

COAST ASSET MANAGEMENT, LLC

March 30, 2012

This brochure provides information about the qualifications and business practices of Coast Asset Management, LLC (the “Coast”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (310) 633-2300. This information 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 Coast Asset Management, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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Item 2. Material Changes

Coast is filing this Part 2A as of March 30, 2012 as part of its annual update to its Form ADV. The following lists material changes since Coast's last annual update of its Part 2A, filed on March 31, 2011.

- Item 4 –Updated to reflect Coast assets under management as of February 29, 2012. Updated to reflect that Coast currently does not manage separate account Clients.
- Item 5 – Updated to reflect the types of compensation payable to Coast.
- Item 7 – Updated to reflect that Coast currently does not manage separate account Clients.
- Item 8 – Updated to reflect that Coast no longer manages certain investment strategies for its Clients.
- Item 10 – Updated to include Coast's funds and related general partners/sponsors of limited partnerships.
- Item 17 – Updated to reflect Coast's current proxy voting policies and procedures.

Item 3. Table of Contents

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Item 4. Advisory Business

Coast is an investment adviser with its principal place of business in Santa Monica, California. Coast commenced operations as a registered investment adviser in August 1992 as Coast Asset Management Corporation. That initial registration was withdrawn with the Securities and Exchange Commission (“SEC”) in December 2000. Coast took on its current organizational form in June 2005 and has been re-registered with the SEC since July 2005 under its current name Coast Asset Management, LLC. David Ellison Smith, Coast’s founder and President, and Summit CAM Holdings, LLC are the principal owners of Coast.

Coast provides advisory services on a discretionary basis to its clients, which include pooled investment vehicles (“Clients” or “Coast Funds”) intended for sophisticated investors and institutional investors. The pooled investment vehicles are organized as U.S. and non-U.S. corporations, limited partnerships, limited liability companies and trusts.

The Coast Funds fall into four primary investment strategies:

- 1) Funds of hedge funds;
- 2) Single strategy hedge funds;
- 3) Collateralized Debt Obligation vehicles; and,
- 4) Collateralized Fund Obligation vehicles.

Within each of these strategies, Coast generally invests in the following for Clients:

- a) U.S. federal agency securities;
- b) U.S. federal instrumentality securities;
- c) Non-U.S. government securities;
- d) Swaps, related commodity and option contracts and other hybrid, synthetic and derivative instruments;
- e) Funds and accounts managed by other trading and investment advisers; and,
- f) Futures and forwards primarily consisting of interest rate futures.

Coast provides advice to Clients based on specific investment objectives and strategies as set forth in the offering memorandum for each Client. Under certain circumstances, Coast may agree to tailor advisory services to the individual needs of an investor through unique investment structures such as separately managed portfolios created to reflect the investment goals and risk tolerance of each particular investor.

Clients may impose restrictions on investing in certain securities or certain types of securities.

As of February 29, 2012, Coast managed approximately \$630,212,000 in net assets. As of that date, Coast managed assets of \$630,212,000 on a discretionary basis.

Item 5. Fees and Compensation

Coast charges each Client an investment management fee based on the value of the Client's assets under management and a performance-based fee, which is compensation that is based on a share of capital gains on or capital appreciation of the assets of a Client (such as a Client that is a hedge fund or other pooled investment vehicle).

The range of fee structures for single strategy products, fund of fund products, collateralized debt obligation products and collateralized fund obligation products are set forth below. Management fees and performance-based fees described below are determined separately as to each class and series of shares or interests.

The fees payable to Coast by a Client (or an investor within such Client) may be negotiated separately with investors, and certain investors may pay fees that are higher or lower than other investors. These different fee arrangements may be negotiated individually in side letter agreements or through a separate class of shares/interests offered by a supplement to the offering memorandum.

In addition to the management and performance based-fees, as applicable, described below, certain Clients also pay to Coast an allocated portion of the salaries of internal counsel and other staff of Coast and other overhead costs and expenses of Coast.

Also, in addition to administration expenses described above, certain Clients of Coast pay an administrative fee equal to a fixed percentage of the month-end net asset value of such Client's account. The administrative fee is paid to Coast in consideration of certain administrative services it provides to these Clients.

1. SINGLE STRATEGY HEDGE FUND CLIENT FEE STRUCTURE

A. MANAGEMENT FEE

Coast receives a monthly management fee equal to 0.167% (a 2.0% annual rate) of the month-end net asset value of the Client's account. Management fees are payable monthly.

B. INCENTIVE FEE

Coast receives an incentive fee equal to 25% of any new appreciation at the end of each calendar month. Payment of the incentive fee is subject to a loss carry forward provision and is payable monthly.

C. TRADER COMPENSATION

To the extent that an employee trader other than David Smith trades for the benefit of the hedge fund Client, such hedge fund Client reimburses Coast the relevant portion of such trader's incentive compensation. This compensation, which is separate from the management fee and the incentive fee, generally ranges between 23% to 30% of the gross trading profits realized by the relevant trader without deduction for the hedge fund Client's operating expenses but after deduction of certain trader expenses. A trader may receive performance compensation based on the trading profits realized by the relevant trader even for a period during which the hedge fund Client as a whole realized a net loss. In Coast's discretion, a portion of such trader incentive compensation may be advanced to such trader as a non-refundable draw.

2. FUND OF HEDGE FUND FEE STRUCTURES

A. MANAGEMENT FEE

Coast receives monthly management fees ranging from 0.2% to 1% (annualized) of the month-end net asset value of the Client's account. Management fees are payable monthly.

B. INCENTIVE FEE/ PERFORMANCE ALLOCATION

Coast receives incentive fees/performance allocations ranging from 7.5% to 20% of any new appreciation. Such fees/allocations are paid at the end of each month or at the end of each calendar year as set out in the offering documents for that hedge fund Client. Certain hedge fund Clients require that a benchmark return be exceeded prior to payment of incentive fees/performance allocations to Coast. The benchmark return is generally 2% (annualized) over the average three month U.S. Treasury bill auction average rate for the period for which the incentive fee/performance allocation is being calculated. Payment of performance allocations/incentive fees are subject to a loss carry forward provision.

3. CDO FEE STRUCTURE

A. A "Base Collateral Management Fee" is paid to Coast semi-annually to the extent assets of the Client are available for such purpose. The Base Collateral Management Fee accrues at a rate of 0.50% per annum on the value of the Client's assets.

The Client pays Coast a "Tier I Incentive Collateral Management Fee" semi-annually only to the extent the holders of the most subordinated class of notes or preferred shares of the Client have received an internal rate of return of at least 12% per annum, calculated on the basis of a 360-day year of twelve 30-day months. The Tier I Incentive Collateral Management Fee accrues at a rate of 0.10% per annum on the value of the Client's assets and is paid semi-annually to the extent of the assets available for such purpose.

The Client pays Coast a "Tier II Incentive Collateral Management Fee" semi-annually only to the extent the holders of the most subordinated class of notes or preferred shares of the Client have received an internal rate of return of at least 17% per annum, calculated on the basis of a 360-day year of twelve 30-day months. The Tier II Incentive Collateral Management Fee accrues from the closing date of the Client at a rate of 0.125% per annum on the value of the Client's assets and is paid semi-annually to the extent of the assets available for such purpose.

Coast is also reimbursed certain expenses related to the Client as described in the offering documents for the Client.

B. A "Senior Collateral Management Fee" is paid to Coast semi-annually by one of the CDO's to the extent assets of the Client are available for such purpose. The Senior Collateral Management Fee accrues at a rate of 0.05% per annum on the value of the Client's assets.

The Client pays Coast a "Subordinated Collateral Management Fee" semi-annually to the extent assets of the Client are available for such purpose. The Subordinated Collateral Management Fee accrues at a rate of 0.45% per annum on the value of the assets.

4. CFO FEE STRUCTURE

An "Administration Fee" equal to 0.1675% per annum of the "Portfolio Value" is paid to Coast semi-annually, or on any "Principal Payment Date" or "Preference Share Redemption Date." The Administration Fee accrues from the date of the immediately preceding date of payment. If the Administration Fee is not paid when due, such Portfolio Management Fee accrues interest until such time it is paid at a rate per annum equal to LIBOR.

Coast is also reimbursed certain expenses related to the Client as described in the offering documents for the Client.

In addition to paying investment management fees and, if applicable, performance-based fees or other compensation, Clients may be subject to other investment expenses such as: custodial charges, administration charges, brokerage fees, commissions and related costs, interest expenses, taxes, duties and other governmental charges, transfer and registration fees or similar expenses, costs associated with foreign exchange transactions, other portfolio expenses, and costs, expenses and fees (including, investment advisory and other fees charged by investment advisers with, or funds in, which the Client invests) associated with products or services that may be necessary or incidental to such investments or accounts.

As described in Item 4, Client assets may be invested in pooled investment vehicles. In these cases, Clients will bear their pro rata share of the underlying fund's operating and other expenses including, in addition to those listed above: sales expenses, legal expenses; internal and external accounting, audit and tax preparation expenses; and organizational expenses. Client assets may be invested in a master-feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related master fund. In addition, Clients will incur brokerage and other transaction costs. Please refer to Item 12 for a discussion of Coast's brokerage practices.

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

As disclosed in Item 5, Coast is paid performance-based compensation by its Clients. In addition, certain of Coast's investment personnel are compensated on a basis that includes a performance-based component. Please see Item 5 for a detailed disclosure of such performance-based compensation.

Coast has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities.

See Items 11 and 12 for a detailed discussion of Coast's trade allocation policy.

Item 7. Types of Clients

Coast's Clients consist of the Coast Funds, which are private funds organized as Delaware limited liability companies and limited partnerships and Cayman Islands exempted companies and trusts. Any initial and additional subscription minimums, along with other descriptive information, are disclosed in the offering memorandum for the private funds. Coast also serves as the general partner, managing member, trading advisor or collateral manager to CDOs and CFOs (described in Item 4) which are no longer available for investment.

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

Coast utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research (including discussions with other investment managers and traders and investment due diligence), analysis using proprietary and third-party software programs and models, charting analysis, as well as the use of quantitative and technical tools and investment approaches. The following represents only a summary of the material strategies and risks applicable to Coast Clients. For a comprehensive discussion of all of the strategies and risks that may apply to a particular Coast Client, please see the offering memorandum and related documentation applicable to such Client.

Material Strategies

The following are examples (but not a complete list) of the trading and investment strategies employed by Coast on behalf of its Clients. There are no restrictions on the types of trading and investments strategies that may be employed by third party trading and investment advisors on behalf of Coast's CDOs. The investment strategy for a particular Client is set forth in the offering documentation for such Client.

Cash Securities Arbitrage. Cash securities arbitrage is designed to profit from one fixed income instrument being mispriced relative to another such instrument from a value perspective. When a fixed income instrument is purchased, a related fixed income instrument is sold in an amount such that the net sensitivity of the aggregate position to changes in interest rates is intended to be zero (i.e., duration neutral). Profit is achieved by changes in the relative price movement between the two instruments.

Cash Securities/Futures Contract Arbitrage. Cash securities/futures contract arbitrage involves purchasing (or selling) securities and simultaneously selling (or purchasing) either futures contracts related to such securities, or the same futures contracts but having different maturities, when Coast believes inefficiency exists.

Futures Contract Arbitrage. Futures contract arbitrage involves purchasing (or selling) futures contracts and simultaneously selling (or purchasing) either related futures contracts or the same futures contracts but having different maturities, when Coast believes an inefficiency exists. The difference between the price at which futures contracts are purchased (or sold) and the price at which the other futures contracts are sold (or purchased), after allowances for transaction costs, constitutes the profit or loss.

TED (Treasury/Eurodollar) Spreads. This strategy attempts to profit from changes in the interest rate yield spread between sovereign debt and bank debt. The strategy typically involves the purchase (sale) of sovereign debt and the simultaneous sale (purchase) of Eurodollar futures contracts. Positions are profitable when (i) the interest rate on Eurodollar accounts rises relative to the rate borne by sovereign debt, or (ii) the interest rate on sovereign debt declines relative to yields on Eurodollar accounts.

Other Types of Arbitrage. Coast also may employ various other types of arbitrage strategies such as capital structure arbitrage, which includes (but is not limited to) the arbitrage of equity, convertible securities, bonds, notes and bank debt.

Investing In Hedge Funds. For its fund of hedge fund Clients, Coast employs a strategy of allocating assets to numerous funds or accounts managed by securities and commodities trading advisors. The advisors to these funds or accounts may invest in a wide range of United States and non-United States equity and debt securities, commodities and other

financial and investment interests, instruments and property, including, without limitation, U.S. and non-U.S. government and U.S. federal agency or instrumentality issued or guaranteed securities, floating rate instruments, equity interests (including common and preferred stock, warrants, options, convertible stock and restricted securities), asset-backed securities, including those collateralized by high-yield bank loans and bonds, individual collateralized high-yield bank loans, privately negotiated securities, corporate debt instruments (including convertible debt instruments), as well as repurchase and reverse repurchase agreements, securities lending agreements, futures contracts, spot and forward contracts, options, swaps, hybrids, synthetics and other derivative instruments.

Collateralized Loans. Collateralized loan strategies involve the direct or indirect purchase of collateralized loan obligations and collateralized bond obligations (including the equity or subordinated debt components thereof), asset backed securities collateralized by high yield bank loans or corporate bonds, or individual collateralized high yield bank loans. Most, if not all, loans purchased are floating rate loans thereby minimizing interest rate risk. These securities will however, have significant credit risk. Profits are realized through earning returns on loans with lower funding costs and by taking advantage of credit opportunities.

These method(s), strategies and investments involve(s) risk of loss to Clients and Clients must be prepared to bear the loss of their entire investment. In addition, the trading and investment strategies employed by Coast and the third party investment advisers in Coast's fund of hedge fund Clients often employ leverage. The use of leverage can result in increased magnitude of profits or losses.

Material Risks

The following are examples (but not a complete list) of the material risks of the investments a Coast client may make directly or indirectly. The risks applicable to a particular Client are set forth in the offering documentation for such Client.

Arbitrage Transaction Risks Generally. If the requisite elements of an arbitrage strategy are not properly analyzed or unexpected events or price movements intervene, losses can occur which can be magnified to the extent Coast is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable "spreads", which can also be identified, reduced or eliminated by other market participants.

Cash vs. Futures Arbitrage Trading. A portion of Coast's trading on behalf of certain Clients involves arbitraging between the cash and futures contract markets in financial instruments. This means that Coast purchases (or sells) financial instruments in the cash markets and takes offsetting positions in the futures markets directly in the same or related financial instruments. If the price of one position increases or declines relative to the price of the other position, the overall position will experience a gain or loss. If the requisite elements of an arbitrage strategy are not properly analyzed or unexpected events or price movements intervene, losses can occur which would be magnified to the extent the Company is employing leverage. Even to the extent that the price relationships between securities owned and securities sold remain constant or moves in a manner that is favorable to a Client, a loss may still be incurred because of the costs of financing the positions. In addition, because cash contracts are not traded on exchanges, but rather through a network of banks, dealers, and other institutions, there may be less liquidity in such markets. No limitations on price movement are imposed upon banks, dealers, or other

institutions, which means that a balanced arbitrage position might suffer significant short-term losses since price moves on the cash portion of arbitrage positions are not limited as they are on the futures side. Furthermore, the increase in value of a cash contract is generally not available to the trader until the position is closed, since there is no standardized “mark-to-market” clearing system in the cash markets similar to that in the futures markets. Accordingly, although a price movement on each side of an arbitrage position may be the same or even favorable to the trader, such movement may require the trader to post margin deposits to support a losing futures contract position without his being able to utilize the equity in the cash securities position. This imbalance in cash utilization (even though the arbitrage as a whole is profitable) could result in cash shortages and could require premature termination of a position unless the trader has sufficient cash reserves to carry the futures contract position or borrows cash from a lender.

Since cash securities are not guaranteed by an exchange or clearinghouse, a Client is subject to the risk of bank, dealer, or other counterparty failure or the inability or refusal by the counterparty to perform with respect to such transactions. The failure of a bank, dealer, or other counterparty with which a Client has contracted would likely result in a default, thereby converting a balanced arbitrage position into a speculative futures contract trade and depriving the Client of unrealized profits or forcing the Client to cover its commitments for resale, if any, at the then market price. Cash market transactions are transacted only with banks, dealers, and other institutions which are adequately capitalized in Coast’s opinion. Banks, dealers, and other institutions are not required to continue to make markets in financial instruments. There have been periods during which certain banks and dealers have refused to quote prices or have quoted prices with an unusually wide spread between the bid and ask prices. Due to the foregoing factors, the trading of cash securities may thus involve greater risks than those accompanying the trading of futures contracts on exchanges.

Clients are also subject to the risk of the failure of or delay by any of the exchanges and markets and their clearinghouses, if any, on which commodities interests and securities interests are traded.

Repurchase, Reverse Repurchase and Securities Lending Transactions. The trading strategy of certain Clients involves the use of repurchase, reverse repurchase and securities lending agreements for cash management, trading, and financing. Securities held by counterparties pursuant to repurchase or securities lending transactions can be transferred, pledged and re-hypothecated to other persons by such counterparties, and therefore are subject to the risk of such counterparties’ or their transferees’ delay, failure, default, or insolvency. In the event of the insolvency of or default or delay by a transferor of securities in a reverse repurchase or securities lending agreement, a Client, as transferee, could experience both delays in liquidating the underlying securities and losses, including a possible decline in the value of the securities collateral during the period while the Client seeks to enforce its rights thereto, possible subnormal levels of income and lack of access to income during this period, and expenses of enforcing its rights.

Spread Differentials May Move Adversely. A substantial portion of certain Clients’ trading will involve spread positions between two or more cash securities, two or more futures contracts, arbitrage between cash and futures contract positions, or combinations or derivatives involving the foregoing. If the price of one position increases or declines relative to the price of the other position, the overall position will experience a gain or loss. If the requisite elements of an arbitrage strategy are not properly analyzed or unexpected events or price movements intervene, losses can occur which would be magnified to the extent a Client is employing leverage. Even to the extent that the price relationships between securities owned and securities sold remain

constant or moves in a manner that is favorable to a Client, a loss may still be incurred because of the costs of financing the positions.

Interest Rate Risks. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

Leverage. Performance may be more volatile if a Client employs leverage because leverage generally has the effect of amplifying, in some cases, significantly positive and negative performance of the account.

Trading of Options. The seller of a call option who has a long position in the underlying security, futures contract or commodity is subject to the full risk of a decline in price of the security, futures contract or commodity reduced by the premium received for selling the option. In exchange for the premium received for selling a call option, the option seller gives up all of the potential gain resulting from an increase in the price of the underlying security, futures contract or commodity above the option strike price upon exercise or expiration of the option. The seller of a put option who has a short position in the underlying security, futures contract or commodity is subject to the full risk of a rise in the price of the security, futures contract or commodity reduced by the premium received for selling the option. In exchange for the premium received for selling a put option, the option seller gives up all of the potential gain resulting from a decrease in the price of the underlying security, futures contract or commodity below the option strike price upon exercise or expiration of the option. The buyer of a put option assumes the risk of losing his entire investment in the put option. If the buyer of the put has a long position in the underlying security, futures contract or commodity, the loss on the put will be offset in whole or in part by any gain on the long sale of the underlying security, futures contract or commodity. The buyer of a call option assumes the risk of losing his entire investment in the call option. The buyer of a call option pays a “premium” representing the market value of the option. Unless the price of the security or futures contract underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the buyer may lose the entire amount of the premium. If the buyer of the call has a short position in the underlying security, futures contract or commodity, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security, futures contract or commodity.

Coast’s Clients may trade “over-the-counter” options. These are options which are not traded on an exchange. Rather, they are directly bought from and sold to, on a principal basis, a dealer. These transactions subject a Client to the potential failure of or default by the dealer with whom the Client has entered into the transactions. Any such failure or default could subject a Client to significant losses.

Trading of Swap Contracts. Swap contracts are not traded on exchanges, and as a consequence investors in such contracts do not benefit from the regulatory protections of such exchanges or the SEC, the CFTC, or other governmental or regulatory authorities in any jurisdiction; rather, banks and dealers act as principals in these markets.

Trading in the swap markets presents certain risks in addition to those found in the securities, commodities, and option markets. For example:

- (1) The swap markets are not generally regulated by any U.S. or foreign governmental authorities. Although banks and dealers, which are

participants in these markets, are regulated in various ways by U.S. and foreign banking and securities authorities, they generally do not regulate the swap markets.

- (2) There are no limitations on daily price movements in swap contracts.
- (3) Speculative position limits are not applicable to swap contract trading.
- (4) Participants in the swap markets are not required to make continuous markets in the contracts they trade. There have been periods during which certain participants in these markets have refused to quote prices for swap contracts or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and the price at which they are prepared to sell.
- (5) Trading in the swap markets involves the extension of credit by a participant to its counterparty. In general, the counterparties with which Coast trades require initial collateral deposits. However, Coast typically does not receive initial collateral deposits from its counterparties. Typically, Coast and its counterparties periodically exchange collateral to secure mark-to-market valuations of swap contracts.
- (6) The swap markets are “principals’ markets,” in which performance with respect to a swap contract is the responsibility only of the counterparty with which the trader has entered into a contract (or its guarantor, if any), and not of any exchange or clearinghouse. As a result, Coast and its Clients participating in swaps are subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the principals with which Coast trades. Any failure or refusal of a swap counterparty, whether due to insolvency, bankruptcy, default, or other cause, could subject Coast and its Clients to substantial losses. Coast will not be excused from the performance of any swap contracts into which it has entered due to the default of third parties in respect of swap contracts or other transactions which were to have substantially offset such contracts.

Risks Related to Investment in Floating Rate Instruments. Certain of Coast’s Clients’ portfolios hold floating rate instruments, which are generally held to maturity, may only be hedged to the extent of the reset of the next coupon. As a result, the positions in such instruments are not fully hedged. Such unhedged positions will be highly volatile, involve a substantial risk of loss and produce widely varying results. This may cause a liquidity risk similar to that described above at times of extreme adverse market movements.

Short Selling Risk. Coast’s investment program may include short selling. Short selling transactions expose a Client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by a Client in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur, wherein the Client might be compelled, at the most disadvantageous time, to replace the

borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

Debt Securities. Coast may invest Client assets in private and government debt securities and instruments. It is possible that many of the debt instruments may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, adverse economic conditions could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Distressed Investment Strategies. Certain Coast Clients may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments typically remain unpaid unless and 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 level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is very high. There is no assurance that the nature and magnitude of the various factors that could affect the prospect for successful reorganization or similar action will be evaluated correctly. In any reorganization or liquidation proceeding relating to a company in which a Coast Client invests, the Client may lose its entire investment or may be required to accept cash or securities with a value less than the Client's original investment.

Emerging Markets. Coast Clients may invest in markets worldwide. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may be subject to the following risks: less publicly available information; more volatile markets; less liquidity or available credit; political or economic instability; less strict securities market regulation; less favorable tax or legal provisions; price controls and other restrictive governmental actions; a greater likelihood of severe inflation; unstable currency; and war and expropriation of personal property.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. The quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported. The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for

issuers in developed countries and, therefore, potentially carry greater risk. In addition, a Coast Client's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities or restrictions on the ability to convert currency or to take currencies out of certain countries.

Opportunistic/Macro Investing. Certain Coast Clients may invest on an opportunistic basis, seeking to take advantage of trends in the market. Unlike traditional investing, in which investment decisions may be based entirely on the fundamental financial condition of an issuer, opportunistic investing relies on the ability to identify trends in the market and to invest in such trends before the rest of the market, and then sell before a trend ends. Opportunistic investing can be very volatile and involve heavy short-term trading. Short-term trading can generate high trading costs.

Risks relating to Direct Lending. Certain Coast Clients may engage in direct lending activities, including loan origination. Such activities expose a Coast Client to losses of foreclosure of the loan and default of the borrower. As part of such lending activities, a Coast Client may originate loans to companies in distressed situations, which involve a substantial degree of risk. The Coast Client may lose all or part of the amount advanced to such borrowers or may be required to accept collateral with a value less than the amount of the loan advanced by the Coast Client. Furthermore, in originating loans, a Coast Client competes with a broad spectrum of lenders, many of which may have substantially greater financial resources and are more well known than the Coast Client. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans.

Risk of Litigation in Activist Trading. Certain Coast Clients may accumulate substantial positions in the securities of a corporate entity and become involved in proxy fights or other litigation or attempts to gain control of that entity. Under those circumstances, such Coast Clients may be named as a defendant in a lawsuit or regulatory action. In addition, the outcome of such disputes, which may affect the value of the positions, may be impossible to anticipate.

Below Investment Grade Securities. A Coast Client may trade below investment grade bonds (generally "Ba" and "BB" and below) and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities) and may be subject to greater risk of loss of principal and interest than higher-rated securities. These investments are generally considered to be speculative based on the issuer's capacity or incapacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the event of deterioration in general economic conditions. Because lower-rated securities are perceived to be riskier than higher-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which lower-rated securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, could contribute to a decrease in the value and liquidity of such lower rated securities.

Investing in Subordinated Securities. Certain Coast Clients may invest in subordinated securities which involve greater risk of default than the senior classes of securities. Certain subordinated securities (including the equity or subordinated debt components of collateralized loan obligations and collateralized bond obligations) absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit

enhancement or equity. Subordinated securities therefore possess some of the attributes typically associated with equity investments.

Limited Redemption Rights. Coast may invest Client assets in investment vehicles that do not permit frequent withdrawals and/or may impose “gates” or other restrictions on withdrawals. Typically such vehicles have broad authority to suspend or limit redemptions or withdrawals. Accordingly, a Client’s investments may be relatively illiquid. Additionally, some investment vehicles may use “side pockets” in which certain illiquid investments are placed. A Client will generally not be permitted to redeem or withdraw its interest in any such side pockets.

Certain Risks With Respect To Performance-Based Compensation. Advisors to certain investment vehicles in which a Coast Client may be invested will likely receive compensation based on unrealized appreciation as well as realized appreciation in the net asset value of the vehicle. Such compensation may be an incentive for the advisor to make allocations or investments that are riskier or more speculative than would be the case absent such performance-based compensation. Also, the compensation to the advisor may be higher than that received by others offering similar services, and the advisor will receive performance-based compensation irrespective of the performance of the other advisors. Thus, an advisor to an investment vehicle with positive performance may receive performance compensation from the vehicle even if the vehicle’s overall performance is negative.

Business and Regulatory Risks of Hedge Funds. Coast, Coast’s Clients and the investment vehicles in which they invest (and/or their respective affiliates) are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations and increased scrutiny by regulators. Some of this evolution may be directed at the hedge fund industry in general or certain segments of the industry, and may result in scrutiny or claims against the Client, Coast, the investment vehicles’ advisors or the vehicles directly for actions taken or not taken by such party. Thus, a Client, an investment vehicle in which it is invested and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect on a Client, Coast or any affiliate of any such legal risk, litigation or regulatory action could be substantial and adverse.

Item 9. Disciplinary Information

This Item is inapplicable.

Item 10. Other Financial Industry Activities and Affiliations

Commodities-Related Registration. Coast is registered as a commodity pool operator and a commodity trading advisor.

Pooled Investment Vehicles. Coast primarily serves as investment adviser to Coast funds that are pooled investment vehicles. As discussed more fully in response to Item 11, Coast funds may engage in transactions with, or alongside each other that may give rise to material conflicts of interest. Coast has adopted policies and procedures designed to address conflicts of interest arising between Coast funds.

Sponsors of Limited Partnerships. Coast and certain of its affiliates serve as sponsors or syndicators of a number of limited partnerships, including Coast funds. Please refer to Item 11 for a discussion of the potential conflicts that may be raised by Coast's relationship with these affiliates and the policies and procedures Coast has adopted to address these conflicts.

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

Coast has a fiduciary duty to its Clients. In accordance with applicable laws, Coast has adopted a Code of Ethics and other policies that address potential conflicts of interest and sets forth its expectations for the business conduct of its employees, officers and inside directors including restrictions and reporting requirements for personal securities transactions. Compliance with the Code is a condition of employment by Coast. Each employee is required to certify annually that he or she has received, read and understands the Code, and has complied with the requirements set forth in the Code.

The Code permits employees to engage in personal securities transactions, including buying or selling securities that Coast has recommended to, or purchased or sold on behalf of, Clients, subject to specific procedures that are designed to avoid conflicts of interest or the appearance of a conflict of interest. The Code imposes pre-clearance requirements for investments in initial public offerings and the participation in private placement transactions.

Reporting requirements set forth in the Code include: (1) an initial report of personal holdings upon commencement of employment; (2) quarterly personal transaction reports; (3) annual personal holdings reports; (4) duplicate confirmations or electronic reporting of personal securities transactions for certain employees; and (5) annual acknowledgement and certification of compliance.

General fiduciary principles outlined in the Code include: (1) placing the interest of Coast's Clients first at all times; (2) conducting all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of a position of trust and responsibility; (3) a prohibition against taking inappropriate advantage of one's position with Coast; (4) a prohibition against the receipt of extravagant gifts/entertainment from any person or entity soliciting business with Coast; (5) a duty to respect the confidential nature of information received from Clients and investors of the Clients; and (6) a prohibition against insider trading or acting on material non-public information.

The Chief Compliance Officer is responsible for overseeing compliance with the Code, including reviewing the required reports and determining whether violations of the Code have occurred.

Coast will provide a copy of the Code to any investor or prospective investor upon request.

Coast and its related persons recommend to investors purchases of interests in its hedge fund Clients for which Coast serves as investment adviser or member manager. The financial interest of Coast including any fees it receives from these hedge fund Clients is disclosed to investors in the offering documents of the relevant hedge fund Client.

Coast also from time to time, when consistent with a hedge fund Client's investment objective and strategies, may cause a hedge fund Client managed by Coast to invest in another Client managed by Coast. Where such transaction may be entered into on behalf of a hedge fund Client, the offering document for the hedge fund Client will disclose the possibility of such transaction and the conflicts of interest involved in such transaction.

David E. Smith, Coast's founder and President, either directly or indirectly through his proprietary trading company Coast Investment Management, LLC ("CIM"), currently has an investment in certain of Coast's Clients. Further, Mr. Smith currently, and intends to continue to,

conduct active and aggressive arbitrage trading for his own proprietary accounts, either directly, through CIM or through CIM's capital account in The Coast Fund LP. It is possible for such strategies to result in Mr. Smith and/or CIM taking positions ahead of Coast's Clients or opposite to positions taken for Coast's Clients.

CIM is the general partner of The Coast Fund LP. Coast serves as trading and investment adviser of Coast Fund. Currently Value Fund is the only limited partner of Coast Fund (each partner in Coast Fund, a "Coast Fund Partner").

Excess funds in the capital account of each Coast Fund Partner (including CIM) are available to be utilized in the trading and investment activities of other Coast Fund Partners (including CIM). In such cases, the Coast Fund Partner whose capital account contains excess cash is deemed to advance funds in the form of a loan (each, an "Inter-Partner Loan") to one or more other Coast Fund Partners. The capital account of the Coast Fund Partner(s) notionally advancing funds is debited, and the capital account(s) of the Coast Fund Partner(s) being notionally advanced funds is credited, for the amount of funds deemed so advanced. Each borrowing Coast Fund Partner's capital account is thereafter charged, and the lending Coast Fund Partner's capital account is thereafter credited, with monthly interest based on the annualized average 3-month U.S. Treasury bill discount rate for such month plus 2%.

Coast addresses its conflicts of interest in a variety of ways. First, Coast intends to comply with the provisions of The Advisers Act and the rules there under pertaining to principal trades and agency-cross transactions, to the extent such provisions are applicable to the trades at issue. In addition, such transactions will be entered into on what Coast believes to be market terms and rates prevailing at the time. Coast recognizes, and its Clients should be aware, that not every trade can always produce such beneficial results.

For certain of Coast's hedge fund Clients, if the net asset value of such hedge fund Client falls below a certain percentage (as specified in such hedge fund Client's offering document) from trading and investment losses in any calendar year, Coast shall terminate all trading and liquidate all positions on behalf of such hedge fund Client.

Coast or a related person from time to time recommends securities to Clients, or buys or sells securities for Clients, at or about the same time that Coast or a related person buys or sells the same securities for its own account. Such purchases or sales are made in accordance with Coast's trade allocation procedures, described below, in order to minimize the conflicts stemming from situations where the contemporaneous trading results in an economic benefit for Coast or its related person to the detriment of the Client.

Coast has established various trading and trade allocation policies with respect to its fund of hedge fund investments and investments with respect to its direct trading funds. With respect to Coast's fund of hedge funds, all investments and redemption decisions must be authorized by Coast's Investment Committee. With respect to its direct trading funds, the applicable trader determines the trade to be made for each hedge fund Client and the appropriate means of executing the trade. Coast may aggregate Client trades when such aggregation is expected to be in the best interest of all participating Clients. With respect to aggregated trades, Coast maintains a written pre-trade allocation checklist that identifies predetermined criteria that must be met for an aggregated trade to be allocated to each participating hedge fund Client. Upon completion of a trade, a trader (who is a risk group member) will complete the checklist and allocate the trade according to the checklist. Based on the checklist the trader will indicate each hedge fund Client's expected participation, measured in shares, principal value, as a percentage of the block, or as a percentage of the hedge fund Client's value. The trader will also complete the "notes"

section of the checklist to memorialize any relevant subjective criteria or other notable information. In determining the written pre-trade allocation, Coast has considered, among other things, each participating hedge fund Client's size, leverage, diversification, cash availability, investment objectives, and other relevant factors deemed relevant by Coast in its discretion. In general, trades will be allocated pro-rata across participating hedge fund Clients based on the respective net asset value of such hedge fund Clients. Coast may determine in its discretion to deviate from such pro-rata allocation in instances where the trade or size of the trade that would be allocated to a particular hedge fund Client based on such pro-rata allocation would not be appropriate after taking into account Client's trading strategy, investment objective or risk profile. Additional instances where trades allocations may deviate from above include initial ramp-up periods for hedge fund Clients where existing hedge fund Clients already have sufficient exposure to a particular trade. Partially filled orders are generally allocated pro rata based upon the pre-allocation. In the case of block trades, each Client receives the average price and pays a proportional share of any commissions. Coast will seek to allocate trades in a manner that is fair and equitable to all hedge fund Clients, and will not allocate trades based on a hedge fund Client's performance or fee structure. Each member of Coast's trading team and risk management groups is responsible for ensuring that deviations from Coast's trading allocation procedures are be disclosed to Coast's Senior Vice President - Trading and its Chief Compliance Officer.

Item 12. Brokerage Practices

The securities, commodities, and other investments of Coast's direct trading hedge fund Clients are primarily purchased, sold and financed directly or indirectly through broker-dealers in the United States. Coast is primarily responsible for selecting the broker or dealer used in each transaction. In making such selections, consideration is given to obtaining favorable prices and efficient executions. Consistent with this policy, when a transaction is effected on an exchange or over the counter, Coast seeks to use brokers and dealers whose commissions, mark-ups, financing rates and charges, and other costs of execution, clearance and settlement it considers, in good faith, to be fair and reasonable, without necessarily determining that the lowest commissions, markups, financing rates and charges, and other costs of execution, clearance and settlement are paid in any instance.

While Coast does not currently have such arrangements in place, in the future, consideration also may be given to placing orders with brokers and dealers who furnish investment research to Clients of Coast or Coast itself. Any such arrangements will be consistent with Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits the use of "soft dollars" in certain circumstances.

Coast has relationships with various broker-dealers that introduce potential investors in hedge fund Clients of Coast. These relationships are independent from any decisions to select brokers or dealers used to execute trades.

Contemporaneous Reviews

As part of their normal functions, Traders will consider the execution quality of each trade. Any unexpected deviations in price, commission rate, market impact, execution speed, or other aspects of execution quality will be promptly reported to Coast.

Quarterly Best Execution Memoranda

Coast will prepare a quarterly report which considers the best execution factors discussed above for each of Coast's counterparties with which a trade that is executed through an electronic trading network. A copy of the report will be provided to the CCO.

Soft Dollar Arrangements

As a matter of policy, Coast does not participate in any soft dollar arrangements.

Investor Referrals

Coast does not consider investor referrals from broker/dealers when making brokerage allocation decisions.

Order Aggregation

Please see Item 11 for a detailed discussion of Coast's Order Aggregation procedures.

Item 13. Review of Accounts

Direct Trading Hedge Fund Account Reviews – Each trader conducts a frequent review of his portfolio positions. David Smith, in his capacity as the principal portfolio manager for these Clients, is responsible for conducting periodic reviews of each direct trading hedge fund Client. The frequency of such reviews is determined by various factors such as market conditions and capital availability, and can occur on a daily, weekly, monthly or *ad hoc* basis.

Fund of Hedge Fund Account Reviews – Coast's portfolio analysts closely monitor and report to David Smith on underlying third party trading and investment advisor performance. Coast's general requirement on transparency and active communication with all underlying third party trading and investment advisors has the goal of ensuring that Coast is apprised of proposed allocation shifts by its multiple-strategy third party trading and investment advisors, that all such advisors are investing within their stated investment objectives and that they remain operationally sound.

Trade Reconciliation – For each business day, Coast regularly reconcile trades and non-trading transactions of certain hedge fund Clients, CDOs and CFOs with bank reports, trade confirmations and broker statements (provided by independent third parties) relating to these entities to ensure that settled trades and non-trading transactions are properly reflected. Coast then reconciles settled trades and non-trading transactions of The Coast Fund with the accounting records and accounts of the fund's limited partners to ensure that trades effected for a Coast Fund Partner or and non-trading transactions are properly reflected in the accounting records and account(s) of the appropriate parties. At the end of each month, Coast repeats the daily reconciliation process using month-end account balances. This monthly bank reconciliation is reviewed by Coast's Chief Financial Officer.

A Client's investors receive reports pursuant to the terms of each Client's offering memoranda or as otherwise described in the offering document of the Client.

Item 14. Client Referrals and Other Compensation

Coast makes cash payments to third-party solicitors for Client referrals, provided that, to the extent required, each such solicitor has entered into a written agreement with Coast pursuant to which the solicitor will provide each prospective Client with a copy of Coast's Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and Adviser and any fees to be paid to the solicitor. Where applicable, cash payments for Client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

Item 15. Custody

Not Applicable.

Item 16. Investment Discretion

Coast provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations Clients may place on Coast's discretionary authority.

Prior to assuming discretion in managing a Client's assets, Coast enters into an investment management agreement or other agreement that sets forth the scope of Coast's discretion.

Unless otherwise instructed or directed by a discretionary Client, Coast has the authority to determine (i) the securities to be purchased and sold for the Client (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the Client.

Item 17. Voting Client Securities

Coast expects that its Clients will invest primarily in non-voting securities. Pursuant to Rule 206(4)-6 under the Advisers Act, Coast has adopted and implemented written proxy voting policies and procedures reasonably designed to ensure that all proxies are voted in the best interests of Coast's Clients, including in circumstances in which material conflicts of interest may exist. As a general rule Coast does not engage in proxy voting. However, Coast may determine in its own discretion to vote a particular proxy of security held by a Client. Coast is required to (1) disclose its proxy voting policies and procedures to investors; (2) furnish investors with a copy of the policies and procedures upon such investor's request; (3) inform investors how they can obtain information on how the securities in their accounts were voted; and (4) retain certain records.

Item 18. Financial Information

This Item is not applicable.

Item 19. Requirements for State-Registered Advisers

This item is not applicable.