intend to diversify the Apogee Fund's investments, it is possible that the Apogee Fund's investments may at times be concentrated in a limited number of companies. If such an investment performs poorly, this concentration could cause a proportionately greater loss than if a larger number of investments were made, and if such proportionately greater loss occurs, it may adversely impact the overall return on investment realized by investors.

Lack of Liquidity in Markets. Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. This lack of depth could disadvantage the Apogee Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

Use of Leverage. The Apogee Fund may use leverage to enable it to make investments in excess of its equity and may borrow up to an amount equal to 100% of its net assets. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss. If income and appreciation on investments made with borrowed funds are less than the required interest payments on the borrowings, the value of the Apogee Fund's net assets will decrease. Accordingly, any event that adversely affects the value of an investment by the Apogee Fund would be magnified to the extent that the Apogee Fund is leveraged. The cumulative effect of the use of leverage by the Apogee Fund's investments could result in a substantial loss to the Apogee Fund that would be greater than if the Apogee Fund were not leveraged. There is a risk that the initial cash portion of the purchase price that is paid by the Apogee Fund for securities purchased on margin will be insufficient due to fluctuations in the market price of the securities and that the Apogee Fund will be required to contribute additional cash in order to meet margin requirements which may, in turn, require the Apogee Fund to liquidate part of its portfolio or to borrow additional funds. There is no assurance that the Apogee Fund will be able to meet additional margin requirements, if any. The Apogee Fund will be subject to margin rules of the Federal Reserve System and stock exchanges. To the extent the margin rules become more restrictive, the investment results of the Apogee Fund may be adversely affected. Generally speaking, securities margin is in the nature of an installment payment whereby the broker extends credit to the purchaser. Tax-exempt investors should note, in addition, that securities acquired with borrowed funds will constitute "debt-financed" property under the unrelated business income rules. For tax-exempt investors, the Apogee Fund's income, if any, from "debt-financed" property will be characterized as unrelated business income in an amount which is proportionate to the "debt-financing" with respect to such property. Tax-exempt entities, including certain Employee Benefit Plans, may be taxed on their distributive share of income from the Apogee Fund to the extent the Apogee Fund's investment in the asset from which such income is derived is "debt-financed."

Nature of Portfolio Investments. It is possible that some of the securities in which the Apogee Fund is likely to invest may be more vulnerable than the securities of larger companies are to adverse business or market developments, may have limited markets or financial resources and may lack experienced management. In addition, many small and medium size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, with the result that there may tend to be less publicly available information concerning such companies compared to what is available for exchange-listed or larger capitalization over-the-counter securities. Finally, some securities traded in the over-the-counter market may have fewer market makers, wider spreads between their quoted bid and asked prices and lower trading volumes, resulting in comparatively greater price volatility and less liquidity than those of securities of companies that have

larger market capitalizations and/or that are traded on the New York or American Stock Exchanges, or the market averages in general. Thus, the investment in the Apogee Fund involves considerably more risk than more liquid equity securities of companies traded on national stock exchanges.

Trading Strategies. There can be no assurance that the specific investment strategies utilized for the Apogee Fund will produce profitable results. Profitable investing is often dependent on anticipating specific scenarios. Markets subject to random price fluctuations, rather than defined patterns, may generate a series of losing investments. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Certain unanticipated factors (such as governmental regulation affecting the markets) may reduce the prospect for future investment profitability. Any factor which would make it difficult to execute trades, such as reduced liquidity or extreme market developments, also could be detrimental to profits. No assurance can be given that the techniques and strategies we use will be profitable in the future.

Changes in Investment Methods and Strategy. We do not presently anticipate that the investment methods and strategy employed on behalf of the Apogee Fund will vary significantly from that described herein. However, as the Apogee Fund is a private investment partnership, we reserve the right to vary the Apogee Fund's investment methods and strategy in our sole discretion. For example (but not by way of limitation), although it is not presently anticipated, we may determine to employ leverage or invest in other markets. Such new investment methods and strategies may not be thoroughly tested before being employed and may not, in any event, be successful.

Risk Associated with Options Transactions. There is no assurance that a liquid secondary market on an option exchange will exist for any particular exchange traded option or at any particular time. If the Apogee Fund is unable to effect a closing purchase transaction with respect to covered options it has written, the Apogee Fund will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if the Apogee Fund is unable to effect a closing sale transaction with respect to options it has purchased, it would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities. The Apogee Fund may purchase and sell both options that are traded on exchanges and options traded over-the-counter. The market for over-the-counter options is more limited than that for exchange traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations.

Transactions by the Apogee Fund in options on securities will be subject to limitations established by security exchanges or other trading facilities governing the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written or purchased on the same or different exchanges or other trading facilities or are held or written in one or more accounts or through one or more brokers. The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The successful use of protective puts for hedging purposes depends in part on our ability to predict future price fluctuations and the degree of correlation between the options and securities markets.

Short Selling. The Apogee Fund may engage, from time to time, in short selling shares of common stock of publicly held companies. Short selling, and especially short selling on margin, is considered a risky trading strategy. When it makes a short sale, the Apogee Fund may sell securities which it does not own. To make delivery of the security sold, the Apogee Fund will be required to borrow the security. An investment manager will make a short sale when he anticipates he will be able to purchase and return the securities to the lender after they have declined in value. The gain realized will be the difference between the sale price for the securities and the price at which the securities are purchased. However, in the event the market price of the security has increased, the Apogee Fund may be forced to cover the short position at a price higher than the sale price and, if the interest earned on the proceeds of the short sale is insufficient to offset the price differential, this will result in a loss. Since there is theoretically no limit to how high the price of a security will sell for, a short sale involves the theoretically unlimited risk of an increase in the market price of the securities involved.

The borrowed securities in a short sale are subject to call from the lender at any time at its discretion, which would require the Apogee Fund to cover its position at that time. A lender may call a security for a variety of reasons, some of which may be rather arbitrary. In the event the call is made when the security has increased in price or is, in fact, rapidly increasing in price, the Apogee Fund will be required to cover at the higher price, thus realizing a loss. The Apogee Fund may be required to attempt to borrow the called security from a different broker. However, under certain circumstances, the Apogee Fund may have difficulty in finding the security to borrow. The call feature of

short selling takes control over the decision to cover short positions out of our hands.

The Apogee Fund may use margin to increase its short positions. In the event the market price of a security borrowed for a short sale on margin increases, the Apogee Fund will be subject to a margin call, whereby it will be required to deposit additional collateral with its broker. There is no guarantee that the Apogee Fund will have sufficient reserve funds to meet this margin call. If it does not, we may have to liquidate the Apogee Fund's position in the security (requiring the covering of the short sale), resulting in a loss, or liquidate a position in another security sooner than it would have liked.

It is possible that where the number of short sellers of a security is large, the Apogee Fund will have difficulty in finding the security to borrow. In such event, the cost of borrowing the security will increase. In other situations where it is difficult to borrow a security, it may limit the Apogee Fund's ability to meet its investment objectives.

Systemic Risk Fund

Investment Judgment; Market Risk. The profitability of a significant portion of the Systemic Risk Fund's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Systemic Risk Fund, there is always some, and occasionally a significant, degree of market risk.

Investment Program. Substantial risks are involved in trading in government securities, loans, options, caps, swaps and the various other financial instruments in which the Systemic Risk Fund trades. The prices of these investments are volatile, market movements are difficult to predict and financing sources and related interest and exchange rates are subject to rapid change. One or more markets in which the Systemic Risk Fund trades may move against the positions held by it, thereby causing substantial losses. Many of these instruments are not traded on exchanges, but rather through an informal network of banks and dealers. These banks and dealers have no obligation to make markets in these instruments, and can essentially apply discretionary margin requirements. Government policies, especially those of the central banks, have profound effects on interest and exchange rates which, in turn, affect prices in areas of the Systemic Risk Fund's planned activities. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations. The Systemic Risk Fund may undertake a high level of investment, which may result in increased transaction costs to be borne by the Systemic Risk Fund.

Credit Derivatives. Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. The market for credit derivatives is relatively illiquid and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of nonperformance by the seller due to inability to honor its contractual commitments. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative, and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk. The value of this type of instrument depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to trading derivatives related to such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Systemic Risk Fund to the possibility of a loss exceeding the original amount invested. There can be no assurance that derivatives that the Systemic Risk Fund acquires will be available at any particular times, at satisfactory terms or at all.

Credit Default Swaps. The Systemic Risk Fund will enter into credit derivative contracts such as credit default swaps ("CDS"). The typical CDS contracts require the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities or loans issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or upfront payments equal to a fixed percentage of the notional amount of the contract. In circumstances in which the Systemic Risk Fund does not own the debt or loans that are deliverable under a CDS, the Systemic Risk Fund will be exposed to the risk that deliverable securities or loans will

not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for CDS whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Systemic Risk Fund would not be able to realize the full value of the CDS upon a default by the reference entity. As a seller of CDS, the Systemic Risk Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities or loans issued by the reference entity. However, the Systemic Risk Fund will not have any legal recourse against the reference entity, and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the CDS buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Systemic Risk Fund following a credit event, and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Systemic Risk Fund. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Systemic Risk Fund’s ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Emerging Market Debt. The Systemic Risk Fund may invest in distressed sovereign, sub-sovereign and debt securities and loans of issuers in emerging market countries. The value of emerging market debt instruments may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Systemic Risk Fund, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments.

Emerging Market Inflation. Emerging market countries tend to have periods of high inflation and high interest rates, as well as substantial volatility in interest rates. The value of emerging market debt can be expected to be extremely sensitive to changes in interest rates worldwide and, in particular, in the country of the relevant issuer.

Emerging Market Credit Ratings. Emerging market debt issuers and their obligations are frequently not rated by any credit rating agency, and a significant proportion of such issuers and obligations would likely fall into the lowest rating categories if they were rated. The Systemic Risk Fund’s investments may include emerging market debt instruments that would be the equivalent of high yield “junk bonds” on the U.S. market.

Fixed Income Securities. The value of fixed-income securities in which the Systemic Risk Fund will have exposure will change in response to fluctuations in interest rates. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline. The Systemic Risk Fund may invest in zero coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest. In addition, such investments may result in substantial taxes being payable on “original issue discount” before the Systemic Risk Fund actually receives interest payments thereon.

Foreign Securities. Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Systemic Risk Fund are maintained) and the various foreign currencies in which the Systemic Risk Fund’s portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

Hedging/Derivative Instruments. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (i.e., nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are

frequently characterized by limited liquidity, which can make it difficult as well as costly to the Systemic Risk Fund to close out positions in order either to realize gains or to limit losses.

Most of the derivatives which the Systemic Risk Fund trades will be principal to principal or “over the counter” contracts between the Systemic Risk Fund and third parties entered into privately, rather than on an exchange. As a result, the Systemic Risk Fund is not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Systemic Risk Fund wish or be forced to sell may be materially different. Such differences can result in an overstatement of the Systemic Risk Fund’s net assets and could materially adversely affect the Systemic Risk Fund in situations in which the Systemic Risk Fund is required to sell derivative instruments.

Investments in Undervalued Assets. We may invest the Systemic Risk Fund’s assets in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Systemic Risk Fund’s investments may not adequately compensate investors for the business and financial risks assumed. An investor should be aware that it may lose all or part of its investment in the Systemic Risk Fund.

The Systemic Risk Fund may be forced to sell, at a substantial loss, assets that are not, in fact, undervalued. In addition, the Systemic Risk Fund may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Systemic Risk Fund’s capital would be committed to the assets purchased, possibly preventing the Systemic Risk Fund from investing in other opportunities.

Short Sales. The Systemic Risk Fund may enter into transactions, known as “short sales,” in which it sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the Systemic Risk Fund that are not made “against the box” theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Systemic Risk Fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Systemic Risk Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

Concentration of Investments. We have broad discretion over the Systemic Risk Fund’s investment program and may choose to allocate substantial portions of the Systemic Risk Fund’s assets to a particular investment. Such an occurrence may tend to result in more rapid changes in the Systemic Risk Fund’s portfolio, upward or downward, than would be the case with greater diversification, with the result that a loss in any such position could have a material adverse impact on the Systemic Risk Fund’s capital. We may also make similar market timing decisions and asset allocation decisions regarding the investments or some combination of other strategies.

Currency Risk. The Systemic Risk Fund invests its capital in, among other things, securities denominated in currencies other than the U.S. dollar and in other financial instruments the prices of which are determined with reference to currencies other than the U.S. dollar. The Systemic Risk Fund values its securities and other capital in U.S. dollars and therefore may be affected by fluctuations in currency values.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The Systemic Risk Fund may purchase exchange-listed and over-the-counter put and call options on specific investments. Options on specific investments may be used by the Systemic Risk Fund to seek enhanced profits with respect to a particular investment or for various defensive or hedging purposes. Use of put and call options may result in losses to the Systemic Risk Fund, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the Systemic Risk Fund can realize on its investments or cause the Systemic Risk Fund to hold an investment it might otherwise sell.

Illiquid Investments. Many of the investments made by the Systemic Risk Fund may become very illiquid, and consequently the Systemic Risk Fund may not be able to sell such investments at prices that reflect our assessment of their value or the amount paid for such investments by the Systemic Risk Fund. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Systemic Risk Fund and other factors. In the event the general partner makes distributions in-kind, such in-kind assets could be illiquid or subject to legal, contractual and other restrictions on transfer.

Competitive Markets. The investments industry in general, and the markets in which we intend to trade, are extremely competitive. In pursuing our trading methods and strategies, we will compete with investment firms, including many of the larger investment advisory and private investment firms, as well as institutional investors and, in certain circumstances, market-makers, banks and broker-dealers. In relative terms, the Systemic Risk Fund has little capital and may have difficulty in competing in markets in which its competitors have substantially greater financial resources, larger research staffs and more trading professionals than we have or expect to have in the future. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which an investment may be purchased by the Systemic Risk Fund and the price it expects to receive upon consummation of the transaction.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT PROGRAMS. PROSPECTIVE CLIENTS AND INVESTORS SHOULD READ THIS BROCHURE AND THE APPLICABLE OFFERING MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.

Item 9: Disciplinary Information

Neither we nor any of our employees have been involved in any legal or disciplinary events related to past or present investment clients or investors.

Item 10: Other Financial Industry Activities and Affiliations

Rolandi Capital, LLC, a Texas limited liability company, serves as strategic advisor to the Systemic Risk Fund. Rolandi Capital is controlled by Brian K. Sneed, who is a co-portfolio manager to the Systemic Risk Fund. Investment management duties with respect to the Systemic Risk Fund may be transferred from us to another investment adviser, including Rolandi Capital, in the discretion of the general partner of the Systemic Risk Fund. Mr. Sneed owns and controls the general partner of the general partner of the Systemic Risk Fund and, as a result, controls the activities of the Systemic Risk Fund. In addition, he is responsible for the day-to-day management of the Systemic Risk Fund. Mr. Sneed receives a portion of the management fee and carried interest distribution received with respect to the Systemic Risk Fund. Rolandi Capital is not a registered investment adviser and any transfer of investment advisory duties to Rolandi Capital would occur only after completion of appropriate registration or exemption therefrom. We attempt to address any conflict raised by such arrangement through full and fair disclosure to investors.

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

CODE OF ETHICS

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our employees. Our code of ethics is primarily designed to educate employees about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage employees to comply with applicable laws and address conflicts of interest that arise from personal trading by employees. Among other things, we impose restrictions on all employees and access persons relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Our code of ethics also provides that access persons are subject to additional procedures, including quarterly and annual reporting of personal securities transactions and a supervisory review of such transactions. We will furnish a copy of our code of ethics to investors and prospective investors upon request.

PERSONAL TRADING

From time to time, we, our principals, employees and affiliates may invest in securities and other investment instruments in which the Funds have invested or may invest, and these investments may be purchased, sold or liquidated independently of the Funds' investments. We, our principals, employees and affiliates may compete for investment positions with the Funds, provided, however, that we or such persons may not buy or sell such securities during designated "restricted" periods during which the Funds have purchased or sold, or expect to imminently purchase or sell, such securities. All transactions by access persons and employees are subject to pre-clearance by our Chief Compliance Officer, except for those securities transactions that are exempt from transaction reporting requirements. Access persons are subject to additional procedures, including quarterly and annual reporting of personal securities transactions and a supervisory review of such transactions. We and our personnel will place the interests of our clients first and may not participate in any investment activities that may conflict with those interests, except as otherwise permitted by our code of ethics.

Item 12: Brokerage Practices

SELECTING BROKERAGE FIRMS

In general, we have authority to determine the brokers and other counterparties to be used for client transactions and to negotiate commission rates and other monies paid by clients. We select brokers on the basis of obtaining the best overall terms available, which we evaluate based on a variety of factors, including, among other things: execution capability, commission rate, financial responsibility, reputation, responsiveness to the adviser, the value of research provided and the ability to engage in block transactions with attendant volume discounts. Because commission rates in the United States as well as other jurisdictions are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

BEST EXECUTION

In placing orders for the purchase and sale of securities, we seek best net execution, which includes both commissions and execution prices. Orders are placed with brokers or dealers which we believe to be responsible and provide effective execution of client orders under conditions most favorable to client accounts.

SOFT DOLLAR PRACTICES

We may use “soft dollars” generated by client accounts to pay for certain research and/or related services provided by brokers described above. 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 revenues generated from brokerage commissions for transactions executed for clients of the investment manager. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

Using “soft dollars” to obtain investment research and/or related services creates a conflict of interest between us and client accounts. To the extent that we are able to acquire these products and services without expending our own resources (including management fees paid by client accounts), our use of “soft dollars” would tend to increase our profitability.

The Apogee Fund is the only Fund that is serviced with soft dollar benefits, as they are the only Fund that generates such benefits.

Section 28(e) of the 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 the investment manager in the performance of investment decision-making responsibilities.

During the last fiscal year, using client brokerage commissions, we acquired certain items that fall under the Section 28(e) safe harbor, including Bloomberg services, Baseline database services, exchange fees, industry trade publications and computer data services specific to receiving investment statistical data. These services accounted for 95% of all soft dollar commissions. Those services outside of the Section 28(e) safe harbor for which we used soft dollar commissions included travel and hotel expenses to engage in company research, legal services related to supporting specific Fund investments and communications data feeds to our computers which support our research effort.

We may participate in soft dollar arrangements of general availability through brokers that provide us with research and related services as described above. We do not, however, negotiate higher rates on fees and expenses to be paid by managed accounts in exchange for lower rates on fees and expenses to be paid by us.

BROKERAGE FOR CLIENT REFERRALS

In selecting or recommending brokers, we do not consider whether we or our related persons receive client or investor referrals from such brokers.

DIRECTED BROKERAGE

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer, nor do we allow our clients to direct brokerage for order execution purposes.

ORDER AGGREGATION

With respect to each investment opportunity presented, we will decide whether it is in the interests of best execution to aggregate the orders of multiple accounts (including our account and our employees' accounts). If investments on behalf of multiple clients are made, the amount sought for each client is determined prior to entry of the order for the security expected, taking into consideration the following factors, among others: (i) investment objectives and requirements; (ii) risk-management requirements; (iii) adherence to any limits as defined in the client's investment guidelines; (iv) amount of assets in each client's account; (v) capital availability in each client account for trades of the type under consideration; and (vi) liquidity and availability of securities. We expect that most orders for multiple accounts will be aggregated and participants in the transactions will receive an average price.

ALLOCATION OF INVESTMENT OPPORTUNITIES

We generally allocate investment opportunities among clients in a manner we believe to be fair and equitable under the circumstances, taking into consideration the objectives, restrictions, investment strategy, asset allocation and benchmarks of each client.

Item 13: Review of Accounts

PERIODIC REVIEWS

Emmett M. Murphy generally conducts reviews of the performance of the Funds on a daily basis. We review investments for, among other items, concentration and position limits. With respect to accounting matters, we have engaged Deloitte & Touche, LLP to conduct an annual audit of the Apogee Fund and KPMG to conduct an annual audit of the Systemic Risk Fund.

REPORTS TO INVESTORS/CLIENTS

We generally provide investors in each of the Funds with quarterly reports, annual audited financial statements and annual U.S. income tax information. With respect to the Systemic Risk Fund, JPMorgan Chase Bank, our outside administrator, provides monthly statements and reports to investors. All such statements and reports are written. In addition, we provide investors in the Systemic Risk Fund with access to a private website that provides full disclosure of the Systemic Risk Fund's investments. We update the website as often as practicable.

Item 14: Client Referrals and Other Compensation

THIRD-PARTY COMPENSATION

Except as described in **Item 12: Brokerage Practices** above, we currently do not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to our clients.

REFERRALS

We currently do not compensate any other professional for client or investor referrals.

Item 15: Custody

We have, or may be deemed to have, custody of each Fund's cash and securities. In accordance with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, each Fund's cash and securities (except for privately placed securities) are held with one or more qualified custodians. BNP Paribas Prime Brokerage Inc. currently serves as custodian to each of the Funds. We may change the custodian at any time and from time to time without the consent of, or notice to, investors. We have engaged Deloitte & Touche, LLP to conduct an annual audit of each Fund, and audited financial statements (prepared in accordance with generally accepted accounting principles) are provided annually to investors. We attempt to provide such statements to investors within 120 days after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians do not provide account statements directly to investors in the Funds.

Item 16: Investment Discretion

DISCRETIONARY AUTHORITY

We have discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of our clients. We have authority to determine the broker or other counterparty to be used for client transactions and the negotiation of commission rates and other consideration to be paid by the Funds.

LIMITED POWER OF ATTORNEY

Each investor in the Funds generally grants us or our affiliate a limited power of attorney to enable us to execute the applicable partnership agreement on his/her/its behalf.

Item 17: Voting Client Securities

VOTING POLICIES

We have the authority to vote proxies on behalf of the Funds. Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies and procedures. In accordance with such rule, we have adopted proxy voting policies and procedures in our compliance manual. In general, our policy is to vote proxy proposals, amendments, consents or resolutions relating to Fund securities, including interests in private investment funds, in a manner that serves the best interests of the Funds, as determined in our discretion, taking into account various factors. Investors may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

Where a material conflict of interest has been identified and the matter is covered by our proxy voting policy, we will take one or some of the following steps: (i) inform the client of the material conflict and our voting decision; (ii) discuss the proxy vote with the client; (iii) fully disclose the material facts regarding the conflict and seek the client's consent to vote the proxy as intended; (iv) and/or seek the recommendations of an independent third party.

Item 18: Financial Information

We do not have any financial impairment that will preclude us from meeting contractual commitments to clients. A balance sheet is not required to be provided as we do not both (i) serve as custodian for client funds or securities and (ii) require prepayment of fees of more than \$1,200 per client, six months or more in advance.

General Information

PRIVACY POLICY

We have adopted policies and procedures reasonably designed to protect various records and information of clients and investors. No employee will directly or indirectly use, disclose, copy, furnish or make accessible to anyone any confidential information and each employee will carefully safeguard confidential information.

LEGAL PROCEEDINGS

We generally are not required to file claims or otherwise take any action in connection with class action lawsuits, bankruptcy proceedings, or any other legal or administrative proceeding, in any such case on behalf of a client in connection with any client security holding.

TRADE ERROR POLICY

It is our policy to take the utmost care in making and implementing investment decisions on behalf of clients. However, we may on occasion experience errors with respect to trades executed on behalf of our clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the wrong quantity is purchased or sold (*e.g.*, 1,000 shares instead of 10,000 shares are traded), securities were purchased that we knew or should have known were not legally authorized for a client's account, or securities were purchased or sold that were not authorized by a private fund's offering documents. To the extent that any trade errors occur, they are to be corrected promptly and reported to the portfolio manager in charge of the account and the Chief Compliance Officer. If a trade error is discovered after execution of the trade, we endeavor to make the client whole if a loss is caused by such error. It is our policy that trade errors are not to be resolved through soft dollar or other reciprocal arrangements with broker-dealers.