



Daruma Capital Management II, LLC

80 Field Point Road
Greenwich, CT 06830
212-869-4000

This brochure provides information about the qualifications and business practices of Daruma Capital Management II, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 869-4000 or by e-mail at clientservice@darumany.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Daruma Capital Management II, LLC is a “relying advisor” of Daruma Capital Management, LLC, which is registered as an investment adviser under the Investment Advisers Act of 1940. Such registration does not imply that Daruma or our personnel have a certain level of skill or training.

Additional information about Daruma Capital Management II, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

September 28, 2012

2. Material Changes

This is the first Form ADV brochure for Daruma Capital Management II, LLC.

3. Table of Contents

2. Material Changes	2
3. Table of Contents.....	3
4. Advisory Business	5
Overview.....	5
Advisory Services	5
Wrap Fee Programs.....	6
Assets Under Management	6
5. Fees and Compensation	7
6. Performance-Based Fees and Side-by-Side Management	9
7. Types of Clients.....	10
8. Methods of Analysis, Investment Strategies, and Risk of Loss.....	11
Investment Strategies	11
Long stock selection methodology	11
Short stock selection methodology.....	12
Concentration & Exposure.....	13
Risks	14
9. Disciplinary Information.....	16
10. Other Financial Industry Activities and Affiliations.....	17
11. Code of Ethics, Participation/Interest in Client Transactions, and Personal Trading.....	18
Code of Ethics and Personal Trading	18
Insider Trading	18
Participation or Interest in Client Transactions	19
12. Brokerage Practices.....	20
Brokerage Relationships.....	20
Best Execution	20
Use of Soft Dollars	21
Monitoring Brokerage Transactions.....	21
Trade Aggregation and Allocation.....	22
Cross Trades	22
Trade Errors	22
13. Review of Accounts	23

14. Client Referrals and other Compensation	24
15. Custody	25
16. Investment Discretion	26
Class Action Suits and Other Legal Action	26
17. Voting Client Securities.....	27
18. Financial Information.....	28

4. Advisory Business

Overview

Daruma Capital Management II, LLC (“Daruma II”) provides investment management services to a master-feeder hedge fund structure that follows a long-short strategy to invest in equities listed on U.S. exchanges. Daniel Sheridan and Ellen Adams are the firm’s Portfolio Managers.

Daruma II was founded in March 2012, and is listed as a “relying advisor” under the registration of Daruma Capital Management, LLC (“Daruma LLC”), its affiliate and sole owner. Ms. Mariko O. Gordon, CFA is Daruma LLC’s founder and majority owner. For more information about our affiliates, see *Other Financial Industry Activities and Affiliations*, below. When we use the term “Daruma” in this brochure, we are referring to Daruma II, Daruma LLC and all our affiliates, collectively.

Advisory Services

Daruma II was created for the purpose of managing a portfolio that blends the best of a concentrated, long-term investment strategy with enhanced tools, short selling, methodology and risk reduction that can be implemented in a long/short strategy. Our core philosophy is that disciplined bottom-up fundamental stock selection on both the long and short sides is an effective way to generate risk adjusted returns that outperform the benchmarks through a full cycle. The portfolio is built from the bottom up, one stock at a time.

Daruma II serves as the investment manager for Daruma Hinoki Fund, LP, a Delaware limited partnership (the “Domestic Feeder”), as well as Daruma Hinoki Fund, Ltd. (the “Offshore Feeder”, and together with the Domestic Feeder, the “Feeder Funds”) and Daruma Hinoki Investments, Ltd. (the “Master Fund”, and together with the Feeder Funds, the “Hinoki Funds” or the “Funds”), each an exempted company incorporated and existing under the laws of the Cayman Islands. The Domestic Feeder and the Offshore Feeder invest substantially all their assets into the Master Fund, and Daruma II implements its long/short strategy at the Master Fund level.

The Hinoki Funds are not registered under the *Investment Company Act of 1940*, nor is the offering of limited partnership interests in the Hinoki Funds registered under the *Securities Act of 1933*. Therefore, interests in the Hinoki Funds are privately offered only to investors that satisfy eligibility requirements. *Information regarding the Hinoki Funds contained in this brochure is provided only to satisfy Daruma II’s disclosure requirements; this is not an offer to sell interests in the Hinoki Funds.*

Daruma II's strategy will generally invest in equity securities that are listed on U.S. exchanges, as well as in derivatives of such securities. The strategy will concentrate on mid and large-cap companies with market capitalizations of greater than \$2 billion (measured at the time of initial purchase), although usually some assets are expected to be invested in companies under that threshold.

Wrap Fee Programs

Daruma II does not currently participate in any wrap-fee programs.

Assets Under Management

As of August 31, 2012 Daruma II managed \$4,082,933 in discretionary assets of the Portfolio Managers. We expect to begin accepting subscriptions from investors that are not Daruma personnel as of October 1, 2012.

5. Fees and Compensation

Following is a summary of the fees and expenses paid by the Hinoki Funds. Additional details are set forth in the offering documents for each Feeder Fund.

Management Fee

Daruma II will receive a monthly management fee of 1.5% per annum (0.125% per month) of assets in the Master Fund. The management fee is paid monthly in advance based on the net asset value of each investor's holdings in the Feeder Funds as of the first day of the month. Daruma II may waive, modify or reduce the management fee for certain investors at its sole discretion. Since Daruma II will receive the Management Fee at the Master Fund level, no management fee or allocation will be paid at the Feeder Fund level.

Incentive Allocation

Daruma Asset Management GP II, LLC (the "General Partner"), which serves as the general partner of the Domestic Feeder, will receive an annual incentive allocation equal to 20% of Master Fund net profits (including realized and unrealized gains and losses), if any, attributable to each investors holdings in the Feeder Funds, subject to a loss-carryforward provision (the "Incentive Allocation"). When calculating the Incentive Allocation, net profits will be reduced by the Management Fee, and all items of income, loss and expense incurred at the Feeder Fund levels will be taken into account. Since the General Partner will receive the Incentive Allocation at the Master Fund level, no incentive fee or allocation will be paid at the Feeder Fund level.

Under the loss-carryforward provision no Incentive Allocation will be charged with respect to any investor's account until any net loss on such investor's account has been offset by subsequent net profits. Any investor's loss-carryforward will be reduced pro-rata for withdrawals.

In the event that an investor makes (or is required to make) a complete withdrawal at any time other than as of the end of the fiscal year (December 31), the General Partner will receive an Incentive Allocation with respect to the withdrawn amount on the withdrawal date. If an investor makes a partial withdrawal other than as of December 31, the General Partner can elect, in its sole discretion, to either (i) receive an Incentive Allocation with respect to the withdrawn amount on the withdrawal date, or (ii) delay receipt of the Incentive Allocation until the end of the fiscal year, at which time it will assess the Incentive Allocation on the entire performance of the investor's capital account since the last date an Incentive Allocation was charged with respect to such investor.

The General Partner may waive, modify or reduce the Incentive Allocation for certain investors at its sole discretion.

Other Fees and Expenses

The Hinoki Funds will also pay their operating and trading expenses. These include legal, compliance, audit, accounting (including third party accounting services) and tax preparation fees, fund administration expenses, brokerage commissions, interest on margin accounts, charges for borrowing securities sold short, fund-related insurance costs, and other securities transaction costs, custodial fees, wire transfer and electronic funds charges, shareholder proxy voting services, and directors fees and expenses. The Funds will also pay their organizational costs, which may be amortized over a period of up to 60 months from the Funds' inception (October 1, 2012). Any organizational expenses of the Hinoki Funds in excess of \$100,000 will be paid or reimbursed to the Funds by Daruma II or one of its affiliates.

Calculation and Payment

The administrator of the Hinoki Funds calculates the Management Fee and Incentive Allocation, and we review the calculations. We then instruct the Funds' prime broker to wire the appropriate amounts. See *Custody – Hinoki Funds* below for policies and procedures related to our ability to deduct fees from these accounts.

6. Performance-Based Fees and Side-by-Side Management

Daruma II manages only the Hinoki Funds, so has none of the conflicts involved in managing multiple accounts or accounts with different fee structures. However, Daruma II shares a single trading desk with Daruma LLC, and the Portfolio Managers and investment teams of Daruma LLC and Daruma II share research and discuss companies and potential investments regularly. Although Daruma LLC uses investing strategies that are significantly different from the long/short strategy used by Daruma II and has a separate Portfolio Manager and investment team, there may be times when Daruma LLC and Daruma II are interested in the same investment opportunity for their respective clients. However, because of differences in, among other things, the overall strategies and the risk tolerance between their strategies and clients, they may purchase or sell the same security at different times or make inconsistent trading decisions. For example, Daruma II may sell a particular security in order to take advantage of what it believes will be a more profitable short sale. Daruma LLC, which does not engage in short sales, may purchase, continue to hold, or add to an existing position in the security sold by Daruma II if Daruma LLC's investment team believes this is the best investment option in its market cap ranges.

Daruma has a duty to treat all client accounts fairly and equitably over time. One of the ways we do this is to execute similar trades for Daruma II and Daruma LLC as a block (see *Brokerage Practices – Trading Allocation and Aggregation*, below, for more information). In addition, we have a policy that prevents Daruma II from selling short any security held by Daruma LLC accounts. Also, because Daruma LLC invests in small- and mid-cap companies, we may restrict Daruma II from investing in certain companies under \$2 billion in market cap where Daruma LLC has an interest and where liquidity is limited. The Daruma II Portfolio Managers focus primarily on large- and mid-cap companies, and believe that these restrictions will not impact their ability to successfully execute their long/short strategy.

The Chief Compliance Officer periodically reviews transactions for all accounts, and monitors for any potential conflict in the trading for Daruma II and Daruma LLC clients.

7. Types of Clients

As described in *Advisory Business – Overview*, Daruma II's only client is the Hinoki Funds. Investors in the Hinoki Funds must complete a subscription document, and may be required to submit additional documentation as described in the Funds' offering documents. Investors must also satisfy eligibility requirements established by the SEC before their investment will be accepted.

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

Investment Strategies

Daruma II will use a classic and time-tested investment approach based on fundamental analysis of individual stocks. We will build the portfolio from the bottom up, one stock at a time. The Hinoki Funds will make long and short investments in equity securities that are listed on U.S. exchanges, as well as in derivatives thereon. Daruma II's investment strategy concentrates on mid and large-cap companies with market capitalizations of greater than \$2 billion (measured at the time of initial purchase), although at most times some assets are expected to be invested in companies under that threshold.

Long stock selection methodology

We will choose investments where the business or industry is undergoing or appears about to undergo dynamic change that we believe will lead to at least a 50% return over 2 years with 10% or less potential downside. The core positions of the Hinoki Funds are expected to exhibit multiple layers of change and dynamism occurring in the business/industry, where the drivers of this change/dynamism show a sufficient potential duration to fulfill the expectations of the investment thesis. These characteristics will be determined by a review of the numbers combined with, more importantly, analysis of the intangibles.

We may consider various factors, including but not limited to the following:

- Stock specific: new product cycle, expanding geographical footprint, new management team and corporate restructuring.
- Industry specific: cyclical boom/bust, structural change in sector ROIC, changing competitive landscape and macro-economic shifts.

In addition to positions held in the portfolio, our investment team will maintain a pipeline with various positions and industries at different maturity stages that are being monitored for potential future investment. Stocks will be ripe for purchase in the portfolio when a compelling blend of (i) valuation, (ii) timing, and (iii) insight coalesces.

Valuation – Absolute and relative metrics

Daruma II intends to invest in stocks that our Portfolio Managers believe offer attractive absolute and relative valuations. Absolute valuation is based on the logic of a fundamental buyer of the entire business, primarily determined by projected cash flows and ROIC that our investment team believes will lead to an attractive payback relative to the risks entailed in earning that return. Relative valuation compares the potential investment to the market, its prior history and other equities with similar risk and return potential.

Timing

While it is impossible to perfectly time entry into a long term investment, Daruma II recognizes the importance of the time value of money. We will regularly assess the various factors of dynamic change occurring for a pipeline of potential investments, and stage investments when that change is expected within the Hinoki Funds' investment time horizon and has been discounted in the marketplace.

Research Insight

Insight may be based on a fact we uncover in our research, where we interpret or weigh the fact differently from other market participants. However, insight regarding a majority of the our positions will be based on a mosaic created through piecing together a puzzle of information. While it is usually more difficult and time consuming to obtain, we believe that such an approach will lead to higher returns and better duration than pure factual insight.

The Portfolio Managers will review detailed price targets that they will use in determining how to allocate the Partnership's capital to various positions, based on the highest projected risk/reward tradeoff.

Exiting of positions:

We intends to exit positions in the following circumstances: (i) when the risk/reward is no longer attractive (approaching price target), (ii) when we no longer have an advantageous insight, or (iii) when our thesis has been proven invalid.

Short stock selection methodology

Daruma II's goal is to make an absolute profit on each and every short position that is not a hedge to an existing portfolio investment. In evaluating potential short positions, we may consider various factors including (but not limited to): deteriorating financial metrics, accounting screens, weakening competitive and/or secular positioning, technical and valuation screening. Quantitative analysis, including such factors as short interest, put/call buying and other variables, are expected to help avoid crowded shorts.

We will invest in the following types of short positions: (i) investment shorts – long-term deterioration, (ii) earnings and/or consensus mismatch shorts, and (iii) hedges.

Investment shorts – undergoing long term deterioration in business prospects

These positions will be analyzed in much the same way as investment longs, but looking for the opposite characteristics. We may consider various factors in evaluating this type of short position, including but not limited to the following: competitive challenges, structural

industry deterioration in growth and/or ROIC, decelerating or declining earnings trends due to revenue, margins or other variables, and shifts in pricing due to supply/demand imbalances. These short investments will have the longest holding period and will be larger in size than the two below.

Earnings and/or consensus (see/saw) shorts

These positions will be sound businesses in a period where earnings expectations appear likely to be missed or consensus is on the wrong end of the discounting mechanism, meaning an adjustment in expectations is necessary. These will be smaller in size and have a shorter holding period than investment shorts.

Hedges

Periodically we will look to reduce exposure to some long positions for tactical reasons. Hedge shorts are paired trades that have high correlation and beta to the targeted long positions in our portfolio.

Concentration & Exposure

The portfolio will be concentrated, typically holding 25 to 35 (but no more than 40) long positions and 30 to 70 (but no more than 80) short positions. Daruma II believes that concentration allows each position to have a meaningful contribution to the portfolio's performance. Long positions will generally range between 2-6% of total capital, and short positions will generally range between 1-2% of total capital. The maximum long position size will be no greater than 8% of total capital (measured at current market value), and the maximum short position size will be no greater than 4% of total capital (measured at current market value). With this level of concentration, the portfolio may experience significant volatility. We are focused on long-term capital appreciation, and the portfolio may endure significant stock and portfolio volatility.

The Funds' exposure should generally be between 30%-50% net long, with the exact amount driven by stock specific opportunities on both the long and short sides. In almost all environments Daruma II will seek to minimize the exposure by operating within this band. Our core competency is stock selection, not market timing. We may periodically exceed the 50% upper limit when we think there is appropriate risk/reward opportunity. We may take the portfolio below the 30% floor of the range to protect capital in the event of a severe market movement, when the market environment makes stock selection difficult (such as when there is high correlation across the market), or where the portfolio isn't performing well and we are working to determine why. Both Portfolio Managers must agree to exposure being outside the 30%-50% range. If either Portfolio Manager is not comfortable with operating outside this range, we will bring the portfolio back within the target range.

Risks

Portfolio values will fluctuate daily, and may go down as well as up. Any investment in equities is subject to risk of loss, which investors must be prepared to accept. Although we continually strive to improve our investment decision-making skills, there are no guarantees that specific results or positive returns will be achieved. Assets we manage are not insured or guaranteed by the Federal Deposit Insurance Corporation.

While there are numerous potential risks involved in investing, the following are some of the most significant risks for Daruma II's strategy:

Non-diversification risk: Concentrated portfolios (those that invest in a relatively small number of securities, such as ours) may have more risk because of changes in the value of a single security or the impact of a single economic, political or regulatory occurrence may have a greater adverse impact on the strategy's performance.

Short-selling risk: Short sales can substantially increase the impact of adverse price movements. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. In addition, securities may not be available for purchase when needed to cover a short position.

Use of Leverage: Daruma II may use leverage of up to 200% to implement its investment strategy. The use of leverage exposes the portfolio to additional levels of risk, including (i) greater losses from investments than the portfolio would have incurred if it had not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidation of investment positions and (iii) losses on any investment that does not earn a return equal to or greater than the cost of borrowing funds to make such investment. In the event of a sudden, precipitous drop in value of the portfolio's assets, it may not be possible to liquidate assets quickly enough to repay any borrowings, further magnifying losses. In addition, if any leverage obtained is terminated on short notice by the lender, Daruma II could be forced to unwind positions quickly and at prices below what we believe to be fair value for such positions.

Options: The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss).

Small- & mid-cap company risk: Daruma II's investment strategy includes mid-cap companies and some small-cap companies. The securities of smaller and mid-sized companies have historically exhibited more volatility and less liquidity than large companies. Some of the reasons for this are smaller revenue streams, narrower product lines, less management depth, smaller market share and fewer financial resources.

Liquidity risk: If the volume of trading in a particular security is low we may not be able to purchase or sell at an advantageous time or price. This is often true of the small- and mid-cap stocks used in our strategies.

Sector/industry risk: With our concentrated approach, we deliberately do not mirror a benchmark or set specific sector or industry weightings. We may at any time have a significant investment concentration in one or two sectors. Concentration in a particular sector may result in more volatility than a strategy that is more evenly spread across sectors if a particular economic or market event affects that sector.

Equity securities risk: The price of any equity security can change dramatically due to changes in a company's financial condition or a single event at the company.

Market risk: A security may lose value due to a general downturn in stock markets even if the company that issued the security has not experienced a decline in its financial condition other negative event.

Risk Management

Daruma II's risk management can be divided into three categories: (i) proactive, (ii) coincident, and (iii) reactive. Following is an overview of the methods we use in each of these categories.

Proactive: Our exposure and position target ranges (described above in this section under the respective subheadings "*Investment Strategy*" and "*Concentration*") limit the potential impact of certain risks. We also track our holdings to price targets and potential downside expectations.

Coincident: Our research into companies doesn't stop when we make a purchase. Ongoing quantitative and qualitative analysis on holdings, as well as awareness of sector and macro factors that may affect portfolio investments, allows us to continually reevaluate our holdings.

Reactive: If the portfolio declines 10% from a peak performance point, we will initially take the exposure to below the midpoint of our target exposure range (40%), and reduce gross exposure of the portfolio to 140% or below. Then we can begin readjusting the portfolio in light of the relevant circumstances.

9. Disciplinary Information

There are no legal or disciplinary events related to Daruma or its personnel that we believe clients or prospective clients would consider material.

10. Other Financial Industry Activities and Affiliations

As disclosed in *Advisory Business – Overview*, above, Daruma II is wholly-owned by Daruma LLC. Daruma LLC provides investment management services to public and corporate pension funds, endowments, foundations, other nonprofit organizations, corporations and high net worth individuals using a Small-cap strategy (07/28/95 inception) and a SMid-cap strategy (04/30/11 inception). Ms. Mariko O. Gordon, CFA, Daruma LLC's founder, CEO and CIO, has been the sole Portfolio Manager since inception and is the majority owner.

Daruma LLC succeeded to the business of Daruma Asset Management, Inc. ("Daruma Inc.") as of April 1, 2012. Daruma Inc. was founded under the name CastleRock Capital Management, Inc. in April 1995, and changed its name in March 1998. Daruma Inc. owns a 1% interest in Daruma LLC, but has no current operations.

Daruma II has two other affiliates. The General Partner, which is owned by the Portfolio Managers and certain Daruma personnel, serves as the general partner of the Domestic Feeder, and receives the Incentive Allocation from the Master Fund. Mariko Gordon is the senior managing member of the General Partner. Daruma Asset Management GP, LLC ("Daruma GP"), which is wholly-owned by Mariko Gordon, serves as the general partner of two collective investment pools advised by Daruma LLC.

The General Partner, Daruma LLC, Daruma GP and Daruma Inc. all share the same New York office space and personnel. Daruma II has a separate office in Connecticut for its investment and marketing personnel, but shares with the other Daruma entities operations and compliance personnel that work in Daruma New York office. In addition, Daruma II's investment and marketing personnel are employed by Daruma LLC, although they provide services solely for Daruma II. When we use the term "Daruma" in this brochure we are referring to all the Daruma entities, collectively.

11. Code of Ethics, Participation/Interest in Client Transactions, and Personal Trading

Code of Ethics and Personal Trading

Because Daruma is a registered investment adviser, we have a fiduciary duty to our clients. For that reason, Daruma has adopted a Code of Ethics (the “Code”) that obligates our personnel to put the interests of our clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. Our Code also puts restrictions on certain activities, such as personal trading, that might cause a conflict between our clients and our personnel. Key provisions of the Code are summarized below. A copy of our Code of Ethics is available upon request.

Most equity trades by our personnel for their own account must be pre-cleared by the Chief Compliance officer, who monitors employee trading activity. Trades will not be allowed in a security that is being currently traded or contemplated for client accounts. Certain trades are excepted from these requirements, such as trades in ETFs, mutual funds, and money market funds, as well as trades made pursuant to any automatic investment plan on in an account over which the employee has no influence or control (e.g., a blind trust, discretionary account managed by a third party). All personnel are required to provide quarterly reports and certifications regarding their personal securities transactions and annual reports regarding their personal securities holdings. The Chief Compliance Officer may grant an exception from pre-clearance, other trading restrictions, and certain reporting requirements on a case-by-case basis if she determines that the circumstances do not conflict with client interests.

Our Code also places restrictions on the receipt of gifts, travel, and entertainment opportunities by our personnel. Our personnel occasionally participate in entertainment opportunities that are for legitimate business purposes, subject to limitations set forth in the Code.

Insider Trading

We forbid all our personnel from trading on material non-public information. This restriction applies whether the trading is for a personal account, a client account or any other person. In addition, Daruma forbids personnel from communicating material non-public information to others in violation of the law. These action are frequently referred to as “insider trading”. Our Code contains guidelines for personnel to consider to determine whether they are in possession of material non-public information. Any person who believes they may have such information must report the matter promptly to the Chief Compliance Officer. If the Chief Compliance Officer determines that the information is material non-public information, she will determine appropriate steps to take, which may include restricting trading in the securities or establishing information barriers.

Participation or Interest in Client Transactions

Daruma is not a broker/dealer and does not generally trade money for its own account. However, our employees or affiliates may invest money in the Funds, or in other collective investment pools or accounts we manage. In addition, the General Partner has an interest in the Hinoki Funds, and receives the Incentive Allocation described in *Item 5. Fees and Compensation*. These situations might give us an incentive to favor the Hinoki Funds or other accounts in which our employees invest. We have adopted procedures designed to prevent any such preferential treatment, which are described in “*Item 6. Performance-Based Fees and Side-by-Side Management*”.

Because certain of Daruma’s clients (including likely investors in the Funds) are institutions, Daruma II might have the opportunity to invest assets in securities issued by one of Daruma’s clients, or to contract for products and/or services from a company in which we invest client assets. The Portfolio Managers keep a pipeline report of potential investments with price targets, from which many of Daruma II’s investment choices are selected. In addition, they maintain records of research on companies in which the portfolio will invest. Should one of the aforementioned situations arise, the Portfolio Managers and the Chief Compliance Officer will monitor the situation to verify that investment decisions are made solely based on the best interest of our clients.

12. Brokerage Practices

Generally, we are given discretion by our clients to select the broker/dealers we use to execute trades in client accounts. Some clients may limit our brokerage discretion by directing us to use a specific broker or type of broker to execute all or a portion of their securities transactions.

Brokerage Relationships

We use various brokers to execute client transactions, and we may have other relationships with these brokers. For example:

- We may invest client assets in securities issued by broker/dealers or their affiliates;
- We may provide investment management services to certain broker/dealers or their affiliates;
- Certain broker/dealers provide internally generated and/or third-party research to us based on the amount of trade executions that we place with them on behalf of our clients; and
- Family members of some of our personnel may be employed by broker/dealers and third-party research providers.

Daruma has a fiduciary duty to seek best execution for our clients, regardless of other relationships we may have with brokers. We have therefore implemented policies and procedures to monitor these transactions.

Best Execution

Daruma has a duty to obtain “best execution” in transacting securities for its clients’ accounts. In seeking best execution, we consider the full range of a broker’s services, including the value of research provided and execution capability, commission rate, financial responsibility and responsiveness.

In seeking best execution, Daruma will consider a number of factors including, but not limited to (i) the broker’s ability to efficiently execute, report, clear, and settle the order, (ii) familiarity with the markets for the types of securities in which we trade, (iii) the broker’s communications ability and history of timely and accurate communication with Daruma’s trader, (iv) the price at which the security is purchased or sold, viewed absolutely and in relation to the liquidity of the market for the security, (v) research products and services provided by the broker, (vi) commission rates, and (vii) the broker’s financial soundness and integrity.

Daruma II's Portfolio Managers, with input from the trader, establish an annual broker budget, taking into account the research and brokerage services the broker provides to Daruma II. Daruma LLC's Portfolio Manager, with input from the investment team and the trader, establishes its own annual broker budget, taking into account the research and brokerage services the broker provides to Daruma LLC. Generally, the combined budgets of Daruma II and Daruma LLC will be used in evaluating best execution. The budgets will be reviewed several times a year and adjusted as appropriate.

Use of Soft Dollars

Daruma may direct some transactions for execution to certain broker/dealers in recognition of brokerage and research services they provide. The practice of obtaining research in this manner is referred to as using "soft dollars." Soft dollar transactions may cause clients to pay a commission rate higher than would be charged for execution-only transactions. The products and services received through soft dollar transactions may be produced by the broker/dealer itself or obtained from other third-party providers.

Although we might have an incentive to select a broker/dealer based on the research products and services we receive from the broker/dealer, we obtain such services from brokers only after we determine, in good faith, that the broker's commission rates are reasonable in light of the services provided. Daruma's soft dollar arrangements fall within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934 and related guidance issued by SEC staff. Our Chief Compliance Officer will review all soft dollar arrangements to verify they fall within the 28(e) safe harbor. If a product or service is used both for purposes allowed under Section 28(e) and also for purposes that do not fall within the safe harbor, we will make a good-faith determination as to the relative proportion that is used for eligible versus non-eligible purposes. Only the portion of the cost that is eligible under 28(e) will be paid for with soft dollars. Daruma will pay the cost that is attributable to purposes not eligible with its own resources.

The prime broker for the Hinoki Funds will provide additional services to the Funds that are not considered research and brokerage within the meaning of Section 28(e). Daruma II will not take those services into account in determining whether to execute trades with the prime broker.

Monitoring Brokerage Transactions

Daruma's trader and CCO review information regarding new brokers (e.g., financial information, disciplinary history, any specialized expertise, execution & communication abilities) before a broker is approved for use. Thereafter, they will periodically review updated information on approved brokers.

Our trader reviews a quarterly trading analysis from Instinet that measures all trades we place through the Instinet trading platform. On a quarterly basis, our trader prepares a transaction cost analysis that uses VWAP (volume-weighted average price) data. Trades from the quarter are sampled and anomalies are reviewed. In addition, we do post-trade analysis of the quality of execution whenever there are significant cash flows (in or out). The CCO will also periodically review these reports.

Trade Aggregation and Allocation

Daruma generally bunches trades in block orders to ensure all clients are treated equitably. Total trades for the day in each security are average-priced by each broker, and underlying details of the transactions are kept for review. Shares are allocated by giving priority, first, to accounts that have not yet met position size targets, then to accounts with maximum cash level requirements. Thereafter (or if these circumstances don't exist), trades are allocated pro-rata using our order management system. If we receive a partial fill of a trade order, we may allocate other than pro-rata to avoid excessive transaction costs to clients. Our goal is to allocate trades to accounts in a way that treats all our clients fairly and equitably over time.

Any accounts we manage that include investments from our personnel are allocated in accordance with the same policy. See *Performance-Based Fees and Side-By-Side Management*, above.

Cross Trades

Daruma does not engage in agency or principal cross trades. Nor do we cross trade between client accounts by instructing a custodian to move securities from one account to another. However, there may be times when we place buy and sell orders between client accounts on the same day, in the same stock, usually because of cash flows in one or more client accounts. Such transactions may give rise to potential conflicts of interest (where one client may receive a more favorable price than another). In an effort to mitigate any potential conflicts, these transactions are generally executed as market-on-close orders or in a manner that would not result in a market disadvantage to clients. If such transactions are deemed necessary, Daruma's trader consults with the relevant Portfolio Managers and the Chief Compliance Officer.

Trade Errors

In the event we fail to place or process trades correctly, the Funds will keep any resulting profits or bear any resulting loss.

13. Review of Accounts

Daniel Sheridan and Ellen Adams are the firm's Portfolio Managers and review the portfolio daily.

Our operations team reconciles account information on our systems to records of the prime broker on a daily basis. If we find any discrepancies, our operations team works with the prime broker to resolve the issue.

In addition, various reports are reviewed by the Portfolio Managers, members of the operations team and/or the Chief Compliance Officer on a periodic basis, including, but not limited to, performance, cash flows, distribution of holdings across sectors and market capitalization, and liquidity.

Hinoki Fund investors will receive monthly unaudited statements from the Funds' administrator regarding their investment in the Funds and quarterly investment letters. Investors will also receive audited year-end financial statements within 90 days of the fiscal year-end (December 31), to the extent reasonably practicable.

14. Client Referrals and other Compensation

Daruma II does not currently use any third-party to solicit new business. If we enter into any solicitation arrangements in the future, they will be in accordance with rules under the Advisers Act applicable to the use of solicitors.

Daruma II may be introduced to prospective clients by the Funds' prime broker or by investment consultants they hire to advise them on the selection and review of investment managers. We provide these consultants with information on accounts we manage for our clients who have directed us to do so. In addition, we may provide the prime broker and consultants with general information on our investment strategies and services. The consultants may use that information in connection with services to their clients, and may introduce prospective business to our firm, include us in searches they conduct for their clients, or make information about Daruma available to potential clients through online databases. We will respond to requests for proposals from consultants in connection with new searches they conduct and from prospective clients introduced to Daruma by the prime broker or consultants.

Daruma may have other interactions with consultants, such as:

- Inviting consultants to events or other entertainment hosted by our firm.
- Paying for the opportunity to participate, along with other investment managers, in conferences organized by consultants. These conferences provide us with the opportunity to discuss a broad variety of business topics with consultants, clients and prospective clients.
- We may manage proprietary assets of consultants or their affiliates, or Daruma LLC may serve as advisor or sub-advisor to funds offered by consultants or their affiliates.

Upon request from a client, we provide information regarding our relationship with that client's consultant. However, we generally rely on the prime broker and each consultant to make appropriate disclosure to its clients of any conflict the consultant believes it has due to its relationship with our firm.

15. Custody

Because the General Partner is the general partner of the Domestic Feeder and Daruma personnel authorize the payment of expenses by the Funds, including our fees, we may be deemed to have custody of the assets of one or more of the Funds, however we do not have actual physical custody of any these assets. These assets are held by the prime broker, which is an independent qualified custodian. Investors receive monthly statements that are prepared and sent by the Funds' independent administrator. The Hinoki Funds are audited annually and investors receive a copy of the audited annual financial statements. See *Review of Accounts* for details of all reports sent to investors.

16. Investment Discretion

Daruma II is authorized to make investment decisions and to direct the execution of all transactions for the portfolio without consulting any third parties.

Class Action Suits and Other Legal Action

We will generally not initiate, consider or participate in any bankruptcy, class action or other litigation against or involving any issuer of securities currently or previously held in the portfolio.

17. Voting Client Securities

Daruma II will vote proxies in connection with all securities held in the portfolio. In order for us to do this, the client's custodian must deliver the proxies in proper form and in a timely manner to our agent. We vote all proxies in the best interests of our clients as shareholders, and in a manner we believe will maximize the economic value of their holdings.

Daruma has contracted with an independent third-party provider of proxy voting and corporate governance services ("proxy agent") which specializes in providing a variety of services related to proxy voting. Specifically, this proxy agent has been retained to conduct proxy research, execute proxy votes, and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for the appropriate client account.

The Portfolio Managers will review research provided by the proxy agent for each proposal, as well as any additional information he considers relevant, and will determine whether or not the proxy agent's recommended vote is appropriate. Generally, we follow management recommendations with regard to routine corporate housekeeping matters, such as the election of directors (where no corporate governance issues arise), selection of auditors and reasonable increases in or reclassification of common stock. We will usually vote against proposals that will make it more difficult to replace members of the issuer's board of directors (including proposals to stagger the board) cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and/or create supermajority voting. However, these guidelines are not absolute; each proposal is evaluated on its merits before the Portfolio Managers make a decision.

If we have a material conflict of interest in voting any proposal, the Portfolio Manager will consult with the Chief Compliance Officer to verify that the basis for the decision reflects the best interests of our clients.

In some instances, we may not vote a proxy. For example, a proxy vote might not be entered because the proxy agent did not receive the proxy ballot in time.

For a copy of our proxy voting policies and procedures please contact Daruma using the contact information on the Cover Page.

18. Financial Information

Daruma has no financial commitment that impairs its ability to meet contractual commitments.