

P R I V A T E
C A P I T A L
Management

Private Capital Management, L.P.
8889 Pelican Bay Blvd. Suite 500
Naples, FL 34108

(800) 763-0337
(239) 254-2500

www.private-cap.com

Form ADV Part 2A

March 30, 2012

This brochure provides information about the qualifications and business practices of Private Capital Management, L.P. (“PCM”). If you have any questions about the contents of this brochure, please contact Chad Atkins, PCM’s Chief Compliance Officer, at (800) 763-0337 or by email at catkins@private-cap.com.

The information presented in this brochure has not been approved or verified by the United States Securities and Exchange Commission (commonly referred to as the SEC) or any state securities authority.

Additional information about PCM is also available through the SEC’s internet website at www.adviserinfo.sec.gov. On that website you can retrieve information about PCM by searching for Private Capital Management, L.P. or by using PCM’s central registration number (CRD Number) – 104672.

The fact that PCM is a registered investment adviser does not imply that PCM or any of its employees have achieved any certain level of skill or training.

Item 2 Material Changes

This version of PCM's Form ADV Part 2A contains revised information regarding PCM's product offerings, including PCM's Value Focus Strategy, which is now available in a separate account format. PCM's Brochure Supplement has been updated to reflect that the Value Focus Strategy is managed by PCM's Lead Portfolio Manager Gregg Powers and Co-Portfolio Managers David Sissman and Michael Chapman.

You can always obtain a current version of this document by contacting PCM at (800) 763-0337 or by visiting our website www.private-cap.com.

Item 3 Table of Contents

Item 1 - Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business.....	4
Item 5 – Fees and Compensation.....	5
Item 6 – Performance-Based Fees and Side-By-Side Management.....	6
Item 7 – Types of Clients.....	7
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9 – Disciplinary Information.....	12
Item 10 – Other Financial Industry Activities and Affiliations.....	12
Item 11 – Code of Ethics.....	13
Item 12 – Brokerage Practices.....	15
Item 13 – Review of Accounts.....	17
Item 14 – Client Referrals and Other Compensation.....	18
Item 15 – Custody.....	19
Item 16 – Investment Discretion.....	19
Item 17 – Voting Client Securities (i.e., Proxy Voting)	20
Item 18 – Financial Information.....	22

Item 4 Advisory Business

Overview of the Firm

Private Capital Management, L.P. (“PCM” or “we”), was founded in Naples, FL in 1986. PCM has been a wholly owned subsidiary of Legg Mason, Inc. since August 2001. PCM utilizes a fundamental research, value-based investment approach focused on identifying companies whose equity securities trade at a valuation that in our view represents a significant discount to the company’s intrinsic value.

Types of Investments

PCM invests primarily in publicly traded equity securities (stocks) that trade on North American (predominantly U.S.) exchanges. Periodically these investments may include publicly traded limited partnerships. For certain clients (including clients invested in our Value Focus Strategy or the private and public investment funds we manage), PCM has the ability to invest in various financial instruments or derivatives (options) as well as non-equity securities such as corporate debt. PCM also has the ability to execute short sales for clients that have margin accounts and have permitted short selling. With a client’s agreement, PCM may hold a portion of a separate account client’s assets in a PCM managed pooled vehicle pending investment in individual securities. In such a case the advisory fee paid by the client is adjusted to avoid fees being paid to PCM at both the separate account and fund level.

While the securities in which we invest typically trade on North American exchanges, they may be issued by companies that (i) are based in, or have significant operations within, foreign countries or (ii) derive a significant portion of their revenues from outside North America.

PCM follows a single fundamental research, value-based investment discipline. PCM’s investment services are intended for individuals and institutions with a long-term investment horizon who have the capacity to bear market risk, including the risk of loss of invested capital.

Tailored Advisory Services

PCM manages two portfolio strategies in which clients may invest; its flagship All-Cap Value Strategy and its more concentrated Value Focus Strategy. Both strategies are grounded on PCM’s bottom-up investment approach described in Item 8. Clients who participate in the All-Cap Value Strategy are allowed to impose restrictions on their accounts, including limitations on investments in specific securities, industries, or sectors. Because of its more concentrated nature, a client’s ability to impose investment restrictions on a Value Focus Strategy account is more limited. PCM may decline to accept a new account, or may terminate an existing advisory relationship, if a client’s investment guidelines or restrictions significantly impair PCM’s ability to manage the portfolio in accordance with our investment discipline.

Wrap Fee Program Accounts

A number of PCM clients participate in a legacy wrap account program previously sponsored by Citigroup. This program is not available to new clients and exists solely for the purpose of accommodating these legacy clients. PCM does not assess the extent or value of services provided to wrap account program clients by any sponsor; generally we do not have access to the information necessary to make such an assessment.

Assets Under Management

PCM managed approximately \$1.5 billion in assets as of December 31, 2011.

Item 5 Fees and Compensation**Fees and Compensation**

PCM's standard fee for its All-Cap Value Strategy is 1% per year, which is charged quarterly in arrears based upon the fair market value of the assets in a client's account (including cash and accrued dividends). The advisory fee for the Value Focus Strategy is split between a base fee of 0.75% per year, charged quarterly in arrears, and a performance fee that is applied on a calendar year basis. The performance fee is capped at an additional 0.75% of account assets. PCM charges its management fees based upon the value of an account or account performance (as the case may be) on the last business day of the relevant period. Management fees are pro-rated for the first and last quarter an account is under PCM's management. PCM and a client may agree that fees will be computed based upon the custodian's valuation of the client's assets rather than the independent pricing data used by PCM.

In limited cases PCM may agree to receive its base management fee in advance. If a client that pays its management fee in advance terminates their management agreement (other than at quarter end), PCM will refund a pro-rated portion of the management fee paid.

PCM does not typically negotiate management fees for separate accounts. PCM may, at its discretion, accept accounts at an initial funding level below the applicable stated minimum. In the event PCM accepts an All-Cap Value Strategy account with initial funding of less than \$1 million, the management fee charged will not exceed 1.5% per annum and may be lower based upon a number of factors including if the account owner was previously a client of PCM or whether the account is a part of a larger relationship with assets already under PCM's management.

Method of Payment

Clients have the option of allowing PCM to deduct its management fee directly from their account or having PCM invoice them each quarter. Clients who would like PCM to deduct management fees from their accounts directly must authorize PCM to do so in writing.

Minimum Account Size

PCM's minimum account size for a separately managed All-Cap Value Strategy portfolio is \$1 million. The target minimum relationship size for the Value Focus Strategy is \$5 million. PCM reserves the right to negotiate its minimum account size.

Mutual Fund and Off-Shore Fund Management Fees

The management fees that PCM receives for advising or sub-advising mutual funds and off-shore funds vary by fund. The fees are described in each fund's offering document.

Private Fund Management Fees

The fees that PCM receives for advising private funds are set forth in each private fund's confidential Private Placement Memorandum ("PPM"). These fees include a management fee and an incentive allocation based on fund performance. Eligible prospective investors and current investors should refer to the relevant fund PPM for specific information about the calculation of fees and incentive allocations.

Other Fees and Expenses

Clients typically pay other expenses in addition to the management fees paid to PCM. For instance, clients would typically pay a fee for brokerage transactions and custody services that may be charged on a per transaction basis or as a flat fee. Examples of fees charged by, and paid directly to, third parties may include, but are not limited to commissions; transaction fees; exchange fees; SEC fees; consultant fees; administrative fees; odd-lot differentials; transfer taxes; mark-ups or mark-downs on security transactions; as well as wire and electronic fund processing fees.

When requested by a client, PCM also may invest client assets in exchange-traded-funds ("ETF") or a PCM advised mutual fund. Each ETF pays an advisory fee to its investment adviser that is separate and distinct from the management fee the client would pay PCM on the value of the ETF holdings in their account. As a result, PCM clients would pay two levels of fees for the management of ETF assets in their account. However, in the case of a PCM client who directs a portion of their account assets to be invested in a PCM advised mutual fund, PCM would deduct the assets held in the PCM advised mutual fund from the account value when computing its management fee. Thus, the client would not pay two levels of fees to PCM on those assets.

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

Side-By-Side Management of Client Accounts

PCM manages accounts and provides investment advisory services for numerous clients. PCM client accounts vary with respect to: (i) strategy; (ii) size; (iii) the frequency and amount of contributions and withdrawals; (iv) investment guidelines and restrictions; (v) risk tolerance; (vi) whether the account is part of a group of related accounts; and (vii) fee structures, including accounts that have a performance fee component. Potential conflicts of interest exist in the "side-by-side" trading and management of accounts that: (a) are subject to different fee structures (including performance fees); (b) are a part of larger relationships (PCM could potentially receive larger fees); or (c) make up a disproportionate percentage of PCM's revenue. While PCM could have an incentive to direct its best investment ideas to larger or more profitable accounts, PCM has adopted and implemented trade allocation policies and procedures that it believes are reasonably designed to ensure that all clients are treated fairly.

Subject to PCM's obligations to deal fairly with all clients, PCM may give advice and take actions with respect to one client that may differ from the timing or nature of actions taken with respect to another client. In addition, certain pooled investment vehicles advised or sub-advised by PCM (e.g., Value Focus Strategy clients, private funds and domestic and non-U.S. mutual

fund offerings) have asset flow patterns and investment mandates that may differ from those applicable to All-Cap Value Strategy separate accounts. As a result, these accounts may: (i) utilize more short term strategies; (ii) trade more frequently in equity securities that are held in other PCM accounts; (iii) utilize derivative securities (options) or hedging techniques with securities that also are held in other PCM accounts; (iv) invest in other areas of the capital structure (e.g. corporate debt) where PCM clients may already own common stock; (v) participate in allocations to new positions that, in the view of PCM's Portfolio Manager, are not yet appropriate for inclusion across all separate accounts; or (vi) maintain more concentrated portfolios than those held by other PCM clients.

PCM does not utilize a model portfolio for its All-Cap Value Strategy and individual client accounts may own securities that are not held broadly across all client accounts. Holdings and performance dispersion is a natural feature of PCM's All-Cap Value Strategy that results from multiple factors including: (i) client guidelines and account restrictions; (ii) market conditions and opportunities at the time an account is funded or has assets available for investment; and (iii) the timing of client contributions and withdrawals. To the extent permitted by prevailing market conditions and specific account restrictions, PCM looks for opportunities to allocate core portfolio holdings broadly across eligible client accounts.

After an initial invest up period (generally 90 days), Value Focus Strategy accounts generally trade as a group. However, individual account holdings may vary based on inception date and the timing of subsequent contributions and withdrawals.

PCM Employee Participation in PCM Managed Funds

PCM employees are encouraged to invest in the PCM Value Fund. A majority of PCM employees, including PCM's Portfolio Manager and each of PCM's analysts, own shares of the PCM Value Fund. Several PCM employees are also investors in PCM private funds. The participation of PCM employees in PCM-managed funds gives rise to potential conflicts of interest in that PCM could be motivated to favor a fund in which its employees are investors. PCM sees any potential conflict as being mitigated by the positive alignment that results from PCM employees investing side-by-side with PCM clients as well as by safeguards imposed by PCM's Code of Ethics and various compliance policies and procedures.

Item 7 Types of Clients

Types of Clients

PCM has historically focused on providing discretionary investment advisory services to individual and institutional investors through separately managed portfolios. In addition to managing All-Cap Value Strategy and Value Focus Strategy separate accounts, PCM also serves as:

- Investment adviser to the Private Capital Management Value Fund ("PCM Value Fund"), a registered open-end investment company;
- Investment Sub-manager to The Nordea 1 SICAV North American Value Fund ("Nordea") registered in Luxembourg;

- Sub-adviser for the PCM U.S. Select Value Portfolio (“US Select”) which is registered in Dublin, Ireland and managed and distributed by Legg Mason Investments, a PCM affiliate; and
- General Partner to four private investment funds (“Private Funds”): (i) The Entrepreneurial Value Fund, L.P. (“EVF”), a Delaware limited partnership; (ii) The Collier Fund, Ltd. (“Collier Fund”), a Florida limited partnership; (iii) PCM Tax Managed Balanced Fund, L.P. (“PCM Balanced”), a Delaware limited partnership; and (iv) PCM Tax Deferred Balanced Fund, L.P. (“PCM Deferred”), a Delaware limited partnership.

Each of the pooled vehicles listed above is subject to investment mandates, restrictions, investment minimums, and regulatory requirements that may differ from those applicable to a separate account for an individual investor. The PCM Balanced, and PCM Deferred are currently closed to new investors.

Account Initiation Procedures

PCM seeks to commence management of a new account as soon as practicable following its receipt and review of all required account documentation (including a fully completed and signed Portfolio Management Agreement), investment guidelines, and confirmation from the client’s custodian that the assets are available for investment. The time required to complete these steps may vary depending on the efficiency of the parties involved in the process. Consistent with its value based investment approach, PCM invests account assets over time as investment opportunities are identified. All-Cap Value Strategy accounts are generally invested over several quarters, but may be subject to a longer invest-up period depending upon market conditions and other factors. PCM aims to complete the initial invest-up process for Value Focus Strategy accounts over a three to four month period.

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

Methods of Analysis

PCM’s investment discipline is founded on a core belief that the function of any business is to generate value for its owners over the long term. PCM applies a fundamental value, research driven investment approach with the goal of identifying companies that are out of favor, underappreciated or misunderstood, and thereby trade at a significant discount to our estimation of long-term intrinsic value. PCM values companies using a variety of measures, including an estimate of a company’s capacity to generate discretionary cash flow over time and the long-term value of its assets. PCM defines discretionary cash flow as cash flow from operations less required capital expenditures. PCM believes that discretionary cash flow is a superior gauge of a company’s long-term capacity to grow its business and return value to shareholders. Discretionary cash flow also can be used by companies to increase shareholder value by repurchasing stock, paying down debt, paying dividends to shareholders, or making strategic acquisitions.

PCM uses a multi-step research approach that begins with the identification of a potential investment opportunity through proprietary screening and analysis, as well as through industry contacts and our in-depth knowledge of various industries. Once a potential investment

opportunity is identified, PCM performs rigorous financial analysis focused on valuing the company's business operations and assets over an identifiable investment horizon. This analysis normally encompasses SEC filings made by the company as well as information available through third party data providers, industry contacts, and other sources.

PCM undertakes an in-depth qualitative assessment of potential company investments, including management quality, governance, competitive position, operating environment, and corporate culture. PCM looks for companies that have entrenched market positions or sustainable competitive advantages, competent management whose interests are aligned with creating long-term shareholder value, corporate cultures that are consistent with good governance and appropriately responsive to shareholders (the company's ultimate owners), and the ability to compete effectively and succeed under various industry and broader economic scenarios. Where our investment team identifies shortcomings or potential risks in these or other aspects of the company, it will seek to analyze and account for them relative to the overall attractiveness of the opportunity, understanding that risk or uncertainty in one or more of these areas may be a central contributor to a compelling valuation.

PCM may opportunistically invest client assets in corporate debt securities (bonds) where PCM views the anticipated yield and risk profile of the debt security as complementary to its equity investment strategy. Corporate debt securities in which PCM invests may be unrated or may be rated below investment grade. A lower rated debt security is one that has been judged by an independent ratings agency (such as Standard & Poors or Moodys) as having significant risk of default. Corporate debt is frequently transacted in 100 bond lots. Depending on the particular bond in question, including its liquidity and the expected difficulty/cost associated with the purchase of odd lot amounts, client accounts that would receive a trade allocation of less than 100 bonds may not be included in the position.

PCM continually re-evaluates companies in which it has invested and will scale back or exit a position as a company's market price approaches our price target or when a change in a fundamental aspect of the company or its operating environment materially affects our investment view. PCM often will continue to hold, or add to, positions with declining share prices so long as the factors driving the price decline do not result in a negative revision to our overall investment assessment of the company or the investment's risk return profile remains compelling.

PCM may invest in companies of any market capitalization and typically assumes an investment horizon of three to five years.

PCM generally does not use short-term trading strategies in connection with equity positions in All-Cap Value Strategy accounts. PCM's Value Focus Strategy and pooled investment vehicles may periodically employ shorter-term trading strategies, including options. PCM may sell securities in client accounts at any time prior to or after such securities become eligible for long-term capital gain tax treatment. An evaluation of risk of loss is the primary factor PCM considers when determining whether a security should be sold rather than held to obtain increased tax efficiency.

Risks Associated With PCM's Investment Approach

Risk is inherent in all investing. Along with the general risk of loss of invested capital, there are a number of significant risks associated with PCM's investment approach. Among others, these risks include:

Equity Investing Risk

The risk that the value of equity securities in which PCM has invested will decline due to general market or economic conditions, perceptions of the industry in which a company operates, or company specific circumstances, financial condition, or performance.

Investment Style Risk

As a fundamental value investor, PCM typically takes significant, long-term positions in companies it believes are undervalued by the market. Value investors often identify and invest in companies that remain out of favor with the market for extended periods of time. In addition, PCM would expect to continue to hold, and in some cases purchase additional shares of, a declining long position (or an appreciating short position) so long as PCM continues to view the market as incorrectly valuing the security. As a result, PCM's misjudgment or incorrect evaluation of a company's prospects could result in a loss of invested capital for clients. Furthermore, PCM's investment style is unlikely to result in performance that closely correlates to specific market indices over time and may include extended periods of under performance as compared to the broader market.

Small-Cap and Mid-Cap Risk

PCM does not set upper or lower boundaries on the market capitalization of the companies in which it can invest. As a result, depending on valuations, PCM may invest significant portions of client assets in small and mid-size companies. The securities of small and mid-size companies can involve greater risks than those associated with larger, more established companies and historically have been subject to more sudden or unpredictable price movements. These companies also could have fewer shares outstanding which could impact PCM's ability to quickly purchase or sell these securities for clients without causing significant fluctuations in price. Small and mid-size companies also may operate in narrower markets and have more limited managerial and financial resources than larger, more established companies. Their financial performance can be more volatile and they may face greater risk of business failure.

Concentration Risk

Since PCM makes investment decisions primarily based upon company-specific factors, a large portion of a client's account could consist of companies whose businesses are involved in the same industry or sector. This poses a risk since companies in the same industry or sector tend to move in tandem especially in periods of higher than normal market volatility.

Currency Translation Risk

A significant number of companies in which PCM invests rely on markets outside the United States for a portion of their operating revenues. These revenues are frequently denominated in currencies other than the U.S. dollar. As a result, these companies face a risk that revenues can be affected by changes in the exchange rate between the local currencies in which revenues are denominated and the U.S. dollar. A relative decline in the value of the U.S. dollar would have

the effect of increasing the dollar amount of revenues generated in local currencies, while a relative strengthening of the U.S. dollar would have the opposite effect. While PCM evaluates potential currency translation affects along with other factors in making investment decisions, we do not take steps to hedge potential currency translation risks in client accounts.

Securities of Non-U.S. Issuers and Foreign Securities

Foreign securities and securities of some non-U.S. issuers may carry greater risk than domestic securities for a variety of reasons such as increased political risks; smaller or less liquid markets; higher transaction costs; and less rigorous accounting and reporting standards for corporations. Depending where the issuers primary markets and operations are located, such stocks may also carry significant levels of Currency Translation Risk. PCM distinguishes between foreign securities – securities that do not have a principal listing on a U.S. exchange or market – and the domestically traded securities of non-U.S. issuers. When restricting a client account from holding “foreign securities” PCM will restrict the purchase of securities that do not regularly or principally trade on U.S. exchanges or markets rather than based on the domicile of the issuer.

Short Sale Risk

PCM may execute short sales in client accounts that authorize short selling and have opened margin accounts with their broker. In the case of a short sale, the client’s account borrows shares of the security being sold short through their own broker. The account eventually must purchase shares of the security and deliver those shares to the broker through which the short sale was made in order to close out (or “cover”) the short position. Until a short position is covered, the account will incur an unrealized loss if the market value of the security rises. The account may also be charged interest by its broker and any dividends paid by the company sold short would be billed to the account and paid to the party from whom the stock was borrowed. Alternatively, if the price of the security declines, the account will reflect an unrealized gain. While a client’s potential per share gain in a short sale transaction is limited to the price of the security at the time it is sold short, the potential loss from a short sale transaction theoretically is unlimited.

Risks Associated with Debt Securities

Corporate debt securities (bonds) are subject to interest rate risk, maturity risk, and credit risk. When interest rates decline, the value of the corporate debt securities generally rises. Conversely, when interest rates rise, the value of corporate debt securities generally declines. The magnitude of the decline will often be greater for longer-term debt securities than for shorter-term debt securities. It is also possible that the issuer of a security will not be able to make interest and principal payments when due. As a result, investments in corporate debt securities are subject to the risk that PCM mis-estimates the financial condition or creditworthiness of the company that has issued the bonds. In the event of a significant decline in financial condition or bankruptcy of the issuer of corporate bonds, the bonds may lose a significant portion of the value or become worthless.

Investment Risks Specifically Associated with the Value Focus Strategy

Focused Portfolio Concentration Risk

Because Value Focus Strategy portfolios generally hold 30 or fewer securities, the strategy may have greater concentration risk (both on an individual security and sector basis) and may

experience greater near and intermediate term volatility than PCM's All-Cap Value Strategy or the equity market as a whole.

Risk Associated with Writing (Selling) Covered Calls and Puts

PCM Value Focus Strategy may opportunistically make investments in individual security or index options, including writing covered calls or selling puts.

The writer of a covered call gives the purchaser of the call the option of taking a specified number of shares of stock (currently owned by the writer of the call) at an agreed upon price on a specified future date. The shares subject to the option will be called away if they are trading above the exercise price on the date the option matures. If the shares are not trading above the option price at the time the call option matures the option will expire and the seller of the call option will retain the shares. As a result, the writer of a call option forgoes the opportunity to benefit from an increase in value of the underlying shares above the option price, but continues to bear the risk of a decline in their value.

The seller of a put gives the purchaser of the put the right to sell the put seller a specified number of shares of stock at an agreed upon price on a specified date. The risk associated with writing put options is substantial. The writer of a put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

Item 9 Disciplinary Information

PCM does not have any material legal, financial, or disciplinary events that require disclosure. PCM is required to disclose any disciplinary event that would be material to a client's or prospective client's evaluation of PCM's services.

Item 10 Other Financial Industry Activities and Affiliations

Affiliated Entities – Carnes Capital Corporation

Carnes Capital Corporation ("Carnes"), a registered broker-dealer, is an affiliate of PCM and is owned by PCM's general partner. PCM and Carnes have certain overlapping officers and employees and share office space and certain expenses. Most of PCM's client-facing, compliance, trading, and operations staff are also registered representatives of Carnes.

PCM clients can direct that trades for their accounts be executed through Carnes. Carnes' standard commission rate for client accounts is currently \$0.05 per share with a minimum ticket charge of \$30.00. Clients may be able to negotiate more favorable commission rates or minimum ticket charges with Carnes. Carnes' commission rate may be higher than the commission rate a client could obtain through other broker-dealers.

On occasion, PCM has been contacted by underwriters (or selling group members) who represent companies seeking to solicit or aggregate investors for initial offerings or secondary offerings of

equity securities that may meet PCM's investment criteria. PCM's client-directed brokerage/custodian model creates significant complexity in facilitating the allocation and delivery of shares obtained through any such offering to its clients broadly, especially since notice of such opportunities usually presents itself 24 to 48 hours before a commitment is required. As a result, clients who trade through brokers other than PCM's affiliated broker-dealer (Carnes) would typically be excluded from an allocation of these shares. In addition, some third party brokers may not be able to accommodate investments by their clients in the PCM Value Fund or PCM Private Funds.

The fact that Carnes, an affiliate of PCM, executes trades for PCM clients raises potential conflicts of interest. Carnes receives commission-based compensation on trades for PCM clients that are executed by Carnes. This could motivate PCM to trade more frequently for Carnes clients or to recommend trades solely for Carnes clients because it would indirectly benefit from additional compensation received by Carnes. This conflict is mitigated by a number of factors, including PCM's long-term investment horizon (resulting in historically low portfolio turnover), PCM's trade allocation policies, and monitoring by PCM personnel. PCM clients that have directed trades to Carnes have the option to discontinue trading through Carnes and designate a new executing broker at any time upon written notice.

Affiliated Entities – Legg Mason, Inc.

PCM's general partner is a wholly owned subsidiary of Legg Mason, Inc. As a result, PCM and Carnes are also affiliates of the other investment advisers, investment companies, and broker-dealers owned by Legg Mason. A complete list of these affiliates is included in PCM's Form ADV Part I. Employees of Legg Mason and its subsidiaries could recommend clients to PCM. In such a case, the employee may be compensated by the Legg Mason entity with which they are employed based in whole or in part on the amount of business such employee brings into Legg Mason, including business that is recommended to PCM. Other than pursuant to selling agreements between PCM and Legg Mason, PCM does not determine or pay Legg Mason employees for business they may direct to PCM.

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

Code of Ethics

PCM has adopted a Code of Ethics (the "Code") that describes its standards for business conduct. The Code addresses, among other things: (i) treatment of confidential information; (ii) disclosure of conflicts or potential conflicts; (iii) prohibition on insider trading; (iv) restrictions on the acceptance and provision of gifts and entertainment; (v) personal securities trading policies; and (vi) employee obligations to report Code violations to PCM's management.

A copy of PCM's Code of Ethics is posted on PCM's website at www.private-cap.com and will be made available to any PCM client upon request.

Participation or Interest in Client Transactions

PCM generally does not purchase or sell securities for its own account. In the event PCM decides to hold such a proprietary position, the position will be subject to the same restrictions as those governing trades by PCM employees. In the event a position is moved from a client account to a PCM proprietary account in connection with the resolution of a trading or other error, the position generally will not be subject to the employee trading restriction that precludes trades in the opposite direction of trades for PCM clients within a five-trading-day period. Such trades are monitored and approved in advance.

In its role as General Partner, PCM historically has maintained investments in certain of its Private Funds.

Employee Trading Policies

PCM employees are permitted to purchase and sell securities (and related securities such as options or fixed income securities) that also are held in client accounts or may be suitable for investment in client accounts. Personal securities transactions can give rise to conflicts of interest with PCM's management of client accounts. As a result, PCM has adopted policies and procedures that have been designed to address these potential conflicts while not discouraging employees from investing alongside PCM's clients.

Employee transactions in securities being purchased or sold by PCM for its clients pursuant to PCM's discretionary authority may be allowed in the same direction as PCM client orders during the same trading day. However, an employee may not receive an execution price that is more favorable than the worst execution price obtained by a PCM client pursuant to a PCM discretionary order. Client-directed transactions, including directives to raise cash, will not be considered PCM discretionary orders even when PCM selects the securities to be sold in order to raise the cash.

Employees are restricted from executing a short sale or an options strategy that would allow an employee to profit from a decline in a security that has been purchased by PCM and is still held in a client account (and subject to PCM's discretion). Employees also are restricted from trading in the opposite direction of a discretionary PCM client order within a five-trading-day period. PCM may grant relief from the five-day opposite direction restriction in limited circumstances, including when a purchase occurs solely for the purpose of restoring a position that was directed to be sold by a client pursuant to a tax strategy.

PCM employees may invest in pooled vehicles for which PCM serves as advisor or general partner, including the PCM Value Fund. Investments made by employees in any of these pooled vehicles are not subject to the same personal trading restrictions that are applicable to trading activity in non-managed personal and/or family accounts. However, PCM employees who choose to invest in these pooled vehicles are subject to minimum holding periods. Additionally, employees who invest in these vehicles may be otherwise restricted from investing or redeeming their interests for various reasons.

Item 12 Brokerage Practices

Brokerage Discretion

PCM requires its separate account clients to select their own broker and custodian of assets for their PCM accounts. This directed brokerage model is different from advisers who typically decide where trades should be executed on behalf of their clients. Under this directed brokerage model PCM does not have authority to negotiate commission rates for clients or to make determinations about the quality or pricing of brokerage services offered to clients. Any discounted commission rate available to a client will be dependent on the client's ability to negotiate such discount with their broker.

Each client should understand that by directing PCM to execute trades through a particular broker, a client may not: (i) receive the most favorable execution available; (ii) participate in aggregated trades; and (iii) participate in all investment opportunities. For example, many brokers that offer limited client support services offer commission rates that are lower than those offered by full service brokers.

In selecting an executing broker, clients are encouraged to consider that, among other things:

- Brokerage arrangements other than those directed by the client may exist that would provide the client more favorable execution or additional brokerage related services;
- Other than in connection with its monitoring of trade execution data for client transactions, PCM has no responsibility to determine or assess the extent or value of services provided to clients by their respective executing brokers (PCM generally lacks access to the information required to make such a determination); and
- The technological capabilities and staffing limitations of a client's executing broker (e.g., a broker's inability to receive orders electronically or telephonically) may affect PCM's ability to relay trading instructions to such broker as efficiently as it is able to relay instructions to other brokers that have dedicated institutional trading desks or web-based platforms.

Clients should periodically review the terms of their brokerage arrangements to ensure that they are appropriate in light of their own circumstances and that they remain competitive in the market in relation to the services offered. Clients also should consider whether they would like a broker that offers additional account services such as investment manager due diligence and selection, asset allocation advice, financial planning, or tax advice. Clients also should be aware that there are certain discount brokerage options available that may cost less than traditional brokers but include only limited customer service options.

Unlike its position with respect to its separate account clients, PCM does direct brokerage for the Private Funds for which it serves as General Partner as well as for the PCM Value Fund. Trades for these accounts are directed and executed through Carnes at a discounted rate that is lower than Carnes' stated standard commission rate.

Aggregation of Client Orders

Subject to timing, order criteria and broker limitations, it is PCM's policy to aggregate orders for clients that trade through the same broker or trading desk. Each client participating in an aggregated order will receive the average share price for the transaction with all such transaction costs (other than commissions) being shared on a pro rata basis. Orders placed at different times, client-directed transactions, and orders with different price or other criteria are typically not aggregated.

Allocation of Investment Opportunities Among Clients

PCM's allocation of investments between its All-Cap Value Strategy and Value Focus Strategy will vary based on the Portfolio Manager's view of each product's unique objectives and market positioning. In addition, Value Focus Strategy accounts generally purchase and sell securities as a trading group, where allocations to All-Cap Value Strategy accounts vary based on individual account characteristics and periodic individual account reviews.

PCM generally prioritizes client accounts for inclusion in applicable general allocations (orders involving a group of clients where the instructions are not made on a client-specific basis) primarily on the basis of an account's percentage of investable cash (expressed as a percentage of account assets) or percentage of gross exposure (also expressed as a percentage of account assets). In certain instances, such as cost averaging transactions (where PCM would like to purchase additional shares of a security for clients who might have already purchased the security), PCM also may consider the client's cost basis.

Investable cash is defined as the amount of cash in a client's portfolio that is available for investment by PCM. Investable cash would not include account cash that a client has restricted PCM from investing. Gross exposure is defined as the dollar value of an investment divided by the total assets in the portfolio.

The use of investable cash and gross exposure to determine allocations does not imply that accounts included in a particular allocation always will receive executions in rank order. Within a general allocation PCM traders will opportunistically use various trading techniques in an attempt to obtain overall execution and price efficiency for all PCM clients involved in the allocation. These techniques include, among others, (i) aggregating orders for clients that trade through the same executing broker (or trading desk) and (ii) sequencing and pacing orders to obtain execution efficiency and to mitigate the possibility of orders for PCM clients impacting the market price of the security. PCM also frequently uses limit orders to reduce the variance in execution price across accounts that trade through different brokers. In the case of market movements in the price of the security being purchased or sold, the use of these trading techniques can have the unintended consequence of advantaging or disadvantaging certain clients. For example, in the event purchases are made in a rising market or sales are made in a falling market over multiple days or weeks, those clients whose trades are executed towards the end of an allocation may receive a worse execution price than those clients who had their trades executed earlier.

PCM normally would not use investable cash or gross exposure to determine allocations in the following types of transactions: (i) client-directed orders and transactions based upon individual

management of client portfolios; (ii) transactions to raise (or maintain) client-directed cash levels in accounts or to comply with investment restrictions; (iii) the sale of securities contributed by clients to fund accounts; and (iv) the initial investment of new accounts or the investment of client contributions to existing accounts. Subject to its obligation to deal fairly with all clients when implementing investment decisions, PCM has no obligation to purchase or sell for a particular client account any security that we may purchase for other clients or that our officers, affiliates, or employees may purchase for themselves.

Research and Soft Dollar Arrangements

Many PCM clients have chosen to direct PCM to trade through the same brokers. In some cases, these brokers have chosen to provide PCM with access to their research platforms. In all such cases, the third party research PCM receives as a result of the brokerage relationships established by its clients will be used, if at all, for the benefit of PCM clients generally and not specifically for the clients whose brokerage relationships resulted in PCM being provided access to the research. PCM also purchases research from certain third parties with its own funds. PCM does not itself direct client brokerage in exchange for third party research.

Agency Cross Transactions

Consistent with regulatory requirements, PCM may engage in cross transactions for its advisory clients. Cross trades occur when a security is sold from one account advised by PCM and purchased for another account advised by PCM. These transactions historically have been executed when one client needs to raise cash and sales are required to be executed in securities where volume is limited. In such cases, a cross transaction may be advantageous for both clients.

PCM may initiate or maintain existing discretionary purchases for clients in the same securities that are being sold as a part of client-directed orders to (i) raise cash, (ii) execute tax loss sales, or (iii) completely liquidate a portfolio. In these instances PCM will use different price limits or trading venues to lessen the possibility of securities being inadvertently purchased and sold between PCM clients who utilize the same broker.

Item 13 Review of Accounts

Review of Accounts

All client accounts are monitored by PCM's Portfolio Manager along with analysts, traders, and risk management personnel. Client accounts are monitored to identify outliers in cash position, core holdings, and individual security weightings. As account variances are identified, they are brought to the attention of PCM's Portfolio Manager who may direct trades, at his discretion, to address such variances. PCM staff also conducts directed reviews of individual accounts, or groups of accounts, based on different parameters.

For new accounts, PCM will evaluate any securities initially contributed to fund an account. Typically, PCM promptly sells client contributed securities to the extent they are not currently held in PCM portfolios, regardless of the tax consequences. In addition, PCM may sell all or a portion of contributed securities to the extent that such securities are being sold by PCM or are

contributed in a weighting that is in excess of the target allocation range for that security. The client will be responsible for any tax liabilities that result from initial transactions and transactions executed during the course of PCM's management of the portfolio. PCM may or may not repurchase securities that are sold or gifted in client-directed transactions. Factors PCM considers when determining whether or not to repurchase include, among others, account cash position and securities weightings, whether the security meets purchase parameters specified by the Portfolio Manager, and whether PCM is otherwise restricted from such purchases (e.g., regulatory holding limits).

PCM generally handles routine client requests to raise cash by executing sales based on parameters established by the Portfolio Manager or specifically directed by the Portfolio Manager. Contributions, withdrawals, and other client-directed transactions can increase dispersion among a client's related accounts.

Reporting

PCM provides clients with written quarterly reports that include the Portfolio Manager's commentary, an account appraisal, a performance report, a summary of transactions executed during the period, and a summary of realized gains and losses.

Item 14 Client Referrals and Other Compensation

Suggestion of Brokers

When requested to do so by a client or prospective client, PCM will provide the names of unaffiliated brokers for the client to consider in designating a broker for its account. PCM makes suggestions on the basis of: (i) the broker's ability to meet certain objective trade execution and confirmation criteria; (ii) the broker having, in PCM's view, evidenced a consistent commitment to providing quality trade execution to PCM clients; and (iii) whether the broker offers the account services sought by the client (e.g., commission recapture or specific levels of client support or services). PCM does not receive compensation from unaffiliated brokers in connection with its suggestion of brokers to clients. However, PCM's list of suggested brokers may include brokers that have referred clients to PCM. PCM also may inform clients of the option of directing brokerage to its affiliate, Carnes.

Conflicts of interest can exist where a client directs PCM to utilize Carnes, a third party broker that refers clients to PCM, or a broker that is affiliated with a client retained consultant. The potential conflict of interest that arises in the event a client directs PCM to use Carnes is based on the common ownership of PCM and Carnes, as well as their sharing of certain expenses. An increase in aggregate revenues of Carnes could indirectly provide the opportunity for increased compensation to PCM employees. The potential conflict of interest in the event a client directs PCM to use a third party broker that also refers clients to PCM, or a broker that is affiliated with a consultant that recommends clients to PCM, arises out of the fact that PCM may in the future benefit economically from additional client referrals from the broker or consultant. PCM has addressed this potential conflict by (i) not paying referral fees or other compensation to third parties and (ii) not having any undisclosed arrangement or understanding with any party regarding the recommendation or suggestion of brokers.

Item 15 Custody

Custody Services

PCM's services to separate account clients do not include the selection of custodians or the negotiation of custodial fees. Clients are required to establish their own custodial relationship for their account and are solely responsible for paying all custodial fees. Carnes clients may select a custodian other than Carnes' clearing firm (J.P. Morgan Clearing Corp.). In the event a client determines to replace its current custodian, it should promptly notify PCM in writing so that PCM can update its records to reflect the change. PCM is not responsible for clients' participation in any securities lending or other revenue enhancement program through their custodians. PCM reconciles its records regarding securities holdings to match those maintained by the account's custodian.

Cash Management

PCM expects that clients will authorize and direct their custodians to automatically invest cash holdings in a money market fund chosen by the client. The client will incur fees as a money market fund shareholder in addition to PCM's investment management fees. Other than with respect to Carnes clients that custody their assets with J.P. Morgan Clearing Corp., PCM's services do not include the selection or supervision of money market fund investments. In selecting a money market fund vehicle for Carnes clients, PCM will be limited by the particular daily sweep vehicles that are available through J.P. Morgan Clearing Corp.

Receipt of Statements from Custodians

PCM is required to have a reasonable basis for believing that each of its clients receives copies of their individual custodial account statements on a regular basis. Please contact the Client Services department or your PCM relationship manager immediately if you do not currently receive custodial statements for your PCM account. PCM believes that it is important for clients to routinely compare the statements they receive from their custodian with those they receive directly from PCM.

Item 16 Investment Discretion

Investment Discretion

PCM manages portfolios on a discretionary basis, meaning that orders to purchase or sell securities are forwarded to client brokers without prior consultation with the client. Clients have the ability to limit PCM's discretionary authority as previously discussed in Item 4, Tailored Advisory Services.

Implementation of Client Instructions

Account instructions must be provided to PCM in writing by the client or its authorized representative and will be implemented in a reasonable and orderly manner. In certain circumstances, including in the event instructions are received by PCM later in a trading day, client instructions may not be executed (or fully executed) on the day received. Client instructions should specify the time frame over which they should be implemented.

Contributions in Kind

In the event a client transfers securities in kind to its PCM account, PCM has full discretion to sell any or all of such securities at any time. Such sales may result in capital gains to the client. Prior to contributing securities in kind, clients are urged to consult with their tax advisors about the potential consequences of sales of contributed securities.

Tax and Financial Planning Advice

PCM's services do not include tax, financial planning, or accounting advice. Clients should consult their own advisors based on their particular circumstances. PCM recommends that clients consult with their tax, financial planning, or accounting advisors in advance regarding the consequences associated with any account transactions they may direct.

Termination Procedures

Portfolio Management Agreements generally may be terminated at any time upon written notice by either party. In the event of termination, the management fee will be prorated based upon the value of the account at the time PCM's authority to execute trades is withdrawn (subject to adjustment for any significant withdrawals earlier in the quarter). In the event PCM is directed to liquidate an account, PCM will bill the account based upon the value of the account following its liquidation. In any event, management fees will continue to accrue until PCM's authority to manage the account is withdrawn.

Item 17 Voting Client Securities**Proxy Voting**

Clients may assign proxy voting authority over their accounts to PCM. In order to facilitate this authority, clients need to provide written notice to their account custodian. In the event a client assigns proxy voting authority to PCM, it remains the client's obligation to direct their account custodian to forward applicable proxy materials to PCM so their shares can be voted. PCM will not vote shares unless it receives proxy materials on a timely basis from the custodian. For ERISA clients, PCM will assume that it has been delegated proxy voting authority in the absence of other direction by the client. PCM clients may revoke PCM's voting authority or participate in securities lending programs without notice to PCM.

Summary of PCM's Proxy Voting Policies and Procedures

In exercising its voting authority, PCM generally relies on its own review of proxy materials rather than relying on third party consultants. PCM's substantive voting decisions are based on the particular facts and circumstances of each proxy vote and are evaluated by the applicable Portfolio Manager or analyst. The following general guidelines reflect PCM's decision making approach with respect to particular issues and may be overridden in any particular case to the extent that PCM deems appropriate.

Election of Directors

PCM generally votes in favor of nominees. However, in a contested election, PCM will vote for the nominees on a case-by-case basis.

Compensation Programs

PCM generally favors compensation programs that align executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation.

Auditors

PCM generally votes in favor of the ratification of auditors unless, in PCM's view, the auditor has a clear conflict of interest or the auditor has failed to render an accurate financial opinion of a company's financial status. In making a determination regarding the proposed ratification of an independent auditor, PCM also may take into account its prior experiences with such auditor and the quality of services it has rendered to other companies in which PCM has invested.

Anti-Takeover Measures

PCM evaluates all proposals to institute or amend shareholder rights plans on a case-by-case basis. PCM will sometimes vote against board-approved proposals to adopt anti-takeover measures.

Capital Structure

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs, and market conditions that are unique to the circumstances of each company. As a result, PCM votes on proposals to authorize changes to a company's capital structure on a case-by-case basis. In general, PCM has a preference for voting against proposals relating to the authorization of additional common stock and for voting in favor of proposals authorizing share repurchase programs.

Mergers and Acquisitions

With respect to board approved proposals relating to acquisitions, mergers, reorganizations, and similar transactions, PCM votes on a case-by-case basis. PCM examines multiple factors affecting shareholder value including the economic merits of the transaction, the potential conflicts of interests between management and shareholders, and the impact of the transaction on corporate governance and shareholder rights.

Corporate Charter or Bylaws

With respect to board proposals to amend a company's charter or bylaws, PCM votes on a case-by-case basis. PCM evaluates the stated reasons for the amendment as well as its impact on shareholder rights.

Corporate Governance

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Though PCM reviews all such proposals on a case-by-case basis, it most frequently votes in accordance with the recommendation of the company's board of directors. PCM generally places particular significance on proposals made by significant or long-term shareholders and on proposals relating to governance issues, acquisitions, mergers, reorganizations, and similar transactions.

PCM's Compliance personnel oversee the proxy voting process and ensure that conflicts of interest do not influence PCM's proxy voting decisions. Examples of conflicts of interest may include: (i) whether PCM manages assets for the company or company employees; (ii) whether the Portfolio Manager or analyst responsible for voting the proxy is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and (iii) whether the Portfolio Manager has a personal interest in the outcome of the matter that is different from the general interests of PCM clients. If a material conflict is identified, PCM will seek voting instructions from an independent third party. In such a case proxies will be voted by PCM in accordance with the recommendations of the independent third party.

Clients may request a copy of PCM's Proxy Voting Policies and Procedures, as well as reports on how their proxies have been voted by contacting their PCM Client Services representative.

Item 18 Financial Information

Balance Sheet

PCM has not attached a balance sheet for its most recent fiscal year as PCM does not require or solicit prepayment of management fees.

Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients

There are no financial conditions likely to impair PCM's ability to meet contractual commitments to its clients.

Bankruptcy Filings

PCM is not currently, and has never been, the subject of a bankruptcy petition.