

Attalus Capital, L.P.

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of Attalus Capital, L.P. (“Attalus” or “the Company”). If you have any questions about the contents of this brochure, please contact us at 215-495-0800. 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.

Additional information about Attalus is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

The following material changes have been incorporated into this brochure since it was previously filed in March 2011:

- Attalus added disclosures to the *Brokerage Practices* section to reflect direct trading funds that Attalus began offering since the last filing.
- In the *Fees and Compensation* section, Attalus added the following disclosure: “Beginning in 2012, Attalus will charge for the in-house management of the beta portion of the Attalus Enhanced Index Fund, Ltd. at a rate of .025% per quarter (.10% per annum).”
- Attalus terminated the Clifton Group in December 2011. The Clifton Group was the sub-adviser to the Attalus Enhanced Index Fund, Ltd. As a result of the termination, Attalus removed disclosures with respect to the Clifton Group that were located in the *Other Financial Industry Activities and Affiliations* section.

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Advisory Business

Attalus Capital LP, a Delaware limited partnership, (hereafter, “Attalus” or the “Company”) is an investment management firm providing fund of hedge funds, enhanced index funds, direct trading funds, and custom portfolios primarily for institutional investors. Attalus is the investment manager or general partner that provides discretionary investment advisory services to Attalus Multi-Strategy Fund Ltd. (ERISA and Non-ERISA), Attalus Long-Short Equity Fund, Ltd., Attalus Enhanced Indexed Fund Ltd., Attalus Global Multi-Strategy Fund, Ltd., Attalus Trading Partners Total Return Master Fund, L.P., Attalus U.S. Diversified Bond Fund, Attalus U.S. Large Cap Equity Fund I, Attalus U.S. Large Cap Equity Fund II, and Attalus Explorer Fund, LP (each a “Fund” and

collectively, the “Clients” or “Funds”).

In the case of the Funds, investments will consist primarily of direct investment in hedge funds, separately managed accounts under subadvisory arrangements and direct positions in securities used for risk calibration purposes. The Company has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is tailored according to the investment objectives, guidelines, and requirements as set forth in each Fund’s respective offering memoranda and advisory agreement.

Side Letters - The Company may enter into agreements with one or more investors which have the effect of altering or supplementing the terms of the offering to the specific investor. Any terms contained in such agreements to or with an investor shall govern with respect to such investor notwithstanding the provisions of the Fund’s governing documentation. Among other things, terms may include additional notification provisions and most-favored nation provisions.

Attalus is an independent, employee-owned investment advisor founded in 1998 by Patrick Egan as the principal owner, which today includes eight additional employee-partners and more than 30 team members. As of December 31, 2011, Attalus managed \$2,652,000,000 in regulatory assets under management on a discretionary basis on behalf of approximately 9 clients.

Fees and Compensation

In general, Attalus will charge either a 0.175% or a 0.275% quarterly management fee (between 0.75% and 1.10% per annum, respectively, depending on the Fund and share class) based on the net asset value of each Fund’s share class. Beginning in 2012, Attalus will charge for the in-house management of the beta portion of the Attalus Enhanced Index Fund, Ltd. at a rate of .025% per quarter (.10% per annum). Management fees will be deducted quarterly, in arrears. Management fees will be prorated for any period that is less than a full quarter. In certain circumstances, Attalus may permit a reduction in fees for certain investors.

Fees on separate account vehicles will be determined on a case-by-case basis but it is anticipated that the fees would be approximately the same as the fees charged to the respective funds.

Attalus may defer a portion of its management and incentives fees earned on services rendered for managing the Attalus Multi-Strategy Fund, Ltd. Any amounts that Attalus elects to defer will be invested in the Attalus Multi-Strategy Fund, Ltd.

In addition to management fees, investors may bear other costs that are charged to the Funds, as disclosed in each Fund’s offering documents. A Fund will bear external expenses related to a Fund's operations, including, without limitation, investment-related expenses (*e.g.*, fees and expenses charged by the Sub-Advisers and Portfolio Funds, fees and interest on indebtedness, custodial fees, bank service fees, other expenses related to the purchase, sale or transmittal of Fund investments, fees for data and software providers, research expenses, professional fees (including, without limitation, expenses of consultants and experts) relating to investments, and travel expenses related to investments); legal, accounting, audit and tax preparation expenses; corporate licensing fees; and the Management Fee, as well as a Performance Fee for certain share classes; Board of Director liability insurance premiums; Board of Directors' fees and expenses, including travel; organizational expenses; expenses incurred in connection with the offer and sale of Shares; administration fees; and

other similar expenses related to the Fund. Extraordinary expenses (such as the cost of litigation or indemnification payments, if any) will be paid by the Fund. The Board of Directors will have exclusive discretion to determine which expenses are to be borne by a Fund.

Performance Based Fees and Side by Side Management

For a selected share classes, Attalus generally charges a 10% quarterly performance fee of any net profit attributable to an investor's account or series of shares over an investor's "high-water mark." The incentive allocation will be paid quarterly, in arrears. In certain circumstances, Attalus may permit a reduction in fees for certain investors. The fact that Attalus may be compensated with performance fees may create an incentive for the Company to make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of such compensation. Further, investment advisers have an inherent conflict of interest to favor clients or accounts that pay more in fees, such as performance fees. The Company has adopted and implemented written compliance policies and procedures that are designed to address the above conflicts of interest.

Types of Clients

Attalus primarily provides investment advisory and portfolio management to institutional investors, individuals, associated trusts, estates, or charitable organizations, pension and profit sharing plans, and other corporate, business and investment entities.

The Company will manage portfolios of alternative investments with a minimum account size of either \$1 million or \$2 million. Attalus, at its sole discretion, may accept minimum account size of less than \$1MM.

Methods of Analysis, Investment Strategies and Risk of Loss

Attalus devotes significant time and resources to cast the widest possible net to identify the total "investable" universe. Attalus gathers large amounts of information, both on the sourcing side to view the "investable" universe and for analytical purposes to assess the quality of a potential investment. Unlike public markets, where the entire investable universe is readily available through computer databases, the very best hedge fund opportunities may not be listed in any public forum. Therefore, we must actively work to uncover the premium investment opportunities through a proactive, relationship-oriented process and network. Again, our position as peers assists us in this process. Attalus taps into the networks of prime brokers, sell-side analysts and sales/traders, and other investment managers. Attalus has constructed a proprietary database that combines our own internal relationships and networks, and publicly available databases. Our initial due diligence leads us to a list of hedge funds whose managers have been identified as possibly adding alpha and mitigating risk. The Attalus team then performs extensive, face-to-face due diligence. We do on-site reviews, conference calls and meetings as well as a quantitative and qualitative review and reference and background checks. This screening will lead us to a final group of hedge funds that are a potential fit. These are the funds that will enhance the portfolio based on their potential for alpha generation, risk mitigation and qualitative correlation.

If the sourcing process and initial research uncovers a promising hedge fund manager, Attalus implements a thorough process to compile a comprehensive understanding of the manager. Attalus

professionals conduct multiple on-site visits and/or personal interviews with a hedge fund's investment team to evaluate their core competency and viability of their strategy, as well as to identify a manager's specific skill and sustainable edge. The Attalus team also investigates periods of out/under performance to understand the manager's weaknesses and strengths, paying close attention to performance explanations in times of past market stress. Performance attribution is also examined to learn whether a manager can make money both long and short the market.

The Attalus team reviews a hedge fund's infrastructure (team-depth, operations, and systems-backups) and examines the manager's risk management controls and use of stop-loss, leverage, limits, and diversification, as a hedge fund's risk tools must be appropriate for the strategy. Full background and reference checks are conducted to search for past fraud, criminal activity, and professional infractions and to verify education and employment history. Often the reference checks are done through the personal network of Attalus team members from their previous direct experience in the investment community. Financial stability checks are also completed on the hedge fund and its partners and investor liquidity provisions are reviewed to understand implications during market stress. Fund assets, portfolio holdings, and performance numbers are verified with auditor and prime broker checks, and conflicts of interest are explored by investigating potential time/attention conflicts, personal accounts for similar positions, and side deals where all investors are not treated equally. Additionally, the Attalus investment team reviews the inflow rate of new capital and size goals for a hedge fund, and evaluates whether an investment manager's focus is performance/incentive-fee driven, and aligned with current investors, or asset-growth/management-fee driven. Attalus believes larger hedge funds tend to produce lower alpha and managers with regular efforts to roll out new funds could signal a preference for size/scale over returns.

Finally, a unique component Attalus' due diligence evaluation is a behavioral analysis of each hedge fund to understand how a manager reacts in "normal" and "abnormal" markets. During times of extreme market turmoil, stocks and markets tend to become more correlated and the reaction of managers is critical to anticipate the impact on our portfolio. For example, three long-short micro cap managers might appear to be similar in terms of strategy but the way in which they trade and react in times of market-panic, can produce very different results (one may go to cash, one may do nothing, and one may aggressively trade). By anticipating the reaction of hedge fund managers, Attalus can provide an additional layer of portfolio diversification to investors. Another area examined is the willingness of a manager to reasonably adapt in a changing market environment. Attalus seeks managers who learn and evolve while sticking to their strengths/edge and is cautious of managers who drift in/out of investment areas in which they lack sufficient expertise.

This evaluation process typically entails ongoing discussions over an extended period of time, and continues after investment. Minimally, for each investment, Attalus endeavors to conduct a complete annual review including study of audited financial statements, two in-person meetings annually, quarterly conference calls, and monthly holdings/portfolio report reviews.

Risk Calibration:

We utilize several tools to quantify risk at the underlying hedge fund level. Our investment team then aggregates and interprets the data on an overall portfolio level. Based on this information, we have the ability to implement risk calibration to adjust the types of exposures for the portfolio through direct trading.

Our risk calibration trading is typically limited to utilizing liquid, exchange traded instruments such

as futures, ETFs, options, and/or other derivatives. The objective of the risk calibration trading is to supplement exposures from underlying hedge funds in order to reshape the risk profile of the portfolios to improve their positioning in the context of the investment goals. The Investment Committee is ultimately responsible for assigning the risk budget and articulating the specific adjustments to the overall portfolio risk profile based on the input and recommendations from the risk management group. The risk management group is responsible for identification of risk imbalances of the portfolio, by evaluating the response of the portfolio to both positive and negative shocks to various market risk factors that reflect variety of historical as well as hypothetical scenarios. Jointly with the trading team, the risk management group evaluates the payoff structures with associated costs to adhere to the risk budget. The trading team is responsible for the most efficient way of executing and managing the recommended overlay strategy within this framework.

All executed transactions are tracked on a real-time basis. Our operations team also verifies all trades upon receipt of trade confirmations from the counterparty or the prime broker. We utilize a real-time portfolio and risk management platform to aggregate exposures, analyze the potential impact of various risk factors and track performance of the overlay strategy.

Risk of Loss

All investing involves a risk of loss that Clients should be prepared to bear. The identification of securities and other assets believed to be undervalued is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired by third-party managers or funds. Attalus cannot give any guarantee that it will achieve a Client's investment objectives or that Clients will receive a return on its investment. Below is a summary of potentially material risks for each significant Attalus investment strategy used, the methods of analysis used, and/or the particular type of security recommended.

- *Lack of Control* - Attalus will not have a role in the management of Clients' third-party managed accounts and it may not have the opportunity to evaluate in advance the specific investments made by any third-party managers. As a result, the rates of return to Clients will primarily depend upon the choice of investments and other investment and management decisions of third-party managers, and returns could be adversely affected by the unfavorable performance of such managers. Attalus depends on third-party managers to develop the appropriate systems and procedures to control operational risks. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in operations may cause the Client accounts to suffer financial losses.
- *Dependence on Key Individual* - Client portfolios are dependent on the continued service and active investment efforts of the President and Chief Investment Officer, Mr. Patrick Egan.
- *Managed Account Allocations* - Attalus may place assets with a number of Sub-Advisers through opening discretionary managed accounts rather than investing in Portfolio Funds. Managed accounts expose a Fund to theoretically unlimited liability, and it is possible, given the leverage that may be employed by the Sub-Advisers, that a Fund could lose more in a managed account directed by a particular Sub-Adviser than a Fund had

allocated to such Sub-Adviser to invest.

- *Limited Liquidity* - An investment in a Fund provides limited liquidity since the Shares are not freely transferable and generally a shareholder has limited redemption rights. A Fund may also suspend the redemption rights of the shareholders. An investment in a Fund is suitable only for sophisticated investors who do not require immediate liquidity for their investment.
- *Estimates* - In most cases, the Administrator, the Board of Directors and/or Attalus will have no ability to assess the accuracy of the valuations received from a Sub-Adviser or the administrator of a Portfolio Fund. Furthermore, the NAVs received by a Fund from such Sub-Advisers will typically be estimates only, subject to revision through the end of each Portfolio Fund's annual audit. Revisions to a Fund's gain and loss calculations will be an ongoing process, and no appreciation or depreciation figure can be considered final until a Fund's annual audit is completed.
- *Valuations* - Certain securities in which Portfolio Funds invest may not have a readily ascertainable market price. Such securities will nevertheless generally be valued by Sub-Advisers, which valuation will be conclusive with respect to the Fund, even though Sub-Advisers will generally face a conflict of interest in valuing such securities because the value thereof will affect their compensation.

Disciplinary Information

Attalus and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

Attalus and its employees do not have any relationships or arrangements with financial services companies that pose material conflicts of interest.

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

Attalus has policies to avoid conflicts of interest when employees own, buy or sell securities. The firm has adopted a Code of Ethics that is designed to detect and prevent conflicts of interest. Certain personal securities transactions are required to be pre-cleared and monitored by the firm's compliance personnel. The firm's policies and procedures require that the firm's employees always put the firm's clients' interest first. The firm will only recommend Attalus funds or separate accounts to clients based solely on investment considerations, including whether the investments are suitable for a client and meet the client's investment guidelines. Attalus' Code of Ethics is predicated on the principal that Attalus owes a fiduciary duty to its clients. Employees of Attalus must avoid activities, interests and relationships that are or appear to be contrary to the best interest of clients. Attalus requires employees to (i) place client interest ahead of Attalus (ii) engage in personal investing that is in compliance with the Attalus policy (iii) avoid taking advantage of such employee's position of

employment (iv) maintain full compliance with federal securities laws, and (v) pre-clear certain transactions and periodically report securities holdings and transactions. A copy of the firm's Code of Ethics is available upon request.

Attalus is the general partner for Attalus Explorer Fund, L.P. in which certain clients are solicited to invest.

Brokerage Practices

The large majority of clients and client assets are invested with third-party managers and funds directly and without the involvement of any financial intermediary such as a broker-dealer. Thus commissions are not ordinarily payable in connection with such investments.

In connection with trades executed, directly, by a Fund it is Attalus' policy to always seek best execution for Client securities transactions. Attalus generally takes the following into account when selecting broker dealers: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer and (iv) the competitiveness of commission rates in comparison with other broker-dealers satisfying Attalus' other selection criteria. Although Attalus generally seeks competitive commission rates and commission equivalents, it may not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services. Attalus has not participated in any formal soft dollar programs. We typically execute client transactions on an aggregated basis when we believe that to do so will allow us to obtain best execution and to negotiate more favorable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. Instances in which client orders will not be aggregated include, but are not limited to, the following: tax, legal, regulatory, cash availability, or other administrative reasons. Clients participating in an aggregated order generally will receive the average price of the transaction and pay their share of transaction costs. On occasion if an order is partially filled participating accounts will receive a pro rata average priced allocation of the order. Attalus' allocation procedures seek to allocate investment opportunities among Clients in the fairest possible way taking into account Clients' best interests and the appropriateness of investments in relation to a Fund's investment objectives. Attalus will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any Client or group of Clients.

Review of Accounts

Once a fund manager is retained, Attalus monitors the relationships through on-site visitations, analysis of the investment portfolio, and discussions with the manager and with investment personnel associated with the fund manager. Formal and informal conversations are held by sector analysts with the underlying hedge fund investments at least monthly (and often on a weekly basis) to maintain an understanding of the hedge fund managers' thoughts regarding opportunities in their respective markets and their current risk profile levels. On-site visits are generally conducted on an annual basis. The goal of this ongoing analysis is to provide Attalus with information to ascertain a

fund manager's ability to implement its strategy successfully and, when necessary, adapt the investment program to changes within the financial markets. It is this ongoing evaluation process, not the fund manager's past performance that will ultimately determine when it is appropriate to maintain, increase, or terminate an allocation. Investments will be redeemed if it is determined that changes within its process of key personnel or secular changes in the capital markets inhibit or eliminate exploitation of the fund manager. Monitoring of investments is executed by each member of the investment team and each fund manager is contacted regularly.

Investors receive written monthly reports directly from Attalus' third party administrators. The reports typically contain the net asset value at the beginning of a reporting period, the change in the net asset value for the period and the ending net asset value. Investors will receive an estimated and final unaudited monthly reports. Investors also receive annual audited financial statements of a Fund(s) prepared in accordance with generally accepted accounting principles

Client Referrals and Other Compensation

Attalus has engaged National Investment Services Inc. (“NIS”) to assist Attalus with the identification and servicing of clients. NIS will be compensated directly from Attalus should a client identified by NIS invest with one of the Attalus funds. This compensation is calculated based off of either a percentage of NAV introduced or a flat monthly fee, in any case, from compensation otherwise payable to Attalus. An investor will be charged the same fee in connection with an investment in a fund that a fund will charge to an investor that invests without the involvement of a third party paid solicitor.

Custody

Client assets are held in custody by unaffiliated broker/dealers or banks; however Attalus has access to Fund assets since it or a related person serves as the managing member or general partner of the Funds. To comply with the Advisers Act Custody Rule (i.e. Rule 206(4)-2) and to provide meaningful protection to investors, each Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting standards, and are distributed to investors within 180 days (or 120 days for a Fund that is not a fund of funds) of the each Fund’s fiscal year end, in accordance with Rule 206(4)-2 under the Advisers Act.

Investment Discretion

Attalus serves as an investment manager or adviser to the Funds and generally has complete discretion and authority to manage and direct the investment of capital for the Funds. This authority is provided to Attalus through an advisory agreement signed with a Fund. Any limitations on Attalus’ authority is included in Fund offering documents, advisory agreements, investor side letters, and/or the Company’s internal compliance policies and procedures.

Voting Client Securities

Attalus has not voted proxies for Clients, the third-party managers vote Attalus' Clients' proxies. Clients or investors may not direct Attalus to vote proxies in a particular solicitation.

Financial Information

Attalus has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.