

## **Part 2 A of Form ADV: Firm Brochure**

### **Item 1: Cover Page**

**Name:** Montrose Advisors Incorporated

**Address:** 505 Park Avenue  
New York, NY 10022

**Phone Number:** (212) 888-4747

**Fax:** (212) 888-9634

**The date of this brochure is July 31, 2012**

**This brochure provides information about the qualifications and business practices of Montrose Advisors Incorporated (“MAI”). If you have any questions about the contents of this brochure, please contact us at (212) 888-4747. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“the SEC”) or by any state securities authority.**

**Additional information about Montrose Advisors Incorporated is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Any reference to Montrose Advisors Incorporated as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.**

**Item 2: Material Changes**

MAI has updated its fee schedule related to its asset allocation advisory services. For a full discussion see Item 7, "Types of Clients."

MAI has updated Item 16, "Investment Discretion" to reflect that it may be engaged by an asset allocation client to have authority to make purchase or sale transactions within a client's account.

John J. Trask resigned his role as Treasurer and as a director; he will continue as an advisor to the firm.

**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.....	5
Item 7 Types of Clients.....	6
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss.....	6
A. Methods of Analysis and Investment Strategies Generally.....	6
B. Certain Risks Associated with MAI's Methods of Analysis and Investment Strategies.....	9
Item 9 Disciplinary Information.....	20
Item 10 Other Financial Industry Activities and Affiliations.....	20
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	22
Item 12 Brokerage Practices.....	23
A. Selection of Brokers.....	23
a. Research and Other Soft Dollar Benefits.....	24
b. Brokerage from Client Referrals.....	25
c. Directed Brokerage.....	25
d. Allocation of Investment Opportunities.....	25
e. Trade Error Policy.....	25
B. Aggregation of Orders.....	26
Item 13 Review of Accounts.....	26
Item 14 Client Referrals and Other Compensation.....	27
Item 15 Custody.....	27
Item 16 Investment Discretion.....	27
Item 17 Voting Client Securities.....	28
Item 18 Financial Information.....	28
 Form ADV Part 2B: Brochure Supplement .....	 29

#### **Item 4 Advisory Business**

MAI is a New York Corporation formed in September 1992 which is owned by Kenneth Lubbock, Helen Train Klebnikov, Nina T. Choa, Lisa Train Pinnington, J. Angus Lubbock and Julia Lubbock.

MAI provides discretionary investment advice to private investment funds and advisory services to high net worth individuals, families, and small foundations. MAI specializes in alternative assets, particularly hedge funds. The firm offers its diversified strategy services to a small number of clients, using outside managers as well as in-house expertise. MAI provides portfolio allocation oversight to investors. MAI provides asset allocation, general consulting and advisory services to a small number of clients.

MAI tailors its advisory services to the individual needs of its clients.

MAI does not participate in any wrap fee programs.

As of December 31, 2011 MAI managed client assets of \$29,104,300 and advised on assets of \$211,811,600.

#### **Item 5: Fees and Compensation**

##### Advisory Clients

MAI generally charges advisory fees quarterly, payable in advance. MAI has advisory clients that pay fixed fees and clients that pay based on a percentage of assets under management. In addition, MAI has one client that also pays 1% of the value of an investment allocation that MAI recommends, followed by 0.5% on its anniversary. Clients are invoiced quarterly and payment is due upon receipt of the invoice. All advisory fees are negotiable. When a contract is terminated before quarter-end the amount to be refunded will be calculated as follows: the number of prorated unused days in the contract period less any notification requirement as described in the engagement contract.

In addition to advisory fees paid to MAI, advisory clients will pay any fees charged by any investment limited partnership, or fund manager in the case of a separately managed account, for investments made in their portfolio. Expenses may also be charged to clients when agreed in advance. Fees may also be charged for special project work for services rendered when agreed in advance.

We reserve the right to negotiate and charge different fees for different and, perhaps, similar clients. For example, we may offer discounted fee schedules to certain clients based on the totality of their (and/or an affiliate's) relationship with our firm or if they are a charitable organization. Advisory fees are negotiated on a contract by contract basis.

For a full schedule of fees, please contact Lois McNaughton.

Montrose Partners, L.P.

MAI charges Montrose Partners, L.P. ("MPLP") a quarterly management fee, paid in arrears, of 0.4% on average assets in the partnership during the preceding quarter. MPLP assets are generally invested in other investment vehicles such as limited partnerships, limited liability companies, separately managed accounts or mutual funds. The fees of such other entities and advisers are paid directly by MPLP. MPLP also maintains its own brokerage and bank accounts, and any fees and commissions incurred are paid directly by MPLP.

MPLP also pays its own rent and expenses related to fund administration, including legal and accounting fees, printing and mailing expenses and government filing fees. All third party accounting, tax preparation, audit, bookkeeping, governmental fees and taxes and legal and compliance costs, or relating to these items, are paid directly by MPLP.

Asset Allocation and General Consulting

Clients of MPLP may also receive asset allocation advice on their total portfolio.

This service is available for 0.2% of portfolio assets under management; subject to a \$5,000 per annum minimum. The service was originally introduced on a flat fee basis and clients who engaged the firm at that time continue with this fee structure. Clients are invoiced quarterly, in advance. When a contract is terminated before quarter-end the amount to be refunded will be calculated as follows: the number of prorated unused days in the contract period less any notification requirement as described in the engagement contract.

Additional Employee Compensation

Certain employees of MAI are compensated for client referrals. Compensation is based on a fixed percentage, is for help in servicing the client, and results in no additional costs to the client. This arrangement is disclosed in advance, and the client is asked to sign a statement acknowledging the relationship. While this might incentivize an employee to recommend our investment pool over another, the client does not pay a higher fee than the client otherwise would between our pool and a similar investment pool.

Clients have the option to purchase investment products through any broker that they may choose. MAI may suggest one that the firm feels suits the client's needs, but the client has the ability to choose any channel it wishes in making an investment purchase.

Commissions from the sale of investment products do not constitute a majority of MAI revenue.

Other Fees

In addition to advisory and discretionary client fees MAI is paid for administration services it provides to affiliated companies (see Item 10 and 14) for services similar to those it provides to its clients. These services include portfolio valuation, client administration, and meeting specific client requests that arise from time to time.

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

MAI does not charge performance based fees.

Many of the outside managers used in the delegated management process will charge performance fees that are paid directly by the client.

## **Item 7 Types of Clients**

MAI provides investment and/or asset allocation advice to clients who are generally high net worth families or individuals and small foundations/endowments/trusts. MAI also provides investment management services to two pooled investment vehicles and has full discretion over their operations. MAI may advise different types of clients in the future.

### Advisory Clients

The minimum investment for any advisory client is determined on a case-by-case basis but is generally expected to be at least \$50 million. Advisory clients are generally high net worth families or individuals and their investment entities and also small foundations/endowments.

### Asset Allocation and General Consulting

Persons/foundations/trusts may engage MAI to provide asset allocation services on their total portfolio. There is no minimum but is generally expected that this type of client will be an “accredited investor” (as defined by under the 1940 Act).

### Discretionary Clients

#### Montrose Partners, L.P.

MPLP’s stated minimum participation is \$250,000 and this amount may be waived at the discretion of the General Partner. Investors are generally an “accredited investor” (as defined under the 1940 Act).

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

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

#### Montrose Partners, LP and Other Alternative Asset Portfolios

Investment Objective: The principal investment objective of the MAI’s alternative asset program is growth of capital through a program of diversified asset management. Through allocation of assets to money managers with varied investment strategies, MPLP seeks to obtain above-average, risk-adjusted returns with greater diversification and thus lower risk than should be experienced with a single investment style or manager.

MAI, on behalf of MPLP and its other alternative asset clients selects, evaluates and monitors domestic and foreign investment partnerships, funds and investment managers. Diversification

is among investment strategies, which may include "growth" and "value" investing, trading, arbitrage, hedged investing, distressed securities and short selling. This is not intended to be a list of all strategies that may be used by outside investment partnerships, funds and managers. The Partnership owns minority interests in such outside investment partnerships and funds and, accordingly, is not in a position to influence or otherwise control such outside investment partnerships or funds.

Manager Allocation. MAI evaluates both the manager's ability to achieve above-average returns in a variety of investment environments and the potential of the manager's investment style for achieving above-average, risk-adjusted, returns, as well as other factors, when allocating assets.

MAI makes use of multiple investment strategies and will allocate to any portfolio or strategy it deems appropriate from time to time in its discretion without obtaining approval from investors. The majority of MPLP is expected to be invested in Alternative Investments, primarily hedged funds and other non-traditional investments.

The hedged funds are generally diversified pools designed to extract returns with less risk than is required of traditional long-only investments. This is achieved by simultaneously buying, and selling short, securities that have similar systemic characteristics but different individual dynamics. In this way the managers can maintain a high total, or gross, exposure to the markets while reducing the net exposure to market movements. This arbitrage strategy can be carried out in the equity, convertible, fixed income, mortgage and other securities markets.

Other non-traditional investments include Distressed Securities funds, Macro funds, Emerging Markets, Short, Levered Equity, Opportunistic and broad mandate funds that do not necessarily employ hedging.

A significant part of MPLP is expected to be invested in traditional asset classes, primarily stocks, bonds and cash. The primary variable in the performance of these investments is the performance of the relevant market. Investment skills of the investment manager will produce incremental performance relative to the appropriate benchmark. MPLP makes use of multiple strategies and may use any from time to time.

#### Alternative Investments: Equity Hedged Funds

As described above, these funds employ an arbitrage strategy between their long and short portfolios. These portfolios will be made up primarily of equity securities but may also contain other equity-related securities such as options and fixed income securities, credit default swaps, and the like. In addition, they will have net market exposure for that part of the total portfolio that is not contained within the hedged portion. Net market exposure equals long exposure minus short exposure. The portion of each fund that is contained within the hedge will vary. The majority of funds are expected to have net exposure to the markets of about 10% to 60% and gross exposures of about 90% to 200%. However, under some market conditions, some funds may have negative net exposure, or net exposure significantly higher than 60% and gross exposures as low as 0%.

These hedged funds may be invested across broad range of sectors or limited to specific sectors, such as companies classified by such characteristics as growth and value, or by size, e.g., large-, mid-, small-, micro-capitalization, or by geography, e.g., global, international, regional or emerging markets, or by industry sector, e.g., consumer, healthcare, industrial, natural resources etc.

**Alternative Investments: Capital Structure Arbitrage and Other Fixed Income Hedged Funds:** These funds also maintain long and short portfolios but seek to hedge their exposures using fixed income and other securities such as Credit Default Swaps. Fixed income hedge funds exploit price differentials in fixed income securities, derivatives and related equities. This group includes, but is not limited to, the following:

**Mortgage funds:** These funds are primarily long mortgage securities and hedge interest rate, volatility and prepayment risk.

**Convertible funds:** These funds generally buy convertible securities and hedge by shorting the related underlying equity securities.

**Merger, or Risk Arbitrage:** These funds generally buy the securities in the company being acquired, and short the securities of the acquiring company. This investment presupposes the acquisition will occur. Sometimes the investment is the reverse, presupposing the acquisition will fail.

Some hedged funds will use multiple relative-value strategies, combining the strategies described above, equity and fixed income as well as other derivatives and asset classes.

**Alternative Investments: Non-traditional**

MPLP will also be invested in funds that employ strategies in non-traditional asset classes and which do not necessarily involve a significant hedging process. These funds may present attractive, low-correlation investment opportunities consistent with the characteristics of the investment sector, but do not present significant opportunities from the relative valuations within the sector. The performance of these funds is likely to be closely correlated to the performance of the relevant market benchmark. These include but are not limited to the following groups:

**Distressed Securities funds:** these funds generally buy securities of companies threatened by or undergoing bankruptcy or reorganization.

**Short-only funds:** these funds focus exclusively on the short sale of securities.

The funds generally sell short securities of companies that have deteriorating fundamentals, questionable accounting practices, weak managements unable to adapt to changes in the operating environment, or whose securities exhibit temporary overvaluation due to short-term market euphoria for a sector.

**Activist funds:** These funds try to directly affect the value of securities by influencing the management of the companies in which they invest.



**Emerging Markets funds:** These funds generally invest in equities and debt securities in emerging markets. These funds may be hedged but are usually long-biased as the opportunity for short sales is often restricted in these markets.

**Macro funds:** These funds try to profit from changes in the price of securities, interest rates and currencies affected by global or regional economic change. The investment process is often directional and does not involve relative-value hedging.

**Trading funds:** These funds try to profit from short-term fluctuations in the price of securities and markets. These short-term fluctuations may be driven by changes in company fundamentals, market sentiment, or other technical factors. The overall market exposure of these funds may change significantly and frequently.

#### **Securities Portfolio**

Secondarily, the Partnership directly purchases securities which it believes are undervalued, with a view to growth of capital. The General Partners regard stocks as shares in a business and seek to buy them when they believe the price is low in relation to the value of the whole enterprise. Dividend income and bond interest are not prime considerations in the purchase of securities, but are considered in relation to the total expected return of the investment

#### **Other Investments**

MAI may also invest a portion of MPLP's assets in debt securities (including U.S. Government securities and securities of domestic and foreign issuers) and cash equivalents (including short-term U.S. Government obligations, certificates of deposit, investment grade commercial paper and other money market instruments) to the extent that MAI, as general partner, deems appropriate.

#### **Advisory Clients, Asset Allocation and General Consulting**

Investments recommended to advisory clients are made using the same investment objectives and with the same kinds of analysis that are applied to the sections above. In addition MAI will work with clients on their assets allocations. Specific to Asset Allocation clients, rather than focusing on the securities or manager selection, MAI will try to identify an appropriate ratio of exposure to equities, bonds, different types of alternative assets and cash suitable to the clients investment goals and risk tolerance.

#### **Certain Risks Associated with MAI's Methods of Analysis and Investment Strategies**

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

**Investing in securities involves risk of loss that clients and investors should be prepared to bear. Investors should be aware that they can lose money.**

Investments in Montrose Partners, LP

An underlying fund's trading activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by MAI. Such factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of an underlying fund manager to realize profits for its clients' accounts. As a result of the nature of an underlying fund's trading activities, it is possible that the financial performance of an investment may fluctuate substantially from period to period. MAI does not take an active role in the affairs of the investment entities in which it invests client assets and thus cannot control the level of risk taken by an underlying fund manager.

Although the process of allocation of assets to money managers with varied investment strategies may succeed in obtaining above-average risk adjusted returns, there is no guarantee that it will do so. In particular, there is the risk that the underlying managers will not be able to attain their own objectives. Although many of the funds used by MAI to carry out their investment programs try to contain or lower risk, often with the use of a hedged arbitrage strategy, there is no guarantee that they will be able to do so. In addition, if they receive a performance fee, they may be incentivized to construct a portfolio with a higher level of risk than might otherwise be taken. They are generally free to use processes such as leverage and short sales that have inherent risk of significant loss. The use of such processes is usually limited in mutual funds and other more highly-regulated funds. The lower level of regulation oversight may mean that some funds carry undisclosed structural risk, and the lower level of disclosure requirements may make it difficult to adequately assess the strategies, diversification and other factors relevant to an investment decision.

The following is a list of certain specific material risks associated with MAI's significant methods of analysis and investment strategies.

**Short Sales.** The Partnership may allocate a portion of its assets to portfolio managers who, through their investment partnerships or other accounts, make short sales. Short selling allows an investor to profit from declines in market prices. However, since the borrowed securities must be replaced by purchases at market prices, any appreciation in the price of the borrowed securities over the period of the loan would result in a loss, causing a decline in the net assets of the investor's account since the price can rise indeterminately, losses can be extensive. Short selling of securities involves the sale of securities which the investor (the "borrower") does not own. To effect a short sale, securities are borrowed from a third party lender in order to make delivery to its purchaser. The borrower will return the borrowed securities to the lender by delivering the securities it receives in the transaction or by purchasing the securities in the market. A short seller must generally pledge cash with the lender in an amount equal to the market price of the borrowed securities. This deposit may be increased or decreased in response to changes in the market price of the borrowed securities. During the period in which the

securities are borrowed, the lender typically retains its right to receive interest and dividends accruing on the loaned securities. In return, in addition to lending securities, the lender generally pays the borrower a fee for the use of the borrower's cash which is based on prevailing interest rates, the availability of the particular securities, and other market factors. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. A client may have losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

**Leverage.** Subject to applicable regulations, an underlying fund manager may use leverage in its trading program when it deems appropriate, including the use of borrowed funds and investments in certain types of derivatives and options such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent an underlying fund manager purchases securities for its partnership with borrowed funds, such partnership assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the performance. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the use of leverage would result in a lower rate of return than if the accounts were not leveraged.

**Foreign Securities.** Investments may be made in both domestic and foreign companies. Investments in foreign companies may carry risks not typically associated with investing in domestic companies. An investment in a foreign company may be affected by changes in currency rates and in exchange control regulations. There may be less publicly available information about a foreign company than about a domestic company. Foreign companies are not generally subject to uniform accounting, auditing, and financial reporting standards comparable to those applicable to domestic companies. Some foreign stock markets have substantially less volume than the New York Stock Exchange, and securities of some foreign companies may be less liquid and more volatile than securities of comparable domestic companies. There is generally less government regulation of stock exchanges, brokers and listed companies in other countries than in the United States. In addition, with respect to certain foreign countries there is a possibility of expropriation or confiscatory taxation, political or social instability or diplomatic developments which could affect investments in those countries. Individual foreign economies may differ favorably or unfavorably from the United States' economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position.

**Commodity Trading.** The Partnership, to a limited extent, allocates a portion of its assets to entities which invest in contracts on commodity futures and related instruments. A principal risk in commodity trading is the traditional volatility (rapid fluctuation) in the market prices of

commodities. Because of the low margin deposits typically required in commodity contract trading, a relatively small movement in the market price of a commodity contract may result in a disproportionately large profit or loss. In addition, the commodity trading advisors making trading decisions on behalf of such entities may use either trend-following technical trading systems or fundamental analysis of the markets, or a combination thereof. The profitability of any technical trading system depends on major price moves or trends in some commodities which can be identified and capitalized on by the trading system. The absence of such trends generally inhibits performance. Fundamental traders rely on traditional supply and demand analysis, as well as an evaluation of other economic factors such as interest rates, money supply, weather, and governmental activity.

**Convertible Securities.** The market value of convertible securities, as with all fixed income securities, tends to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. If a convertible security held in a partnership is called for redemption, our underlying fund manager will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on the account's performance.

**Derivatives Generally.** Derivative instruments, or "derivatives," include options, swaps, futures, structured securities and other instruments and contracts that are derived from or the value of which is related to one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. There is no assurance that derivatives that an underlying fund manager wishes to acquire for their partnership will be available at any particular times upon satisfactory terms or at all.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus 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 account to the possibility of a loss exceeding the original amount invested. Over-the-counter derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. In most instances, the over-the-counter market for derivatives is relatively illiquid.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enables the U.S. Commodity Futures Trading Commission (the "CFTC") and the SEC to enact new regulations on certain over-the-counter derivatives. Under the Dodd—Frank Act, certain over-the-counter derivatives contracts will be regulated through regulated clearing houses and subject to regulation by the SEC and the CFTC. The type and number of derivatives contracts subject to the clearing requirement, the regulations governing swaps clearing organizations and exchanges, the scope of the swaps dealer and major swap participant definitions, and the capital and margin requirements imposed on such entities, await regulatory action. The Dodd-Frank Act creates a regulatory framework rather than a set of detailed requirements. The ultimate impact of the Dodd-Frank Act on the derivatives market is unclear and will depend in large part on the regulations that the SEC and CFTC promulgate.

**Options.** An underlying fund manager may use option strategies for their partnership. Put options and call options typically have similar structural characteristics and operational mechanics, regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

If a put or call option purchased by an underlying fund manager for their portfolio were permitted to expire without being sold or exercised, its premium would be lost by such account. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold to the client at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold by the client at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing "uncovered" options are highly specialized activities and entail greater than ordinary investment risks.

**Credit Default Swaps.** An underlying fund manager may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and other purposes for client accounts. The typical credit default swap contract requires 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 issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. An underlying fund manager may also purchase and sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, an investment portfolio is subject to certain risks. In

circumstances in which the portfolio does not own the debt securities that are deliverable under a credit default swap, such account is exposed to the risk that deliverable securities 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 credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. In either of these cases, the account would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, an investor 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 issued by the reference entity. However, the investor 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 credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to the client following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the seller.

**Purchase of Distressed Securities.** An underlying fund manager may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganizations and liquidation proceedings in their portfolio. Although such investments may produce significant returns, they involve a high degree of risk over a potentially lengthy period of time, as well as less liquidity than many other investments. Investment in these types of securities requires sophisticated analysis, and there can be no assurance that the manager will accurately predict various factors that could affect the prospects of a successful restructuring. Many of these investments ordinarily remain stagnant until the company reorganizes and/or emerges from bankruptcy proceedings, and, as a result, may have to be held for an extended period of time.

The Dodd-Frank Act establishes the Orderly Liquidation Authority (the "OLA"), a new insolvency regime for large, interconnected financial companies, including broker-dealers, whose failure poses a significant risk to the financial stability of the United States. An underlying fund manager may invest partnership capital in such large, interconnected financial companies and therefore such partnerships may face losses if such financial companies are put into receivership and then liquidated upon a determination by the FDIC and the board of governors of the Federal Reserve. If a financial company becomes liquidated by the OLA, the underlying fund manager's investments in such a financial company could be adversely affected. Unlike bankruptcy proceedings, creditors, shareholders and contract counterparties will not have any input into or advanced notice about the liquidation or reorganization of the financial company. Many of the procedural rules for the OLA have not yet been written, and it is unclear how financial companies that become subject to liquidation proceedings would be affected.

**Small-Cap Issuers.** An underlying fund manager may invest a substantial portion of its

partnership in small and/or unseasoned companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, an underlying fund manager may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time, due to the trading volume of smaller company securities.

**Risk of Default or Bankruptcy of Third Parties.** Underlying fund managers may engage in transactions for client accounts in securities and financial instruments that involve counterparties. Under certain conditions, such client accounts could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, such client accounts could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which our underlying fund manager does business, or to which securities have been entrusted for custodial purposes. For example, if one of the account's prime brokers or custodians were to become insolvent or file for bankruptcy, such account could suffer significant losses with respect to any securities held by such firm.

**Foreign Currency Forward Trading.** Foreign currency forward trading is subject to numerous risks, including the risk of counterparty default, which could subject the Partnership to unanticipated losses. In addition, the interbank currency market is not regulated by any governmental authority.

**Multiple Portfolio Managers.** Based upon the size of the Partnership, the General Partners have selected a number of portfolio managers to attempt to achieve substantial protection against major losses without sacrificing the ability to capitalize on profitable investment strategies. In fact, the diversification of investment strategies among the managers may have the opposite result. There is no assurance that the use of multiple investment strategies will not effectively result in losses by one or more managers which offset or exceed any profits achieved by other managers. Accordingly, there is no assurance that the use of multiple managers will be any more successful than the retention of fewer managers or even one manager.

**Illiquid Investments.** Many of the Partnership's investments (including most, if not all, of its investments in investment partnerships and other pooled accounts and certain of the Partnership's direct portfolio security investments) are not liquid. Some investment partnerships permit their limited partners to withdraw part or all of their investment only on an annual basis. Moreover, certain of the Partnership's foreign and other direct portfolio security investments may have to be held for a substantial period of time before they can be liquidated to the Partnership's greatest advantage or, in some cases, at all. Accordingly, a Limited Partner requesting to withdraw part or all of its capital account may be substantially delayed in receiving full payment therefore during any period in which the Partnership has insufficient liquid assets to make payments to

Limited Partners who have requested withdrawal. The General Partners believe that the likelihood of such a substantial delay is remote.

**Accuracy of Information.** MAI selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made directly available by the issuers or through sources other than the issuers. Although MAI evaluates all such information and data and ordinarily seeks independent corroboration when MAI or its underlying investment managers with whom MPLP invest consider it is appropriate and when it is reasonably available, MAI and/or the underlying manager is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Because of the prospect of considerable financial gain some participants in the business and investment have in the past produced false information to mislead investors. This dishonesty and fraud can has led to investors losing all their investment in publically traded securities and private investment vehicles. It is clearly in the interest of the criminal to obscure this unlawful activity to the best of their ability and has even be achieved by those whose suspected illegal activities have been reported to regulatory agencies. While MAI is aware of this possibility and does its best to avoid investing in such situations, there is no guarantee that it will do so.

**Reliance Upon MAI.** Investors place funds with MAI for selection of investments and for selection of portfolio managers. Limited Partners will not participate in the investment decision-making process, and the success or failure of the Partnership is dependent entirely upon MAI's ability to identify appropriate investments and select successful portfolio managers.

**Reliance on Portfolio Managers.** The investment returns of the Partnership depend to a great extent upon the judgment and abilities of the portfolio managers selected by MAI in correctly assessing the future course of the price movements of the various investment vehicles employed by such portfolio managers. There can be no assurance that the various portfolio managers with whom MPLP invests will be able to forecast accurately these price movements. With respect to each investment strategy utilized by the Partnership or by any selected manager, there is always some, and occasionally a significant, degree of market risk. Moreover, some of the money managers may consist of a single key individual. If that individual died or became incapacitated, MPLP might sustain losses in the investment managed by such individual.

**Restricted or Not Readily Marketable Securities.** The assets of the Partnership may be invested in securities acquired in privately negotiated transactions from the issuer or a holder of the issuer's securities and which may not be distributed publicly without registration under the Securities Act of 1933. Such restricted securities may not thereafter ordinarily be sold by the Partnership except in another private placement or under an effective registration statement filed pursuant to the Securities Act of 1933 or pursuant to an exemption therefrom. The determination of the value of restricted securities is in the discretion of MAI. The purchase price and subsequent valuations of restricted securities normally reflect a discount from the price at which such securities trade when they are not restricted, since the restriction makes them less liquid. The amount of the discount from the prevailing market, if any such market exists, is expected to



vary depending upon the type of security, the length of time the security will remain restricted, the character of the issuer, the party who will bear the expenses of registering the restricted securities and prevailing supply and demand conditions.

**Limited Rights of Investors.** Investors are unable to exercise any management or control functions with respect to the Partnership's operations, and they have very limited voting rights.

**Conflicts of Interest.** There exist inherent and potential conflicts of interest in the operation of the Partnership's business. MAI and its principals intend to form and/or advise other securities trading accounts or entities (including other securities investment partnerships) with substantially the same or different objectives. In addition, MAI and the officers, directors, employees and affiliates of MAI also will be free to trade securities for their own accounts. Limited Partners will not be permitted to inspect the trading records of any other entities that MAI is a general partner of or any accounts MAI or their respective officers, directors, employees or its affiliates may be advising, because of their confidential nature. In the process of trading such other accounts, it is possible that MAI or its affiliates or its respective principals may compete with the Partnership in the purchase and sale of securities. In addition, an account may hold the opposite side of a trade made by the Partnership or may maintain positions that are opposite to those held by the Partnership, and the interests of the investors in the Partnership may be inconsistent, in some respects, with the interests of the General Partners. Furthermore, the General Partners or their affiliates may advocate trades for their other accounts which may be contrary to positions they take for the Partnership.

**No Registration under Federal Securities Laws.** The Partnership is not registered as an open-end investment company under the Investment Company Act of 1940 (the "Investment Company Act"). Accordingly, certain protections which would be available to shareholders of an investment company registered under the Investment Company Act will not be available to a Limited Partner. For example, the Partnership has no Board of Directors and there are no independent (disinterested) directors to pass upon arrangements between the Partnership and the General Partners, such as those relating to the payment of fees and expenses to the General Partners and their affiliates and to allocation of brokerage. Similarly, neither the proxy provisions normally applicable to public companies nor the periodic reporting requirements provided for in the federal securities laws and the SEC's rules are applicable to the Partnership. To the extent that such protections, as well as others not here detailed, are not available to Limited Partners, Limited Partners have less information and significantly fewer protections than do investors in registered investment companies. Further, whereas the Investment Company Act provides for prompt redemption of shares by investors, the withdrawal provisions under the Limited Partnership Agreement are a matter of agreement between the Partnership and the Partners and not directly imposed by federal law. The foregoing considerations will also apply to the Partnership's investments, as a limited partner, in investment partnerships.

#### Advisory Clients

The risks inherent in the recommendations to advisory clients for securities and funds are

essentially the same as those listed under the sections for MPLP, except for those risks specifically related to the structure of the investment pool.

In addition, for those clients for whom we perform asset allocation, and to a lesser extent general consulting,, there is the risk that clients may not participate fully in any increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, cash and alternatives assets will change over time due to changes in market movements and be no longer appropriate for the client's goals.

An underlying fund's trading activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by MAI. Such factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of an underlying fund manager to realize profits for its clients' accounts. As a result of the nature of an underlying fund's trading activities, it is possible that the financial performance of an investment may fluctuate substantially from period to period. MAI does not take an active role in the affairs of the investment entities in which it invests client assets and thus cannot control the level of risk taken by an underlying fund manager.

Although the process of allocation of assets to money managers with varied investment strategies may succeed in obtaining above-average risk adjusted returns, there is no guarantee that it will do so. In particular, there is the risk that the underlying managers will not be able to attain their own objectives. Although many of the funds recommended by MAI to carry their investment programs try to contain or lower risk, often with the use of a hedged arbitrage strategy, there is no guarantee that they will be able to do so. In addition, if they receive a performance fee, they may be incentivized to construct a portfolio with a higher level of risk than might otherwise be taken. They are generally free to use processes such as leverage and short sales that have inherent risk of significant loss. The use of such processes is usually limited in mutual funds and other more highly-regulated funds. The lower level of regulation oversight may mean that some funds carry undisclosed structural risk, and the lower level of disclosure requirements may make it difficult to adequately assess the strategies, diversification and other factors relevant to an investment decision.

The following is a list of certain specific risks associated with MAI's significant methods of analysis and investment strategies.

**Accuracy of Information.** MAI makes recommendations in part, on the basis of information and data filed by issuers with various government regulators or made directly available to them by the issuers or by fund manager or through sources other than the issuers or by fund manager. Although MAI evaluates all such information and data and ordinarily seeks independent corroboration when they consider it is appropriate and when it is reasonably available. MAI is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not

available. Because of the prospect of considerable financial gain some participants in the business and investment have in the past produced false information to mislead investors. This dishonesty and fraud can has led to investors losing all their investment in publically traded securities and private investment vehicles. It is clearly in the interest of the criminal to obscure this unlawful activity to the best of their ability and has even be achieved by those whose suspected illegal activities have been reported to regulatory agencies. While MAI is aware of this possibility and does it's best to avoid investing in such situations, there is no guarantee that it will do so.

**Conflicts of Interest.** There exist inherent and potential conflicts of interest in the operation of MAI's business. MAI and its principals intend to form and/or advise other securities trading accounts or entities (including other securities investment partnerships) with substantially the same or different objectives. In addition, MAI and the officers, directors, employees and affiliates also will be free to trade securities for their own accounts. Clients will not be permitted to inspect the trading records of any other entities that MAI is a general partner of or any accounts MAI or their respective officers, directors, employees or affiliates may be advising, because of their confidential nature. In the process of trading such other accounts it is possible that MAI or their affiliates or their respective principals may compete with clients in the purchase and sale of securities. In addition, an account may hold the opposite side of a trade made by a client or may maintain positions that are opposite to those held by a client, and the interests of the client may be inconsistent, in some respects, with the interests of the MAI. Furthermore, MAI or their affiliates may advocate trades for their other accounts which may be contrary to positions they take for a client.

#### Private Equity

MAI also recommends investments with money managers in Private Equity. The underlying investments are generally in equity securities of operating companies that are not publically traded on a stock exchange. Some of the most common strategies are as follows: Leveraged Buyouts in which the buyout firm buys a majority control of an existing company; Venture Capital in which the private equity firm invests in young emerging companies that require equity capital to grow; Real Estate in which the investment group buys residential and/or commercial real estate.

In addition to the risk that a manager fails to reach his investment objectives, an investment in Private Equity is generally extremely illiquid. The investment vehicles for private equity investment usually have a term of about seven to ten years but which could be considerably longer. So, by its nature, the private equity asset class is illiquid. It is intended to be a long-term investment for buy and hold investors. Should an investor wish to sell an interest in such a fund, there is no guarantee that this will be possible. Even if a transaction is permitted and consummated it is likely to be at a price at a considerable discount to its true value.

### **Item 9 Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of MAI or the integrity of MAI's management. Neither MAI nor any management person has been involved in any legal or disciplinary event, thus we have no information applicable to this item.

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

Neither MAI nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or registered representative of a broker-dealer.

Neither MAI nor any of its management persons are registered, or has an application pending to register, as a futures commission merchant, commodity pool operator or commodity trading adviser.

*Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.*

1. With a broker-dealer, municipal securities dealer, or government securities dealer or broker.

Not applicable.

2. With an investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).

MAI manages and advises on a number of pooled vehicles, two of which are deemed to be related to MAI. These are Montrose Partners, L.P which is deemed to be related to MAI. The management of pooled investment vehicles may result in conflicts of interest when MAI and its related persons allocate their time and investment opportunities among an Affiliated Funds and other clients. In addition, the compensation earned by MAI and related persons from each of the Affiliated Fund may differ from one another and other clients. Also, MAI and its related persons have direct economic investment interests in the Affiliated Fund and those of some clients. As a result, MAI and its related persons may have a conflict of interest in allocating investment opportunities among Affiliated Funds and other clients' funds. MAI will only recommend or effect transactions when it believes such transactions are in the best interest of the applicable client(s). The factors that may be considered include, but are not limited to, the investment objectives and restrictions of each client account; the overall portfolio composition of each client account; the relative capital available for investment in the applicable client account; the liquidity of the investment; position size;

industry exposure; market exposure; gross, net and long and short exposure and any applicable tax considerations.

3. With another investment advisor or financial planner.

MAI has a relationship with Montrose Private Clients ("MPC"). MAI and MPC are affiliated through common ownership by Helen Train Klebnikov, Nina Train Choa and Lisa Train Pinnington. The firms also share office space, in which both MAI and MPC are tenants.

MPC is compensated on a fixed fee basis for investment consulting services it provides to MAI for MAI or MPLP clients. MPC is compensated on an hourly rate for all information technology services it provides to MAI. MAI is compensated by MPC for administrative and portfolio valuations services performed for two MPC clients.

Ken Lubbock has an arrangement by which he is compensated for clients he introduces to MPC.

4. With a futures commission merchant, commodity pool operator, or commodity trading advisor.

Not applicable.

5. With a banking or thrift institution.

Not applicable.

6. With an accountant or accounting firm.

MAI has a relationship with Montrose Accounting Company ("MAC").

MAI and MAC are affiliated through common ownership by Helen Train Klebnikov, Nina Train Choa and Lisa Train Pinnington. The firms also share office space, of which MAI is a tenant of MAC.

MAI uses tax, accounting and administration services offered by MAC. MAC also uses administrative services provided by MAI. MPLP also uses the tax and accounting services of MAC.

Any client of MAI or MPLP may use the services of MAC. Those clients who do so have a direct relationship (not through MAI) with MAC.

As MPLP use the tax and accounting service of MAC, an affiliated company to MAI, there could exist a conflict of interest in the cost of the provision of these services. MAI engages MAC to provide these services at the same rate as those charged to other MAC customers. In addition, neither the management nor the majority owner of MAI have an interest in MAC but does have a direct interest in MPLP. The engagement of MAC to provide these services is made after considering among other factors the quality of service, the cost, and the efficiency of service.

7. With a lawyer or law firm.

Not applicable.

8. With an insurance Company or agency.

Not applicable.

9. With a pension consultant.  
Not applicable.
10. With a real estate broker or dealer.  
Not applicable.
11. As a sponsor or syndicator of limited partnerships.  
Not applicable.

MAI does not receive compensation from investments that it recommends to clients.

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

#### Code of Ethics

MAI has adopted a Code of Ethics ("The Code") for employees, directors, shareholders and officers of the Company. The Code's contents include the firm's policies and guidelines illustrating expected standards of business conduct, specifically addressing insider trading, personal securities transactions, client confidentiality and procedure. The Code establishes rules of conduct for all employees of Montrose and is designed to provide guidance so that employees conduct their business on behalf of MAI in a manner that enables MAI to fulfill its fiduciary duty. This, among other things, governs activities in the personal securities accounts and actions of employees, actions with respect to gifts and entertainment, compliance with applicable federal securities laws and the manner in which violations of the Code are to be reported. The Code is based upon the principle that MAI and its employees owe a fiduciary duty to MAI's clients to conduct their affairs in such a manner as to avoid taking inappropriate advantage of their position with the firm. The purpose of the Code is to preclude activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. The provisions of The Code are not inclusive; rather, they are intended as a guide for employee's conduct. MAI will provide a copy of its Code of Ethics to any client or prospective client upon request.

#### Participation or Interest in Client Transactions

MAI will, when appropriate, recommend MPLP to clients. Clients deciding to invest in MPLP may pay both MPLP fees and MAI advisory fees. (For further discussion on fees, see Item 5). Employees may have participation in client investment portfolios. To the extent that employees have a participation in some clients investment portfolios and not in others it could produce a conflict of interest. In the event of investment where there is limited participation available is recommended to its clients, MAI will ensure that if certain clients have employees as clients they will receive their pro rata share of the investment opportunity available to all MAI clients. This assumes that all MAI clients are interested in the opportunity. As of this brochure one employee

of MAI has a participation in one MPLP and an Advisory Client portfolio, MAI itself, has a participation in MPLP.

#### Personal Trading

MAI does permit employees, directors and officers to invest in the same securities and private placements that it recommends to clients. MAI uses its Code of Ethics to address procedure for doing so. MAI related persons are prohibited from investing in any IPO or private placement without getting prior written approval from MAI's compliance officer. Further, the firm requires related personnel to observe a seven (7) day blackout period (no trading permitted) for publicly traded securities.

Clients and MAI employees, directors and officers may make investments in the same private placements. To ensure that no MAI person is benefiting from an opportunity at the expense of clients, the Code of Ethics requires pre-clearance by the compliance officer. The compliance officer will seek to understand if the opportunity is limited. Providing an investment is not over subscribed, there is not expected to be any conflict for MAI persons and clients to invest at the same time.

MAI persons may buy or sell securities held in client accounts. In order to prevent any conflict, any MAI affiliated person must first get prior approval from MAI's compliance officer. MAI affiliated persons will not be permitted to front-run client accounts nor sell a security within seven (7) days of any client activity.

Mr. Lubbock serves as a Protector to an entity (a trust) affiliated with a client of MAI. Services are engaged directly by the entity with Mr. Lubbock and may include investment advice, portfolio allocation and related responsibilities. It is believed that there is no conflict of interest with clients of MAI as the Trust is actively managed by a separate entity and Mr. Lubbock's role is actively only from time to time.

### **Item 12 Brokerage Practices**

#### Selection of Brokers

##### Advisory Clients

MAI does not require any particular broker-dealer for client accounts.

##### Discretionary Clients

MAI acts on a discretionary basis for MPLP. MAI is authorized to direct execution of portfolio transactions within the specified investment objectives of the relevant memorandum. No advance authorization is required.

##### General Policy

MAI is generally in the business of selecting sub-funds, so it is generally the sub-funds, rather than MAI, who select the brokers and arrange for the execution of transactions. To the limited extent that MAI does manage accounts, it is the policy of MAI not to use any broker-

dealer for the purchase or sale of securities for clients unless it is believed that such broker-dealer will obtain the best execution, taking into consideration such relevant factors as price, the ability of the broker-dealer to effect the transaction, the broker-dealers services, facilities, reliability, financial responsibility, responsiveness to MAI and any research and other services provided by the broker-dealer. Commission rates are evaluated as a component of price. MAI anticipates that research services may include, amount other things, research reports on particular industries and companies, economic surveys and analysis, recommendations as to specific securities, computer hardware and software and other data used in the investment decision –making process. In such cases, MAI makes a good faith determination that the amount of commissions paid is reasonable in relation to the value of the services received and reserves the right to terminate the arrangements at any time if it determines that the value of the particular service no longer justifies the cost.

#### Soft dollars

MAI enters into soft dollar arrangements with brokers. Soft dollar arrangements arise when an investment adviser obtains products and services, other than securities execution, from a broker in return for directing client securities transactions to the broker. Soft dollar arrangements pose a conflict of interest for MAI in that such arrangements allow MAI to pay with client commissions expenses that would otherwise be borne by MAI. When MAI uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, MAI receives a benefit because it does not have to produce or pay for the research, products or services. MAI believes that this conflict is mitigated because clients will generally pay for research as a “hard dollar” expense pursuant to their respective investment management agreements. MAI may have an incentive to select a broker based on MAI’s interest in receiving the research or other products or services offered by such broker, rather than on its clients’ interest in receiving most favorable execution.

When engaging in soft dollar transactions, MAI complies with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Under this provision, in exercising its discretionary authority to select or arrange for the selection of brokers for execution of transactions for its clients, and, subject to its duty to obtain best executions, MAI may consider the value of research and brokerage products and services (collectively, “Research”) provided by such brokers. Research may include, among other things, proprietary research from brokers, which may be written or oral. Research products may include, among other things, databases and quotation services. Research services may include among other things, research concerning market, economic and financial data, a particular aspect of economics or on the economy in general, statistical information, pricing data and availability of securities, financial publications, electronic market quotations, performance measurement services, analyses concerning specific securities, companies, industries or sectors, market, economic and financial studies and forecasts, appraisal services, and invitations to attend conferences or meetings with management or industry consultants. Accordingly, if MAI determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, a client may pay commissions to such broker in an amount greater than the amount another broker may charge.



Research provided by such brokers may be used to service all client accounts and not exclusively in connection with the management of the client account that generated the particular soft dollar credit.

The Honorary Chairman, John Train, manager of the Primes stocks within MPLP, receives specific, tailored research related to the stocks, and potential stocks, held in the portfolios from the broker. This specialized research is received as part of commissions paid and no additional fees are paid in connection with the research. MPLP uses one brokerage firm in connection with the Primes portfolios.

To ensure that the firm understands all benefits received by the firm and its employees, employees are asked annually if they are unsure of how services and resources related to their duties are paid for.

#### Brokerage from Client Referrals

MAI does not compensate brokers for referrals of clients to the firm or MPLP.

#### Directed Brokerage

MAI permits clients to direct their brokerage business to firms of their choosing. To the extent that clients choose their own brokers MAI does not make a determination on the value of the services. Clients are advised that should the client choose the broker, this may result in higher brokerage/transaction costs or receiving less favorable prices for the securities in the transaction.

MAI does recommend broker-dealer(s) occasionally. In doing so MAI uses the same principles as in its general brokerage policy (see above Item 12.A. General Policy).

#### Allocation of Investment Opportunities

To the extent that this issue arises, which is likely to be extremely infrequent, MAI will generally allocate investment opportunities so that each security held by the accounts is held in proportion to the size of each account. In certain circumstances, MAI may allocate securities among clients on a different basis. In such cases, the factors that MAI may consider when determining which securities to allocate to each client include, but are not limited to, the investment objectives and restrictions of each client account; the overall portfolio composition of the client accounts; relative capital available for investment by the applicable clients; liquidity of the investment opportunity; position size, industry exposure, market exposure, gross, net, long and short exposure; and applicable tax considerations. To the extent that this issue arises, which is likely to be extremely infrequent, new issues (as defined by FINRA rule 5130) are allocated to clients in accordance with the criteria set forth above.

#### Trade Error Policy

Subject to applicable law, MAI will reimburse the applicable client account for net losses that occur as a result of trade errors resulting from MAI's gross negligence or willful misconduct. Notwithstanding the foregoing, MAI reserves the right, with the approval of its Chief Compliance Officer, to reimburse the applicable account for net losses that result from trade errors that fall within certain parameters established by MAI from time to time.

MAI may correct misallocations of trades among client accounts by re-allocating the applicable trade using the intended allocation methodology prior to the trade's settlement date. If an erroneous allocation cannot be corrected prior to or after settlement, MAI may, if appropriate and subject to applicable law, correct such erroneous allocation by affecting a cross trade between client accounts at the prices at which the initial trade was effected.

#### Aggregation of Orders

MAI does not aggregate client trades. Purchases of securities is made for each portfolio based on such factors, but not limited to such factors, as the investment objectives and restrictions on the account, the overall portfolio composition, capital available for investment, position size, industry exposure, market exposure, and applicable tax considerations.

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

All advisory client reviews and MPLP's are conducted by Kenneth Lubbock.

#### Discretionary Accounts

MAI reviews monthly those clients that it actively manages. Specifically included in these reviews is portfolio composition, performance of investments, and the continuing suitability of investment to the portfolio. Other considerations will be included from time to time.

#### Advisory Accounts

Advisory clients of MAI have their accounts reviewed upon request. Formal reviews may not be conducted when informal, but more frequent discussions directly with the client (or representative) replace this process. A client may request a specific review frequency.

Periodic Reviews: Client accounts may be reviewed from time to time based on a unique circumstance. This might include, but is not limited to, changes to the investment environment, significant shifts in capital under management, and special request, among other things.

MAI may, in its discretion, furnish investors in MPLP with written unaudited performance reports quarterly which give a flavor of the current investment environment/situation of the pool. Investors will receive a copy of the partnership's annual audited financial statements and where applicable, a statement of taxable reporting (Form K-1).

#### Asset Allocation and General Consulting

Asset Allocation clients are generally reviewed twice yearly. They may be reviewed more frequently, or at any particular time, by request. A client may request a specific review frequency. General Consulting Clients will not be reviewed on a fixed schedule; rather, at the request of the client.

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

### **A. Other Compensation**

In addition to advisory and discretionary client fees MAI earns administrative fees. These fees are paid by affiliated companies (see Item 10) for services similar to those it provides to its clients. These services include portfolio valuation, client administration, and meeting specific client requests that arise from time to time.

MAI believes that generally there is no conflict of interest in its relationships with its affiliated companies. MAI charges fees similar to those it charges any other client for similar services.

### **B. Client Referrals**

MAI does compensate certain individuals for client referrals. These persons are both affiliated with the company (employees or directors) and unaffiliated persons of the firm. In making a referral, such person receives a portion of the management fee paid by the referred. Such fees range between 15% and 25% of the fee received. Clients are made aware of the referral relationship and compensation rate in advance, and such referral payment does not affect the fee the client pays.

## **Item 15 Custody**

Because MAI is authorized to approve the payment of fees and other compensation by MPLP (as calculated by fund's accountants) to itself and its affiliate, and similarly approves the payments for third party services (such as audit and legal expenses), MAI is deemed to have custody of MPLP assets. MAI complies with Rule 206(4)-2 under the Adviser Act ("Custody Rule") by providing investors in MPLP with audited financial statements within 180 days of MPLP's fiscal year-end. MAI generally engages a nationally recognized accounting firm to conduct the audit according to generally accepted accounting principals.

The brokerage assets of MPLP are held according to the policy of the broker. Our primary broker is currently PR Herzig. MAI has been advised, in PR Herzig's Form ADV Part 2, that they "have contracted with Pershing LLC, an unaffiliated, registered broker-dealer, to provide clearing and custodian services.... Pershing, a wholly owned subsidiary of The Bank of New York Mellon's holding company and one of the largest and oldest clearing firms in the United States, holds ... securities and cash" of MPLP's brokerage account.

## **Item 16 Investment Discretion**

### **Montrose Partners, L.P.**

MAI has discretionary authority to manage all assets on behalf of its private investment funds. The investors in our private investment funds managed by MAI generally may not place any limits on MAI's authority beyond the limitations set forth in the offering and governing documents of such private investment funds.

### **Advisory Clients**

MAI does not have discretionary authority over any of its advisory client portfolios.

Asset Allocation and General Consulting

MAI does not have discretionary authority over any of its advisory client portfolios. However, at a client's request Montrose may accept authority to effect buy or sell transactions on behalf of the client. Should a client wish Montrose to be able to place transactions on its behalf the client will authorize Montrose, in writing, in the engagement contract. Montrose's policy is to prepare written recommendations to the client, which are then returned with the client's agreement. Montrose's ability to effect transactions is limited to the purchase or sale of investments, acting as an authorized agent, on the client's Vanguard account(s).

**Item 17 Voting Client Securities**

Montrose Partners, L.P.

MAI has voting discretion over the securities held in MPLP. MAI will exercise its discretion in the best interests of its clients. In fulfilling its obligations to clients, MAI will act in a prudent and diligent manner intended to enhance the economic value of the securities.

MAI generally votes with the recommendations of management, and where MAI does not agree with management it sells the security.

We do not see that there is any conflict of interest when voting the securities of our clients.

Each employee must notify MAI's Chief Compliance Officer of any potential conflict of interest of which he or she is aware. The Chief Compliance Officer shall make a determination where potential conflicts exist.

Clients may obtain a copy of MAI's voting policies and procedures upon request by contacting us at 212-888-4747, and may obtain information from us about how we voted any proxy.

Advisory Clients

Not applicable: MAI does not manage the brokerage accounts of its advisory clients and does not accept voting responsibility for advisory clients.

**Item 18 Financial Information**

Registered investment advisers are required to provide you with certain financial information or disclosures about MAI's financial condition. However, because MAI does not require or solicit prepayment of fees larger than \$1,200 and more than six months in advance, MAI is not required to provide a balance sheet for its most recent fiscal year. MAI is unaware of any financial condition that is reasonably likely to impair its ability to meet its commitments to its clients, nor has MAI ever petitioned for bankruptcy protection.

**Part 2B of Form ADV: Brochure Supplement**

**Item 1 Cover Page**

**Supervised Person:** Kenneth Lubbock

**Firm Name:** Montrose Advisors Incorporated

**Address:** 505 Park Avenue, 20<sup>th</sup> Floor  
New York, NY 10022

**Phone Number:** (212) 888-4747

**Fax Number:** (212) 888-9634

**The date of this brochure is March 30, 2012**

**This brochure supplement provides information about Kenneth Lubbock that supplements the Montrose Advisors Incorporated (“MAI”) brochures. You should have received a copy of the MAI brochures. Please contact (212) 888-4747 if you did not receive MAI’s brochure or if you have any questions about the contents of this supplement.**

**Item 2: Educational Background and Business Experience**

Kenneth Lubbock, born in 1950, is a founding shareholder and is the controlling person of MAI. Mr. Lubbock has been the President and a Director since the firm was founded in 1992; in 2012 he assumed the office of Treasurer. Mr. Lubbock graduated Edinburgh University in Edinburgh, Scotland, in 1973 with an MA (with honours) in Economics. Prior to founding MAI he was with Train, Smith Counsel.

**Item 3: Disciplinary Information**

Not applicable.

**Item 4: Other Business Activities**

Mr. Lubbock serves as a Director to the following investment funds managed by Henderson Alternative Investment Advisor Limited : The AlphaGen Rhocas Fund, The AlphaGen Tucana Fund, The AlphaGen Octanis Fund, and The AlphaGen European Equity Hybrid Fund. Mr. Lubbock serves as a Director to the Masters Strategic Investors Fund.

Mr. Lubbock serves as a Protector to a Trust affiliated with a client of MAI.

**Item 5: Additional Compensation**

Mr. Lubbock is compensated as a Director to the above listed funds.

Mr. Lubbock acts as a Protector to Trusts affiliated with a client of MAI for which he is compensated directly by the Trust.

**Item 6: Supervision**

Mr. Lubbock is the Principal of MAI. As such, he has the ultimate authority in providing advice to clients and effecting recommendations for client accounts. Mr. Lubbock is required to comply with MAI's compliance manual, code of ethics and other policies and procedures adopted by MAI. MAI's Chief Compliance Officer monitors Mr. Lubbock's trading advice and activity for compliance with applicable laws and regulations. The Chief Compliance Officer is Lois McNaughton who can be reached at (212) 888-4747.

**Item 7: Requirements for State-Registered Advisers**

A. Not applicable; Mr. Lubbock has not been found liable in a court of law or any self regulatory agency with regard to his investment activity or any other activity such as fraud, theft, bribery, unethical practices and the like.

B. Mr. Lubbock has never sought bankruptcy protection.

**Part 2B of Form ADV: Brochure Supplement**

**Item 1 Cover Page**

**Supervised Person:** Lois McNaughton

**Firm Name:** Montrose Advisors Incorporated

**Address:** 505 Park Avenue, 20<sup>th</sup> Floor  
New York, NY 10022

**Phone Number:** (212) 888-4747

**Fax Number:** (212) 888-9634

**The date of this brochure is March 30, 2012**

**This brochure supplement provides information about Lois McNaughton that supplements the Montrose Advisors Incorporated (“MAI”) brochures. You should have received a copy of the MAI brochures. Please contact (212) 888-4747 if you did not receive MAI’s brochure or if you have any questions about the contents of this supplement.**

**Item 2: Educational Background and Business Experience**

Lois McNaughton, born in 1971, has been with the firm since its founding in 1992 serving in various capacities. She is currently the Compliance Officer and Assistant Secretary. Mrs. McNaughton graduated cum laude from Hunter College of the City University of New York with a BA in History in 1995 and Mount Saint Mary College in New York in 2002 with her MBA. She has also attended the New York University School of Continuing Education for studies in Accounting. Prior to joining MAI she was with Train, Smith Counsel.

**Item 3: Disciplinary Information**

Not applicable.

**Item 4: Other Business Activities**

Not applicable.

**Item 5: Additional Compensation**

Mrs. McNaughton is compensated for client referrals on a fixed percentage basis for assets introduced to Montrose Partners. See also Item 5 for further information.

**Item 6: Supervision**

Mrs. McNaughton's direct supervisor is Kenneth Lubbock, President. He can be reached at (212) 888-4747.

**Item 7: Requirements for State-Registered Advisers**

A. Not applicable; Mrs. McNaughton has not been found liable in a court of law or any self regulatory agency with regard to her investment activity or any other activity such as fraud, theft, bribery, unethical practices and the like.

B. Mrs. McNaughton has never sought bankruptcy protection.



**Part 2B of Form ADV: Brochure Supplement**

**Item 1 Cover Page**

**Supervised Person:** Maria K. Dinella

**Firm Name:** Montrose Advisors Incorporated

**Address:** 505 Park Avenue, 20<sup>th</sup> Floor  
New York, NY 10022

**Phone Number:** (212) 888-4747

**Fax Number:** (212) 888-9634

**The date of this brochure is March 30, 2012**

**This brochure supplement provides information about Maria Dinella that supplements the Montrose Advisors Incorporated (“MAI”) brochures. You should have received a copy of the MAI brochures. Please contact (212) 888-4747 if you did not receive MAI’s brochure or if you have any questions about the contents of this supplement.**

**Item 2: Educational Background and Business Experience**

Maria K. Dinella, born in 1959, has been with the firm since 2011 as a client services coordinator. Mrs. Dinella graduated from Mills College with a BA in Chemistry in 1981. Prior to joining MAI she was with Rhone-Poulenc Specialty Chemicals.

**Item 3: Disciplinary Information**

Not applicable.

**Item 4: Other Business Activities**

Not applicable.

**Item 5: Additional Compensation**

Mrs. Dinella has no additional compensation relationships.

**Item 6: Supervision**

Mrs. Dinella’s direct supervisor is Lois McNaughton. She can be reached at (212) 888-4747.

**Item 7: Requirements for State-Registered Advisers**

A. Not applicable; Mrs. Dinella has not been found liable in a court of law or any self regulatory agency with regard to her investment activity or any other activity such as fraud, theft, bribery, unethical practices and the like.

B. Mrs. Dinella has never sought bankruptcy protection.