

# **INCA Investments, LLC**

## **Part 2A of Form ADV The Brochure**

February 2012

This brochure provides information about the qualifications and business practices of INCA Investments, LLC. If you have any questions about the contents of this brochure, please contact us at (305) 670-2230. 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 INCA Investments, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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## **MATERIAL CHANGES**

This brochure contains information about the Firm and there have been no material changes since the last amendment.

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## **ADVISORY BUSINESS**

INCA Investments, LLC, (“INCA”) a Delaware limited liability company organized in February 2004, provides investment advisory services to charitable organizations, such as endowments and foundations, corporations, partnerships, limited liability companies, pooled investment funds, and other business entities. INCA, which is headquartered in Miami Florida, provides these advisory services on a discretionary basis for domestic and non-US based accounts. INCA was incorporated in 2004 and also registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment advisor under the Investment Act of 1940, as amended, (the “Advisers Act”) during this same year. Fernando X. Donayre is the managing member of INCA Investments.

INCA provides investment advisory services based on written investment objectives between the client and INCA. The advisory service includes, without limitation, advice regarding asset allocation, selection of investments, and performance monitoring, however, the scope of services can vary depending on the needs of the client. INCA invests in a wide variety of securities and financial instruments, US and non-US, primarily focusing on publically traded equity securities in the Latin American markets.

INCA Investments provides investment advisory or sub-advisory services for the following Funds:

- INCA Latin American Fund, LP
- Zephyr Latin American Fund, LP (“ZLAF”) (sub-advisor)
- Zephyr Aurora Fund, LP (“ZNY”) (sub-advisor)
- World Investment Opportunity Fund (“WIOF”) (Latin American Performance Fund) (sub-advisor)

As of December 31, 2011, INCA Investments’ assets under management on a discretionary basis were approximately US \$366 million.

## **FEES AND COMPENSATION**

INCA charges a management fee for each of the Funds it manages. In accordance to each Fund’s investment management agreement, a management fee shall be payable quarterly and allocated amongst the investors of each fund on a pro rata basis on any amount permitted to be invested during any quarter.

In the case of our flagship INCA Latin America Fund (the “Fund”) there are two series of interests, Series A and Series B which have separate rights and obligations and fee structures. The Series A standard management fee arrangement is a 1.25% annual management fee payable quarterly in arrears, based on the Partnership’s Net Asset Value, and an annual performance fee of 10% subject to a high water mark and a hurdle rate. The Series B standard management fee arrangement is a 1.5% annual management fee payable quarterly in arrears, based on the Partnership’s Net Asset Value, and an annual performance fee of 20% subject to a high water mark and hurdle rate.

The management and/or performance fee for the Fund, sub-advisory services and separate accounts that we manage are generally negotiable. The compensation method is explained to and agreed upon with clients and investors in advance before any services are rendered and are set forth in their respective investment management agreements and/or fund offering documents, as applicable. Management and performance fees are waived for employees of INCA Investments that elect to invest in any of the funds that we manage.

Management fees are shown on an annual basis as a percentage of assets under management and paid quarterly, in arrears, with the exceptions of WIOF where the management fee is based on the net asset value of the portfolio, and Zephyr Aurora Fund management fees which are payable in advance on a quarterly basis. Once a client redeems fully or partially from the fund, the client will be reimbursed on a prorated basis for the management fees charged in the prior quarter. INCA Investments is engaged in a fee-split relationship with the sponsor of each fund where we provide sub-advisory services.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As stated in the Fees and Compensation section above, INCA may charge a performance fee for its services of the Fund. These performance fees are based on the performance of an investor's investment in the Fund and are generally payable if the investment has exceeded a specified rate of return, or other metrics, as described in the Fund's governing documents.

INCA manages a Fund as well as separate accounts that charge an asset based management fee and a performance fee. INCA also manages a separate account that charges only an asset based management fee.

The fact that INCA is compensated based on the investment profits may create the appearance of an incentive for INCA to make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of such compensation. The charging of different types of fees can create the appearance of the potential for INCA to favor those funds or separate accounts that charge higher fees and for which INCA can receive higher compensation. In no instance will clients paying higher fees receive preferential treatment over clients not paying those fees.

As a fiduciary, INCA recognizes its duties to act in good faith and with fairness in all of its dealings with all clients. To minimize this potential conflict of interest, INCA has set up policies and procedures to ensure that client assets are managed in accordance with the investment mandate of the fund or separate account. In addition, INCA has trading policies in place to ensure that trades are equitably allocated according to the investment mandate of the account.

## **TYPES OF CLIENTS**

INCA serves as an investment adviser to various types of clients, including, but not limited to:

- High net worth individuals, family offices and related entities;
- Funds organized as domestic or offshore (non-U.S.) companies, limited partnerships,
- Trusts and other fiduciary accounts (e.g., estates);
- Foundations, endowments, charitable and other nonprofit institutions; and

INCA imposes a minimum dollar amount for an investment in the fund. Details concerning applicable eligibility criteria for investors in the fund are set forth in the fund offering documents. The minimum amount to invest in the fund is \$500,000, but the General Partner of the fund may waive the minimum amount. Generally, the minimum amount to invest in a separate account is \$15,000,000. INCA maintains discretion to accept less than the minimum investment thresholds.

## **SIDE LETTERS**

INCA may enter into separate agreements, commonly referred to as “side letters”, with certain investors in the Fund to waive certain terms, or allow such investors to invest on different terms than those specifically described in the offering documents without obtaining the consent of any other investor in such Fund. Side letter terms may include, without limitation, more favorable fee and liquidity terms. INCA may also grant additional transparency or any form of additional disclosure with respect to performance or operation of a Fund to an investor without obtaining the consent of or granting similar rights to the other investors in the Fund. In addition, certain investors may negotiate for a “most favored nation” provision permitting them to elect to receive the benefit of any modification or waiver of terms another investor participating in the same Fund receives. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other limited partners.

## **METHOD OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The investment strategy of INCA is to seek long-term capital appreciation by investing in Latin American securities. The Latin American securities in which INCA invests may be securities which trades in one or more Latin American market, are US Dollar denominated instruments of Latin American issuers such as American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs) or US Dollar denominated securities of companies where the majority of their business is related to Latin America. Although some investment mandates of the fund and separate accounts managed, allows investments in a variety of securities, the vast majority of our investments are in publicly listed equity securities. In those cases where the fund or separate account mandate allows for hedging, within the Series B hedging facility, INCA may short securities or use other hedging techniques in an effort to reduce the volatility of the investment portfolio.

INCA conducts a variety of investment analysis techniques in its effort to invest in Latin American securities which INCA believes will provide long-term capital appreciation. In seeking investment opportunities, INCA conducts extensive fundamental research with the goal

of producing attractive long-term returns for its clients. Each client's unique investment objectives are described in detail in a confidential private placement memorandum or investment advisory agreement. There are no assurances that INCA will attain its investment objectives and clients should be prepared to bear this risk.

With respect to its investment strategy, when analyzing the underlying companies of investment securities, INCA performs both qualitative and quantitative analyses. On the qualitative side, INCA seeks to determine the prospects for the industry in which the prospective company operates and also seeks to evaluate the operations and business strategies pursued by the company. On the quantitative side, INCA performs a financial analysis of a company's historical financial statements and builds models to project the expected future financial performance of a company. As part of the quantitative analysis, INCA also examines the valuation levels of the securities by comparing them to peer companies and the expected future financial flows of the company. After analyzing the initial quantitative data, additional qualitative research may be conducted including onsite visits and additional questioning of key company personnel.

Pursuing the investment strategies of INCA involves a high degree of risk and the potential loss of all invested capital. One of the main risks in the investment strategies of INCA is the high volatility and high potential losses involved in investing in Latin American securities. Latin America is part of the Emerging Markets, an area which is considered to have greater risk than investing in developed countries. Investments in Latin America are subject to operational risks which include, but are not limited to, the risk of default by counterparty, lack of legal enforceability due to a weak judicial system and low or non-existing regulatory oversight. Latin American investments are also subject to adverse economic and political developments which may negatively affect the price of an investment. Latin American investments, which are valued in Latin American currencies, are subject to significant devaluations and government controls which could lower the value of an investment or curtail the ability to exchange the investment into another currency. Latin American companies can have low transparency and may provide inaccurate financial information. Moreover, many Latin American companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies. In those Fund and separate account mandates that allow INCA Investments to hedge in order to reduce the volatility of the portfolio, there is no assurance that the goal to lower the risk of the portfolio will be achieved.

An investment in INCA's Latin American market investment strategies may be deemed a speculative investment and is not intended as a complete investment program. INCA's Latin American Fund investment services are designed for sophisticated investors who fully understand and are capable of bearing the risk of loss. Prospective investors should read the Fund confidential private placement memorandum and other governing documents, prior to investing, for a complete description of the fund's investment objectives, strategies, and inherent risks.

The investment risks described above represent some but not all of the risks associated with various types of investments and investment strategies. Clients should carefully evaluate all

applicable risks with any investment or investment strategy, and realize that investing in securities involves risk of loss that clients should be prepared to bear.

#### **DISCIPLINARY INFORMATION**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material in evaluating INCA or the integrity of INCA's management. INCA and its employees have not been involved in any legal or disciplinary events since inception that would be material to a client's evaluation of the company or its personnel.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither INCA nor any of its management persons are registered or have an application pending to register as a broker-dealer, futures commissions' merchant, commodity pool operator, commodity trading adviser, or as a registered representative or an associated person of any of the foregoing entities.

INCA Management, LLC, a Delaware Limited Liability Company, is the General Partner and provides management services for the INCA Latin American Fund. Fernando Donayre is the principal member, manager and controlling person of this company. The General Partner is also a member of the Advisory Committee for one of our sub-advised funds, ZLAF as well as serve as a Director for Zephyr Latin America, LLC, and the general partner of ZLAF. There are no other such affiliations for other entities and no other identifiable potential conflicts of interest.

#### **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

INCA has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the "Code") which expresses its operating principles of integrity, honesty and fiduciary duties that it owes its clients. The Code provides the standard of business conduct expected of all INCA employees as well as policies and procedures that each employee must follow to prevent activities which may lead to or give the appearance of conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct. The Code prohibits employees of INCA to invest in the same securities that are held in client portfolios managed by INCA or any Latin American equities. INCA maintains records of all personal securities accounts of its employees in an effort to monitor all such activity. INCA will not tolerate illegal or improper actions undertaken either for personal benefit or in a misguided effort to achieve gains on behalf of the firm or its clients. Violations of the Code may result in disciplinary action, including dismissal. All INCA employees are prohibited under the Code from executing personal securities transactions which might operate to the detriment of INCA's clients. INCA's Code is available for review and will be provided to investors and prospective investors upon request.

## **BROKERAGE PRACTICES**

Securities transactions for the portfolios managed by INCA are executed through brokers selected by INCA in its sole discretion and without client consent. In selecting brokers to use for portfolio transactions, INCA will seek to obtain the best execution for the client, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the quality and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying INCA's selection criteria.

The term "soft dollars" refers to a means of paying brokerage firms for research and other products or services through commission revenue from securities transactions executed on behalf of advisory clients. INCA uses brokers, to transact the purchase or sale of securities, who provide INCA with proprietary research services. These research services are paid through the higher brokerage commission rates charged by brokers who transact and provide the research services compared to the commission rates of brokers who only conduct security transactions. INCA only uses brokers that provide research services if INCA determines the commissions paid to those brokers are reasonable in relation to the overall services provided. Research services furnished by brokers include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; discussions with research personnel; and invitations to attend conferences or meetings with company managers or industry consultants. Since the research services provided by brokers are paid with client brokerage commissions and not by INCA, the practice creates a potential conflict of interest by providing INCA with a benefit for which they do not have to pay. As a result, it may appear as if INCA may have an incentive to use the services of a broker based on the research services received and not based on the broker's ability to provide the most favorable execution. Although INCA attempts to receive research services that will benefit all of the funds and separate accounts it manages, there can be no assurance that research services paid for by higher commissions will be used to obtain research services which will only benefit the portfolios which paid for the research services.

INCA does not request that its clients' direct execution of transactions be with specific brokers nor does any client currently require INCA to direct the execution of transactions with a specific broker.

INCA Investments may aggregate purchase and sale orders of the same security being made simultaneously for more than one portfolio if in the judgment of INCA; such aggregation of orders is reasonably likely to result in an overall economic benefit to the participating portfolios. The economic benefit of aggregating the purchase or sale of securities may include the ability to receive relatively better purchase or sale prices, lower commission expenses, beneficial timing of transactions, or a combination of these and other factors. When aggregated purchase or sale orders are transacted, the average price of all securities purchased or sold in such transactions will be charged or credited to the participating portfolios.

It is the policy of INCA that the utmost care is taken in making and implementing investment decisions of behalf of client accounts. To the extent that INCA makes any trading errors, they are to be (a) corrected as soon as practicable without disadvantaging the client or benefiting INCA, (b) reported to INCA's management, and (c) scrutinized carefully with a view toward implementing procedures to prevent or reduce future errors, if necessary.

#### **REVIEW OF ACCOUNTS**

All funds and separate accounts managed by INCA are reviewed, on average, on a daily basis by the Chief Investment Officer. This review is done to assure conformity with investment mandates. INCA may also meet with clients on a periodic basis, participate in periodic conference calls with clients and/or respond to clients' request for information. In addition, all accounts are reviewed in light of country, industry and company developments to determine if any changes to the portfolios should be considered or enacted.

INCA provides written reports on a monthly basis to all clients of the fund or the separate accounts. The written reports are specific to the fund or separate account, but in general the report provides a summary of the performance of the Latin American markets and an overview of the events which affected the region or the portfolio companies during the month. Quantitative and performance information on the respective portfolio and its holdings is also provided. In addition, all clients of the fund receive from the administrator of the fund a monthly report containing the value of their investment balances and financial activity, as well as the performance of their account for the month. Clients of the fund receive copies of the fund's audited financial statements and clients of the onshore fund receive tax information prepared by the tax accountants of the fund.

All clients of the separately managed accounts receive monthly balance reports directly from the respective custodian of the separate account. Additionally for managed accounts, INCA may prepare reports to clients, upon request, which include, but are not limited to, account reconciliations comparing INCA's internal valuation of the separate account to the valuation provided by the custodian of the separate account.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

INCA has entered into arrangements to pay a referral fee at its own expense to placement agents in conjunction with the referral of an advisory (or other type of) client. The compensation paid to the placement agents is based upon the amount of capital raised by the placement agents and consists of 20% of gross management and performance fees. INCA may in the future enter into additional referral arrangements with other third parties. In the context of investment advisory referrals, these arrangements are subject to Rule 206(4)-3 under the Advisers Act and are disclosed to prospective clients by the solicitor at the time of the referral.

#### **CUSTODY**

INCA is deemed to have custody over the funds and securities held by the INCA Latin America Fund due to its, or an affiliated person's, role as General Partner (or similar control capacity) of the Fund. The Fund's assets are held in custody by an unaffiliated qualified custodian.

Generally, Fund investors will not receive account statements from the custodian, although for our separate accounts they receive periodic statements from their specific custodians. Instead, the fund is subject to an annual audit and the audited financial statements, prepared by our auditors Deloitte and Touche, in accordance with Generally Accepted Accounting Principles, are distributed to each investor within 120 days of the fiscal year end. However, clients of the fund receive monthly account statements from the administrator of the fund, which they should carefully review and compare to the information provided to them on the monthly report from INCA.

#### **INVESTMENT DISCRETION**

INCA has discretionary authority to provide investment advisory services to its Fund and separate accounts. INCA's discretionary authority, as well as any limitations to that authority, is described in the prospectus and supporting legal documents of the fund and in the respective investment management agreements of the separate accounts.

#### **VOTING CLIENT SECURITIES**

INCA has the authority to vote client securities and monitor corporate actions. INCA has set up a proxy voting team that is charged with implementing and supervising the policies and procedures of INCA in relation to voting client securities.

Records of proxy votes cast are kept in compliance with SEC Rule 206(4)-6 by retaining the following:

- Copies of all proxy policies and procedures
- Copies of each proxy statement received
- Records of each vote cast by INCA on behalf of a client
- If applicable, copies of documents created by INCA that are material in the decision-making process for how to vote proxies or that articulates the basis for that decision
- Copies of each written client request for information on how INCA Investments voted proxies on his or her behalf, as well as copies of any written responses by INCA to any written or oral client request for information

In general, the proxy voting policy of INCA is to vote specific proxies, based on our reasonable judgment, in the best interest of our clients. For proxy votes for securities held in our fund, we vote in the best interest of all the clients of the fund. For proxy votes for securities held in the separate accounts, we vote in the best interest of the client of the separate account. None of the clients of the fund or the separate accounts have provided general or specific guidance to direct the voting of their securities.

Clients may obtain information from INCA on how their securities were voted and also obtain a copy of our proxy voting policy and procedures upon request.

**FINANCIAL INFORMATION**

It is important to clients of our investment advisory services that INCA has the financial wherewithal to meet its contractual commitments to the fund and the separate accounts. As such, INCA has never filed for bankruptcy and is not aware of any financial condition or event that would impair the ability of INCA to meet its contractual obligations to the clients of its fund or separate accounts.