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Brochure dated April 12, 2012

This Brochure provides information about the qualifications and business practices of RK Capital Management, LLC (“RK Capital”, the “Adviser”, “our”, “us” or “we”). If you have any questions about the contents of this Brochure, please contact us at (303) 394-0101 or [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

RK Capital Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you determine whether to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

The sole change to this Brochure compared to the previous dated March 30, 2012 is to record the change in the fund administrator to the Tessera funds in **Item 15**.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested, free of charge, by contacting us at (303) 394-0101 or [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com).

Additional information about RK Capital Management, LLC is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of RK Capital Management, LLC.

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## **Item 4 – Advisory Business**

### **Firm History & Management**

RK Capital Management, LLC, a Colorado limited liability company, was formed in June, 2004 by Robert Ammann and Kevin Sonnett. Robert and Kevin each have a 50% ownership interest in RK Capital. There are no other persons or entities that have an ownership interest in RK Capital. The firm registered with the SEC as an investment adviser in January 2007.<sup>1</sup> RK Capital provides investment advisory services primarily to pooled investment vehicles such as limited partnerships and offshore exempted companies.

We provide investment advisory services in our role as the general partner of the Tessera Fund, LP, the Tessera QP Fund, LP (both onshore funds, the “Partnerships”) and the Tessera Master Fund, L.P., also a Partnership. We also provide investment advisory services in our role as the investment manager of the Tessera Offshore Fund, Ltd. (the “Company”) and as sub-advisor to the PM Manager Fund SPC Segregated Portfolio 16 (the “SP16”). The Partnerships, the Company and SP16 are collectively referred to as the “Funds” or generally and individually as the “Fund” and the Partnerships and the Company are collectively referred to as the “Tessera Funds”. The Tessera Fund, LP launched in November 2004. The Tessera QP Fund, LP and the Tessera Offshore Fund, Ltd launched in January 2007. The Tessera Master Fund, L.P. was launched in March 2011 and has the Tessera QP Fund, L.P. and the Tessera Offshore Fund, Ltd. as feeders.

### **Advisory Services**

We provide our investment supervisory services to the Funds. As of February 29, 2012, we had approximately \$224,900,000 in net assets under management (“AUM”). We exercise discretionary investment authority over all managed assets held in the Funds. RK Capital and certain managers and employees of RK Capital maintain investments in the Tessera Funds. These investments are included in the AUM number shown above.

The Tessera Funds are long/short equity hedge funds and the SP16 is a separately managed account. Both the Tessera Funds and the SP16 invest primarily in publicly traded, U. S. listed equities of small capitalization (small cap) companies. We may invest in other securities, but our primary focus is domestic small cap.

While we generally manage all the Funds using a similar strategy as outlined in each of the Funds’ offering documents, there may be some slight differences or exceptions. Initial Public Offerings (“IPOs”) of shares of issuers may be treated differently depending on investor intent. Certain clients may elect to participate in a limited basis in the gains from IPOs and other clients may elect to not participate at all in the gains from IPOs. As well, clients who desire differing levels of leverage or position size differences may elect to place their assets into separately managed accounts. In such a case, the investment activities and restrictions are governed by a separate investment advisory agreement or sub-advisory agreement.

We do not participate in wrap fee programs and do not manage assets for wrap fee programs.

## **Item 5 – Fees and Compensation**

The specific manner in which fees are charged by RK Capital is established in a client’s written agreement with RK Capital. We generally charge clients a 1.5% annual management fee that is payable monthly at the

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<sup>1</sup> Registration with the SEC of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you may use to determine whether to hire or retain an Adviser.

rate of 0.125%. Fees are calculated and payable in advance, as of the beginning of each month (after taking into account any subscriptions, but without the accrual of any performance fee, which is discussed later). At the beginning of each month, fees are deducted from each client's account, or are recorded as a payable to us, and the management fees credited to us are available for withdrawal at our discretion. While fees are deducted at the beginning of the month we do not foresee an instance where any refund of such fees would be required since any redemption notice period is not less than 30 days.

In certain circumstances fees may be negotiable. We, at our sole discretion, may alter, reduce, or waive any portion of the management fee as to any investor, employee, principal, or our affiliate, or their respective family members, trusts, foundations, or affiliates.

In addition to management and performance fees, clients are subject to other fees and expenses including, but not limited to, brokerage and transaction costs, audit fees and fund administration costs.

RK Capital and our employees do not accept compensation from any party for the recommendation or sale of any security or investment product.

Refer to **Item 6** below for more detailed information regarding performance-based fees. **Item 12** further describes the factors that RK Capital considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As the investment manager for the Funds, RK Capital may be entitled to an annual performance fee – in most cases 20% of net profits during a calendar year. The performance fee is described in more detail in the offering memorandums specific to each Fund. Performance fee arrangements may be negotiated in certain circumstances. RK Capital will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the “Advisors Act”) in accordance with the available exemptions allowed by the Advisors Act, including the exemption set forth in Rule 205-3.

At our discretion, we may alter, reduce, or waive any portion of the performance fee applicable to any shareholder, partner, employee, principal, or our affiliate, or their respective family members, trusts, foundations, or affiliates. Our performance fee is subject to a “high water mark” limitation. A high water mark in simple terms means that, after the first year in which a performance fee is earned, we may earn a performance fee only if net profits exceed net losses cumulatively for all years from the point of an initial investment. If an investor makes a withdrawal at a time when their capital account balance is below its historic high water mark, the high water mark will be reduced on a pro-rata basis to reflect the withdrawal. A more detailed discussion of the high water mark can be found in each Fund's respective offering documents.

In measuring clients' assets for the calculation of performance fees, we include realized and unrealized capital gains and losses. Performance fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. As all the Funds are managed using a similar investment method, there is a minimal likelihood of a conflict of interest where one client may be treated differently than another with respect to performance fees.

## Item 7 – Types of Clients

RK Capital provides portfolio management services to pooled investment vehicles, specifically hedge funds and separately managed accounts. Generally, the Tessera Funds have a minimum investment of \$500,000. However, minimums may be altered or waived at our sole discretion.

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

RK Capital's primary method of analysis and investment strategy involves conducting fundamental research on publicly traded companies in an effort to uncover attractive investment opportunities. Because we invest both long and short, we search both for stocks that we think will increase in value and for stocks that will think will decline in value – either on an absolute basis or at times relative to other stocks. Through our research process, we attempt to identify discrepancies between our estimate of fair market value and the actual market price. Generally speaking, if our research suggests an estimate of fair market value that is materially *above* the current market price, we may conclude to make an investment in that company (or in other words, establish a “long” position in the publicly traded stock of that company) with the expectation that the stock price will *rise* over time (to a price that is close to our estimate of fair market value). Conversely, if our research indicates an estimate of fair market value that is materially *below* the current market price, we may conclude to sell short shares in that company (or in other words, establish a “short” position in the publicly traded stock of that company) with the expectation that the stock price will *fall* over time (to a price that is close to our estimate of fair market value).

RK Capital utilizes a variety of research methods in conducting its fundamental research. We may use, among other methods, any or all of the following:

- review, study and analysis of public company filings – such as SEC filings;
- review, study and analysis of company sponsored information such as press releases, presentations, product descriptions, etc.;
- attendance and meetings with public company executives at industry conferences;
- visits to company locations and meetings/interviews with senior management of target companies (by target companies, we are referring to companies in which we are already invested or considering investing);
- visits with senior executives of target companies in our office in Denver;
- regular dialogue with company executives via telephone and email;
- conversations and interviews with industry experts, such as brokerage research analysts;
- research on the target company's customers, suppliers, competitors and partners;
- participation in public company conference calls and review of transcripts of such calls;
- use of various investment software – such as Bloomberg, Thomson Baseline or Factset – which aggregate and organize historical company and industry financial data and disclose industry analyst estimates of future company revenues or profits;
- use and study of published research from various brokerage firms on subjects including publicly traded companies, industries, sectors or broader research such as research on small cap equities;
- analysis of historical company and industry financial data; and/or
- proprietary forecasts of future profits and cash flow of target companies.

We obtain the information we use in our analysis through a variety of sources including but not limited to:

- SEC filings;

- meetings, conversations and interviews with target company executives;
- investment software;
- transcripts of company or industry conference calls;
- company and other websites;
- trade journals, newspapers, and magazines;
- broker sponsored published research;
- company press releases;
- conversations and interviews with brokerage analysts and analysts or portfolio managers that work for asset managers; and/or
- interviews with target company competitors, supplier, customers and partners.

We invest primarily in small capitalization (or “small-cap”) stocks. Small-cap stocks are generally defined to be stocks of companies with total market value (share price x shares outstanding) below \$2B. Our investment horizon varies but is generally several months to several years. From time to time, our investment horizon may be shorter. Our investment strategy includes buying and selling short publicly traded equities but may include trading options and other instruments. RK Capital may use margin to trade securities.

These strategies may result in reduced investment performance due to higher brokerage and transaction costs. As well, certain of the small cap stocks in which we invest may be thinly traded and may place limitations on our ability to exit a position either when executing a portfolio strategy or when necessary to raise capital for redemptions. Such occurrences could have a negative impact on investment performance.

The Funds’ investing activities may involve a high level of trading, generating significant position and portfolio turnover which may in turn lead to substantial transaction costs and/or tax liability. The Funds may engage in this level of trading activity regardless of their profitability and/or tax consequences.

It is important to note that investing in securities involves risk of loss that clients should be prepared to bear. An investment in one of the Funds is speculative, may not be suitable for all investors and is intended for sophisticated investors who can accept the risks associated with the Funds’ investments.

All investment programs have certain risks that are borne by the investor. The adviser’s investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- Liquidity risk – Low trading volume and small floats (i.e. a small number of shares that are freely tradable) can lead to large bid/ask spreads and difficulty entering or exiting a position.
- Delisting risk – Stocks may be taken off an exchange because they fail to meet financial and technical specifications established by the stock exchange, such as minimum market capitalization or minimum trading volume requirements. A delisting decreases a stock’s following and liquidity; however, it usually continues trading on the OTCBB.
- Volatility risk – Small-cap stocks tend to have greater standard deviations.
- Competitive risk – Small-cap companies may not be as financially sound as more well-established companies, and may face a competitive disadvantage in regards to economies of scale.
- Information risk – With less or no research coverage, a good company that is underpriced may not be discovered (value trap), and an apparently good company may be overvalued.

- Market Risk: The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Our investment portfolios are monitored by the portfolio management team. RK Capital employs some or all of the following risk management strategies as part of the portfolio monitoring process:

- Avoidance of stocks that trade on short-term psychology rather than earnings and fundamentals;
- Beta-adjusted market/sector/industry/position real-time monitoring;
- Liquidity controls – ownership hurdles and real-time monitoring;
- Price targets and sell (close-out) discipline;
- Collaborative decision-making process and veto power;
- Diversification across sectors, industries, market caps and investment styles;
- Position size limits;
- Sector and industry exposure limits;
- Normally net exposure of 25-75%; and/or
- The beta of the Funds is typically well below 1.0.

A more complete discussion of risk factors specific to an investment in the Funds is included in Offering Memorandums specific to each Fund. Investors should review the appropriate Offering Memorandum in detail prior to making an investment decision.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of RK Capital or the integrity of our management. RK Capital has no disclosures applicable to this Item.

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

RK Capital is the general partner of Tessera Fund, L.P., Tessera QP Fund, L.P. and Tessera Master Fund, L.P. We are also the investment manager for the Tessera Offshore Fund, Ltd. and sub-advisor for the PM Manager Fund SPC Segregated Portfolio 16. The managing partners and certain employees of RK Capital may provide services to the Funds including supervisory oversight, compliance, reconciliation and other operational duties as required in the day-to-day operation of the Funds.

We may solicit potential investors to invest in any or all of the Tessera Funds. All the Funds are managed using a similar strategy, with the exception that in some cases, certain separately managed accounts may



choose to hold larger positions sizes in relation to our other Funds. It is unlikely that larger position sizes alone would create a conflict of interest where one Fund may be favored over another Fund.

We may offer potential investors an opportunity to invest in a private investment partnership or offshore exempted company where we or a related person are the general partner or investment manager. Each potential investor receives a copy of the offering documents, which disclose the relationship between the investment partnership or investment company and us. Our affiliates, employees, related persons, and/or we may directly or indirectly participate in the purchase or sale of securities that are also recommended to clients as a result of their or our own ownership interest and/or investment in the Funds.

### **Item 11 – Code of Ethics**

All of our employees are governed by, and must comply with, our code of ethics (the “Code”), which is intended to protect each investor’s interest consistent with the Advisors Act, Rule 204A-1. Our Code is designed to uphold compliance with applicable laws and regulations; maintain integrity, honesty, loyalty, and good faith; prevent improper conduct; and to eliminate or reduce conflicts of interest. Our Code prohibits, limits, restricts, or avoids insider trading, improper gifts, outside employment, political contributions, and self dealing.

Copies of our Code are available to investors upon written request to [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com) or to *Investor Relations, RK Capital Management, LLC, 3033 E. 1<sup>st</sup> Avenue, Suite 307, Denver, CO 80206*. Although our Code is intended to prohibit or restrict the appearance of or actual conflicts of interest, investors should be aware that our Code cannot possibly anticipate or address all potential conflicts of interest. A summary of the Code follows below.

As part of the Code, each of our employees must comply with our written personal securities transaction policy (the “Policy”), which restricts all supervised persons’ activity and trades of equity securities. No decision making authority person (a “DM” as defined in the Policy) may trade (except for pre-existing securities positions or related person employer securities) individual equity securities in any account in which they have beneficial interest (direct or indirect), discretionary control, or significant influence. DMs include all portfolio managers, assistant portfolio managers, and senior analysts.

Concerning the DMs, the purpose of allowing trading in pre-existing securities positions is to allow a DM to execute trades in this security with the intent to reduce and/or eliminate the position. We will not approve any DM trades that increase a securities position.

The purpose of allowing trading in related person employer securities is to permit the related person (such as a household member or immediate family) to fully utilize and participate in the related person’s employer provided program. Our Policy intends to permit the related person to take full advantage of the related person’s employer’s program including the benefits of retirement, estate and tax planning, and personal compensation and investing purposes.

Employer programs prescribe terms including buying (often at a discount) and selling (to maintain liquidity) the related person employer securities and our policy should not be more restrictive than a related person’s employer’s terms. Additionally, the related person should also be permitted to trade the related person employer securities because the employer company is placed on our restricted company list restricting our Funds from trading any securities of the employer company and thereby eliminating any potential conflict of interest or the appearance of a conflict of interest.

While we strongly discourage non-DM access persons from trading individual equity securities, we may permit it, at our discretion, in an account, but only under the following rules, procedures, and standards:

- No non-DM access person shall execute trades (buy, sell, sell short, buy to close) in any security in which any of the Funds either maintain a position (long or short) or in which we contemplate (based on all currently available information in our possession) could become a Fund position in the near future (defined as the next five (5) trading days). This policy, however, does not apply to pre-existing securities positions, which is restricted under the policy outlined below.
- All reportable securities trades in any supervised person's account must be pre-approved in writing by our chief compliance officer (the "CCO").
- In considering approval of a trade of a pre-existing securities position, our CCO will make a judgment as to whether or not we reasonably anticipate, based on all currently available information in our possession, affecting a trade in this particular security in the near future (the next five trading days). If it is reasonably likely this trade activity could take place, we will not grant approval. If significant uncertainty exists as to the likelihood if a Fund will trade in this security, we may elect, at our sole discretion, not to grant an approval. While we have no intention of prohibiting a supervised person from trading a pre-existing position, we believe the Funds' best interest is served by exercising this discretion.

We may recommend the purchase or sale, on the Funds' behalf, of securities or other investment products in which we, or our affiliates, have a financial interest as the general partner or investment manager. Due to the nature of our investors, we may trade in securities our Funds' investors may issue, which may create a conflict of interest. We will only do so if we believe it to be in the best interests of the Funds.

As described in **Item 10** above, we may offer potential investors an opportunity to invest in a private investment partnership or offshore exempted company where we or a related person are the general partner or investment manager.

## **Item 12 – Brokerage Practices**

### **Investment Discretion**

Generally, we have authority to determine, without obtaining client or investor consent, the securities to be purchased or sold, the amount of the securities to be purchased or sold, the broker/dealer to be used, and the commission rate applicable. We have complete discretion over the amount of assets to allocate to any investment and which securities will be bought or sold within the guidelines of the limited partnership and investment management agreements without obtaining specific investor consent.

Our portfolio managers and/or their related persons invest in the Partnerships and the Company but not in the SP16. These investments may create the appearance of or an actual conflict of interest as it could appear that the portfolio managers may allocate positions differently based on varying expectations of returns. However, positions are not allocated differently based on varying expectations of returns.

We manage the Tessera Funds similarly with the intent of holding similar positions at similar position sizes across the Funds. This is known as "pari passu" or "in an equal manner, without preference." As described in **Item 10** above, certain separately managed accounts may at times choose to hold larger position sizes than our standard model might indicate. In these cases, trades are allocated based on the size of each Fund with the separately managed account allocated a proportionally larger share size.

### **Brokerage Discretion**

We have discretion over the selection of the broker/dealer(s) to be used and will negotiate the commission rates to be paid. We seek to obtain best execution when we determine the broker/dealer(s) to be used for a particular trade by the Funds. Best execution involves many factors including obtaining the best price for execution services. In addition to best price, best execution may involve the full range and quality of a broker's services including significant factors like the number, quality, and relevance of company meetings offered; access to and attendance at research conferences; and one-on-one meetings at conferences.

Additional factors we may consider include, but are not limited to:

- the efficient placement of orders;
- clearance settlement;
- overall execution quality;
- promptness of execution;
- promptness and accuracy of oral, hard copy, or electronic reports of execution; ability and willingness to correct trade errors;
- ability to access various market centers;
- the market where the securities trades are executed;
- any expertise the broker/dealer may have in executing trades for particular types of securities;
- historical commission rates;
- reliability;
- ability to use ECNs to gain liquidity, price improvement, lower commission rates, and anonymity;
- soft dollar/client commission programs;
- execution and operational capabilities and its clearing firm; financial condition; and
- creditworthiness and business reputation;
- research services including, but not limited to, the availability, relevance, and quality of written research; access to, responsiveness of, and quality of research analysis; sponsorship of access to executive management of public companies, typically at conferences, conference calls or visits to our office; and/or
- our overall assessment of a broker/dealer and the resultant "tier" of the broker/dealer as determined in our "broker review meetings."

We evaluate whether the broker/dealer's service or product provides lawful and appropriate assistance to us in fulfilling our investment decision making obligations. It is difficult if not impossible to place a dollar value on the research services we receive from broker/dealers effecting transactions in the portfolios. Consequently, broker/dealers we select may be paid commissions for effecting portfolio transactions in excess of amounts other broker/dealers would have charged for effecting similar transactions. We allocate transactions to broker/dealers for execution on markets and at prices and commission rates in our good faith judgment are in the best interest of the client. We regularly and periodically evaluate the quality of these brokerage services against our standards of execution. Consistent with our policy and procedures, we will obtain brokerage services only from those firms which meet our acceptable standards with consistent reliability.

Analysts, officers, or other employees of broker/dealers may invest in any of the Funds, and their employer may conduct trades for the Funds. While this may create either the appearance of or an actual conflict of interest, we allocate transactions to broker/dealers seeking the best available price and the most favorable execution according to the factors previously described in the best interest of the client and not based on any investor's investment in any of the Funds.

### **Aggregate and Program Trades**

We attempt to manage the Funds as if they were a single fund. The investment strategy and decisions made for each Fund are the same in percentage terms. Except for unique monthly subscriptions and redemptions, every investment position in each Fund would represent nearly the identical percent of Fund assets (with de minimis differences due to Fund level costs or benefits, such as, expense items or withdrawal penalties). As described in **Item 10** above, certain separately managed accounts may at times choose to hold larger position sizes than our standard model might indicate. In these cases, trades are allocated based on the size of each Fund with the separately managed account allocated a proportionally larger share size.

When initial orders are placed for new long or short positions, the investment is determined to be a certain target percentage size of assets of each Fund. The percentage is generally targeted to be as close to the same as possible for each Fund. As the Funds are run similarly, we normally aggregate trades for all Funds in one trade and then allocate them so the percentage weighting of the investment in each Fund should be nearly identical (with small differences generally due to rounding orders and allocations to the nearest 100 shares for equities priced over \$20 and the nearest 10 shares for equities priced under \$20 to reduce errors). These trades at times are done in a “program” fashion whereby a list of trades is given to a broker to execute. The Funds for these aggregated transactions each receive the same price per share. If an aggregated order is filled at different prices during a trading day, each Fund will pay or receive the same average price and pay the same commission rate for the transaction. If an aggregated order is partially filled during a trading day, securities will be allocated on a pro-rata basis among the Funds.

At times, we may rebalance share allocations between the Funds utilizing periodic rebalancing transactions. Such transactions experience market exposure. Such exposure may result in differences in execution between Funds.

### **Soft Dollars**

It is likely that from time to time we may pay a commission that exceeds the commission another broker/dealer would have charged. These higher commissions are paid complying with Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), and to compensate the broker/dealer for providing us with research and brokerage services (commonly referred to as using “soft dollars”). Research services can include access to analysts and traders, sponsored meetings with corporate executives, conferences, written reports and other services provided to us regarding companies, industries, market factors and other topics.

In 2011, RK Capital used soft dollars to obtain research, market commentary and insights related to, and including but not limited to:

- the global and national investment climate in general;
- macro investment strategy;
- equity strategy;
- quantitative analysis;
- historical market information;
- industry, sector and thematic research;
- companies and ideas;
- analysis of the investment climate; and/or
- analysis of political and regulatory trends and the impact on the markets, sectors and industry.

We may also utilize a low cost broker for trade execution services under a commission sharing agreement but pay that broker commission dollars beyond the pure execution costs. At the time of the trade, this type of executing broker receives both the portion of the commissions to compensate it for execution of the trade and also the portion of commissions beyond execution costs. The additional portion is credited to a broker share account for the purpose of purchasing research and brokerage services (using soft dollars) from other non-executing brokers (third parties).

Trading commissions are generally charged to each Fund on a pro-rata basis and, as such, soft dollars are generally charged to each Fund on a pro-rata basis. In the event of rebalancing due to investor subscription and redemption activity, certain Funds may be charged more or less than a pro-rata allocation of soft dollars. Even if such an instance occurs, all soft dollars are used for the benefit of all investors in all Funds managed by RK Capital. We believe that since all Funds use a similar investment strategy the allocation of these expenses on a pro-rata basis is appropriate since all Funds derive a similar benefit.

We allocate these soft dollars to these other brokers to obtain research or brokerage services as permitted under the Exchange Act. The executing broker is solely obligated to pay the other brokers that provide the research or brokerage services. The soft dollars in the broker share account cannot be used for any other services or obligations beyond those permitted under the Exchange Act. If any services are outside the parameters of the Exchange Act, we will pay for these services using RK Capital funds.

In addition, RK Capital has chosen in the past and may continue to choose to pay for various services directly rather than using soft dollars, even though payment of such services using soft dollars is permitted under the Exchange Act. We regularly and periodically review the level of research and brokerage service from all brokers. These reviews are in an effort to make a good faith determination that the soft dollar allocations are reasonable in relation to the value of the brokerage, execution, and research and brokerage services provided to us.

The broker review process takes place regularly, generally on a quarterly basis. Amounts allocated to particular brokers as a result of the review are paid directly to the brokers from the broker share accounts established for the purpose of segregating soft dollars. The broker share accounts are reconciled monthly and reporting is provided to the RK Capital research team.

Soft dollars can provide a benefit to RK Capital because when these funds are used to obtain research products, we do not have to produce these products on our own or pay for them using firm funds. We may have an incentive to select firms for execution services based on the research products they provide. In some instances, the trade execution we receive may be less favorable than that which we could have received elsewhere. To help mitigate such a conflict, we have developed a process where we rate individual firms based on a variety of inputs. (See Brokerage Discretion section above regarding factors for selecting broker/dealers).

We negotiate and determine all commission rates with the executing low cost broker as well as with all other brokers to determine if they are competitive with commissions paid for similar services. Research that we obtain may benefit any one of the Funds rather than just the one Fund executing the trade, and the services sometimes may not be used in connection with the account that actually paid the commissions to the broker providing the research. Investors should consider if our use of soft dollars creates an actual conflict of interest arising from our receipt of research and brokerage services.

Our prime brokers, in addition to the range of services they offer, which include but are not limited to qualified custodial services and research services, may also provide capital introduction services on occasion. These services would generally involve introducing potential investors to the Funds. This service

may create an incentive to select a broker that may not otherwise be selected were such a decision based solely on trading execution. We attempt to monitor trading execution and the value of research services on a regular basis and such consideration is the primary determinant of which broker is selected and utilized.

### **Directed Brokerage and Trade Aggregation**

RK Capital does not receive client referrals in exchange for using brokerage services. As well, our clients are not permitted to direct brokerage.

Trades for each client are generally aggregated and executed as one trade. Allocations are made to each Fund on a pro-rata basis once a particular trade is fully executed. The only exceptions are in the case of a rebalancing transaction due to monthly investor subscription and redemption activity. Certain separately managed accounts may at times choose to hold larger position sizes than our standard model might indicate. In these cases, trades are allocated based on the size of each Fund with the separately managed account allocated a proportionally larger share size.

### **Item 13 – Review of Accounts**

Our Chief Compliance Officer reviews client account transactions on an ongoing basis to determine if they are in conformity with investment objectives and guidelines. These reviews generally consist of comparing actual statistics against contractual or other pre-determined guidelines. The Funds' administrator provides written acknowledgements to investors confirming subscriptions and withdrawals. The Funds' independent administrators prepare monthly capital statements, which are made available to each investor. The capital statements indicate estimated capital balances and all subscription and redemption activity for the corresponding period.

We also provide a monthly statistical summary and a quarterly update letter, which provides commentary on the Funds and RK Capital Management, LLC (some information is only reported in relation to the Tessera Fund, L.P., as all Funds are managed similarly under the same strategy). As described in **Item 10** above, certain separately managed accounts may at times choose to hold larger position sizes than our standard model might indicate. In these cases, trades are allocated based on the size of each Fund with the separately managed account allocated a proportionally larger share size. This proportionately larger share allocation may lead to differing performance for such separately managed accounts as compared to the other Funds.

At least annually we provide notice of our privacy policy as well as our financial statements and information regarding valuations, profits, gains, and losses. In addition, we provide each investor in the two Partnerships tax-related information on an annual basis. Each investor may also receive a copy of our ADV Part 2 and a description of our proxy voting policy upon written request.

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

From time to time, RK Capital may engage third-party firms to assist in marketing efforts. Such firms use their own efforts and resources to identify investors for the Tessera Funds. Investors introduced to the Tessera Funds by a third-party firm acknowledge in writing their business relationship with the third-party firm.

In return for introducing investors to the Tessera Funds, the third-party firms receive a fee as compensation for this introduction. This fee amount is negotiated between the third-party firm and RK

Capital and generally is derived from some portion of the management fees and/or performance fee which may be earned by RK Capital with respect to the introduced investors. Such payments are made under an agreement between RK Capital and the third-party firm. RK Capital takes into account the requirements of Rule 206(4)-3 of the Advisors Act when reviewing and establishing relationships with third-party firms.

### **Item 15 – Custody**

We do not maintain physical possession of the Funds' securities or funds. The Funds enter into custodial agreements with various qualified custodians. Under each custodial agreement, we are restricted from making payments from any account the custodian maintains on behalf of the Funds unless certain requirements are met. We acknowledge and agree in writing to the terms of each custodial agreement.

Our Custodians provide various record keeping services and perform, among others, the following functions: arrange for the receipt and delivery (if needed) of securities purchased, sold, borrowed, and loaned; make and receive payments for securities; take custody of securities; and take custody of all cash, dividends and exchanges, distributions, and rights accruing to an account; and the delivery of cash to the Funds' bank accounts.

The Tessera Funds' qualified custodians are:

Morgan Stanley and Co. Incorporated  
555 California Street, 22nd Floor  
San Francisco, CA 94104

-and-

Jefferies & Company, Inc.  
520 Madison Ave, 12th Floor  
New York, New York 10022

Our custodians maintain the funds or securities via book or electronic entry in street name. Other funds to which we provide advice, such as SP16, may choose to engage their own custodian. In such a case, our interaction with a separate custodian is guided by our management and advisory or sub-advisory agreements with the other funds.

Investors in the Tessera Funds receive monthly account statements directly from the Tessera Funds' independent administrator, Butterfield Fulcrum Group (Cayman) Ltd. These statements are generated using information and data from the Tessera Funds' prime brokers (i.e. qualified custodians). Investors also receive other reports including periodic fund performance reporting, fund snapshots, assets under management, annual audited financial statements and tax information (tax information is only applicable to the two onshore funds). RK Capital urges investors to carefully review these statements and reports.

As well, investors are invited to contact us at any time with inquiries related to the Funds or the investment adviser. RK Capital maintains a website ([www.rkcap.com](http://www.rkcap.com)) which has general information on the investment adviser and employee biographies.

Investors in separately managed accounts will generally receive similar information as described above from the separately managed account's respective administrators.

### **Item 16 – Investment Discretion**

RK Capital exercises discretionary investment authority over all managed assets held in the Funds. We receive discretionary authority from the investor at the point a subscription is made to the Funds. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives of the Funds. As described in **Item 4** above, certain investors may choose to limit their

involvement with respect to IPO transactions. Such intentions are indicated in writing as a part of the subscription process and may be changed in writing by the investor at any time.

### **Item 17 – Voting Client Securities**

On behalf of the Funds, we vote proxies received from companies in relation to the securities owned in those Funds. A summary of our proxy voting policy follows. Clients may obtain a copy of our complete proxy voting policies and procedures upon request. Clients may also obtain information from RK Capital about how we voted any proxies in the Funds by contacting us at (303) 394-0101 or [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com).

#### **Purpose**

We have adopted and implemented written policies and procedures (the “Proxy Policy”) that are reasonably designed to ensure that we vote proxies in your best interests. The Proxy Policy establishes a mechanism to address any conflicts of interests between you and us. Further, the Proxy Policy establishes how you may obtain information on how we voted the proxies.

#### **Determination of Vote**

We generally vote proxy requests we receive. When we vote, we determine how to vote after an evaluation of the proxy materials and any other information or data that may be necessary or beneficial in determining the appropriate vote. We make every effort to further your best interests and vote consistent with our investment strategy. We will cast votes for proxies on a case-by-case basis and will generally vote in favor of matters which follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management’s accountability to shareholders, and/or in support of compensation plans that are commensurate with enhanced manager performance and market practices, among other factors.

#### **Resolution of any Conflicts of Interest**

If a proxy vote creates a material conflict between your and our interests, we will contact you before voting the proxies. We will disclose the conflict to you and obtain consent to continue to handle the voting responsibility, or relinquish our delegated right to vote and instead seek an outside independent proxy voting firm or other qualified independent group to make a determination of the appropriate vote.

#### **Records**

We maintain records of: (a) proxy statements and materials we receive; (b) proxy votes that we made; (c) documents that were material to a proxy vote; (d) written requests from partners regarding voting history; and (e) responses (written and oral) to a partner’s requests.

### **Item 18 – Financial Information**

Registered investment advisers are required in this **Item 18** to provide you with certain financial information or disclosures about RK Capital’s financial condition. RK Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients or prospective clients, and has not been the subject of a bankruptcy proceeding.