

**SHEFFIELD ASSET MANAGEMENT, L.L.C.**  
**Part 2A of Form ADV: Firm Brochure**

ITEM 1: COVER PAGE

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**This brochure provides information about the qualifications and business practices of Sheffield Asset Management, L.L.C., an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). If you have any questions about the contents of this brochure, please contact us at 312-506-6403 or [arosenow@sheffieldmgmt.com](mailto:arosenow@sheffieldmgmt.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about Sheffield Asset Management, L.L.C. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

Since the previous update of this brochure in March 2012, disclosure has been added to Item 14 “Client Referrals and Other Compensation” regarding an agreement with a third-party solicitor and sales charges that may be imposed by third-party solicitors.

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#### **ITEM 4: ADVISORY BUSINESS**

Sheffield Asset Management, L.L.C., a Delaware limited liability company, began operation in February of 2003. Sheffield serves as the investment manager for and provides discretionary investment advisory services to various private investment funds. The funds offered to outside investors are Sheffield Partners, L.P., which we refer to as the "U.S. Fund," Sheffield Institutional Partners, L.P., which we refer to as the "U.S. Institutional Fund" and Sheffield International Partners, Ltd., which we refer to as the "Offshore Fund." The Offshore Fund invests substantially all of its assets into Sheffield International Partners Master, Ltd., which we refer to as the "Master Fund." The U.S. Fund and the U.S. Institutional Fund do not invest in the Master Fund but pursue essentially the same strategy as the Master Fund. Sheffield allocates trades between the U.S. Fund, the U.S. Institutional Fund and the Master Fund. The purpose of the Master Fund is to achieve certain administrative efficiencies and the Master Fund has no investors other than the Offshore Fund and Sheffield. We refer to all of the above funds collectively as the "Funds."

Brian Feltzin and Craig Albert, who we will refer to as the "Principals" are the sole direct and indirect equity owners of Sheffield. Mr. Feltzin is Sheffield's Managing Member and a co-Portfolio Manager. Mr. Albert joined Sheffield in January of 2004 as a Member and co-Portfolio Manager. Grosvenor Capital Management, L.P., a Chicago-based fund of funds manager, has a contractual right to receive payments from Sheffield based on a percentage of Sheffield's revenues. Grosvenor's interest in Sheffield does not represent any form of equity interest in Sheffield or in any Fund. Grosvenor does not control Sheffield or participate in any of its investment decisions.

Sheffield acts as investment manager for the Master Fund and the Offshore Fund, each of which is a Cayman Islands exempted company, and as general partner of the U.S. Fund and the U.S. Institutional Fund, each of which is a Delaware limited partnership. In this brochure we will generally refer to trading activities on behalf of the Funds, but virtually all of the trading on behalf of the Offshore Fund occurs at the Master Fund level.

On behalf of the Funds, Sheffield trades a variety of securities, futures, derivatives and other instruments, including stocks, convertible securities, bonds, structured instruments and over-the-counter derivatives, however the Funds' portfolios focus primarily on, among other types of investments, equity and equity-related securities, with an emphasis on small and middle capitalization companies. Sheffield takes both long and short positions in these instruments. All of the Funds have a broad investment mandate; there are no material limitations on the instruments that Sheffield trades on behalf of the Funds and the Funds are subject to no formal diversification policies.

Sheffield has full discretion in trading on behalf of the Funds. It does not require, and does not seek, approval from the Funds or the investors in the Funds with respect to its trading. Sheffield does not tailor its advisory services to the individual needs of investors in the Funds, and investors in the Funds may not impose restrictions on investing in certain securities or types of securities. Sheffield does not participate in wrap fee programs.

As of February 29, 2012 Sheffield manages approximately \$400,800,000 of net client assets, all of which is managed on a discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

**Compensation.** Compensation received by Sheffield consists of fees based on a percentage of assets under management and performance-based amounts, as more fully described below. Sheffield does not manage any accounts that have a different fee structure, such as accounts that pay only an asset-based fee.

Sheffield receives a management fee, in advance and on a quarterly basis, at a rate equivalent to an annual rate ranging from 1.0% to 1.5% of the net asset value of an investor's interest in a Fund. The management fee rate generally differs based on the liquidity associated with an interest in the fund, which interests having less liquidity being subject to a lower management fee.

Sheffield receives an annual performance-based allocation or fee of between 17.5 and 20% of "new profit," i.e. profit in a particular year in excess of a "high-water mark" attributable to a particular "tranche" of interests in the Fund and between 8.75% and 10% of profit that is not "new profit." "Tranches" represent a group of interests in a fund based on the date of investment and series of interests. For example, an investor who invests in a particular series of interests in a Fund on two different dates will have separate tranches of interests. The high-water mark for a tranche is equal to the highest cumulative profit attributable to the tranche as of the end of any previous year, or \$0 if there have not been profits attributable to the tranche as of the end of any previous year. The percentage of profits allocated or paid to Sheffield differs based on the liquidity associated with a particular tranche of interests in a Fund.

**Method of Payment of Fees.** All fees or allocations received by Sheffield are deducted directly from Fund or investor accounts.

### **Fund Operating Expenses, Including Brokerage and Other Transaction Costs.**

In addition to compensation payable to Sheffield, the Funds pay their ongoing operating and offering costs, including, but not limited to:

- brokerage commissions, dealer mark-ups and other costs of executing transactions, which are discussed in more detail below;
- interest expense;
- legal, auditing, reporting and accounting expenses;
- consulting fees and charges and the fees and charges of third parties retained by Sheffield to assist in evaluating prospective investments which may be made by the Funds;
- all back-office expenses of the Funds including services provided by third parties;
- other costs associated with the Funds' investments;
- due diligence costs in evaluating trades in which the Funds invest;
- computer software, information sources and licensing costs;
- research costs;

- fees incurred in connection with the custody of assets of the Funds; and
- extraordinary expenses, including expenses relating to litigation, administrative proceedings or regulatory audits.

Each Fund that invests in the Master Fund also pays its *pro rata* share of the expenses of the Master Fund, and accordingly each Fund investor also indirectly pays its *pro rata* share of the expenses of the Master Fund.

In some cases Sheffield will pay expenses on behalf of the Funds, and in these cases the Funds will reimburse Sheffield for these payments.

The Funds are charged brokerage commissions, bid-ask spreads and other transaction costs and expenses in connection with their trading and investment activities, and custodian fees for Fund assets held in cash or securities at various banks, broker-dealers and other financial institutions. For a discussion of the brokerage arrangements that Sheffield enters into on behalf of the Funds, see “Brokerage Practices.”

Negotiation of Fees; Waivers. Compensation payable to Sheffield is generally not negotiable, but under certain circumstances, Sheffield may, in its discretion, waive all or a portion of its management fees and/or incentive compensation for a particular investor.

Pre-Payment of Fees. Management fees are paid by the Funds quarterly in advance but do not accrue until the end of each month. If an investor withdraws from a Fund during a calendar quarter, Sheffield will refund a *pro rata* portion of the management fee applicable to the withdrawn capital for that quarter, based on the timing of the withdrawal date.

#### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Sheffield receives from investors in the U.S. Fund, the U.S. Institutional Fund and the Offshore Fund performance-based compensation in the form of an allocation equal to a percentage of the appreciation in the net asset value of the investor’s interest in the Fund.

Once a Fund’s fiscal year has ended, any performance-based compensation earned during that year is not subject to reversal. The performance-based compensation received by Sheffield creates a conflict between Sheffield’s interest in earning a profit in the short term with the long-term interests of the Funds and their investors. Specifically, Sheffield may have an incentive to invest Fund assets in investments that are riskier or more speculative than would be the case if Sheffield were only compensated based on a flat percentage of capital, because these investments may allow Sheffield to collect larger performance-based compensation.

#### **ITEM 7: TYPES OF CLIENTS**

Sheffield provides discretionary investment advice to the Funds. The investors in the Funds consist of high net worth individuals, fund of funds, institutions and trusts. The U.S. Fund limits its investors to persons who are both “accredited investors” as defined in the Securities Act of 1933 and “qualified clients” as defined in the Investment Advisers Act of 1940. The U.S. Institutional Fund limits its investors to persons who are both “qualified purchasers” as defined in the Investment Company Act of 1940 and “accredited investors” as defined in the Securities Act of 1933. Investors in the Offshore Fund must either be both qualified purchasers and accredited

investors, or non-United States persons. These funds each require a minimum initial investment of \$1 million, although this minimum can be reduced in Sheffield's sole discretion.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Objectives, Philosophy and Overview**

The Funds concentrate their capital in a limited number of long-term investments in the securities of businesses which Sheffield believes to be trading at attractive valuations. The Funds may invest in both long and short positions in domestic and foreign common and preferred stocks, bonds, notes, options, index securities and other financial instruments that Sheffield believes offer the potential for attractive risk-adjusted returns. The Funds invest in both readily marketable and illiquid securities.

Sheffield's investment philosophy is based upon the belief that, over the long term, the investment environment is generally both rational and efficient, but that over the short term, the investment environment can be characterized by inefficiencies under which a company's public market value may deviate materially from its fundamental or intrinsic value.

Sheffield believes that intrinsic value, in contrast to public market value, is an imprecise concept that can be estimated only by undertaking substantial due diligence, including rigorous company, financial and industry analysis. Intrinsic value reflects the amount an informed, rational buyer would pay for ownership of an entire company. The basis of the Funds' investment philosophy is to attempt to exploit, through either purchases or short-sales, significant differences between intrinsic and market value. Sheffield will focus on investments in which it has identified a likely catalyst which may cause the market's perceived discount from or premium over intrinsic value to disappear in the near- to mid-term.

Sheffield attempts to implement a disciplined, value-oriented approach to investing but believes that maintaining a flexible and opportunistic investment style is important to the Funds' prospects for success.

### **Investment Strategy**

Sheffield's objective is to construct and maintain a portfolio of proprietary, value-oriented ideas based on original research. The Funds' portfolios focus primarily on, among other types of investments, equity and equity-related securities, with an emphasis on small and middle capitalization companies. Sheffield believes that three key elements distinguish its investment strategy:

- a focus on some of the most complex and inefficient areas of the equity and debt markets;
- the ability to identify promising and proprietary investment candidates; and
- the ability to conduct independent and extensive due diligence.

Sheffield also believes that the most interesting investment candidates are typically characterized by some degree of complexity that dissuades most institutional investors from further investigation. These investments include securities of companies that are engaged in special situations, including spin-offs, liquidations, litigation situations, bankruptcies, corporate

restructurings, takeover bids, rights offerings, exchange offers, tender offers, special dividends and similar transactions.

Sheffield believes that complex investment opportunities often reward diligent research. Sheffield's due diligence focuses on analyzing both qualitative and quantitative criteria and includes interviewing management teams, industry analysts, competitors, suppliers and customers, as well as comprehensive analysis of, where available, each prospective investment's public financial statements.

The Funds may allocate a significant portion of their portfolios—as much as 30% or more—to distressed investments. Sheffield believes that companies in financial distress often have significant value, which can be realized through recovery, restructuring or reorganization. Distressed securities investing seeks to profit from market inefficiencies resulting from the uncertainties surrounding prospective insolvencies and threatened restructurings as well as due to the lack of analyst/financial community information about the prospects for the often otherwise successful companies involved in such proceedings.

A portion of the Funds' portfolios is invested in short positions. Sheffield classifies companies whose securities may be appropriate for a short sale, which it refers to as "short candidates," into one or more of the following six categories: fundamental; balance sheet; tactical; potential frauds; special situations; and structural. Sheffield concentrates its short selling efforts on fundamental, balance sheet, tactical and structural shorts. Qualities of fundamental short candidates include deteriorating fundamentals, product obsolescence, key patent expiration and/or competitive inroads. Balance sheet short candidates typically exhibit income statement deterioration and are likely to face near-term liquidity issues. Tactical short candidates are positions designed to complement and hedge exposure to core long holdings. Sheffield will also short companies that we believe to be structurally flawed and which we expect to decline in value over time. Sheffield believes that its short selling strategy should help to reduce the Funds' overall return volatility.

### **Investment Process**

The first step in the Funds' investment process is to identify investment opportunities for further review. Sheffield has substantial experience in identifying both value-oriented investments and companies which are undergoing defined corporate events that create "special-situation" investment opportunities. Sheffield believes that the ability to eliminate less attractive opportunities efficiently, allowing for more focused research and analysis of a smaller number of prospective investments, is the critical element in this first step.

Having identified a universe of prospective investments, Sheffield then attempts to gather as much information as Sheffield deems practicable concerning each prospective investment in an effort to develop an understanding of the quality of the business. On those prospective investments which meet Sheffield's qualitative standards, Sheffield then performs a detailed analysis of the company's financial position. Sheffield's due diligence includes, among other things, visiting with the company to conduct in-depth interviews with management. The next elements in the decision-making process involve properly assessing a security's risk/reward relationship, including potential downside, attempting to identify the timing and significance of potential catalysts, and establishing a price target and exit criteria.



Stock selection drives the portfolio composition; Sheffield generally does not make macroeconomic bets or attempt to time the market. The Funds' investments are made principally in the securities of small and middle capitalization companies.

### **Portfolio Management**

Sheffield generally concentrates a majority of the Funds' portfolios in a relatively small number of core long positions. Sheffield believes that focusing on investments in which it has developed the most conviction allows more time to monitor each position closely. Although Sheffield generally does not commit more than approximately 15% of the Funds' capital to any single investment, the Funds are subject to no formal diversification policies, and there is no material limitation on the amount the Funds may invest in a particular company, the strategies which Sheffield may implement on behalf of the Funds or the markets and instruments in which the Funds may trade and invest.

In many cases, Sheffield builds a position in a company over time, increasing the Funds' position size as Sheffield becomes more comfortable with the company's management and the risks associated with its business. The Funds will often hold positions in a company for several years. While the Funds generally have low portfolio turnover, Sheffield may from time to time trade in and out of positions in an effort to enhance returns. This repositioning may include acquiring more securities of a target company, moving from one level of the capital structure to another, buying and selling securities of a company as the market price fluctuates within Sheffield's target range, or some combination of these.

### **Risk Management**

Sheffield attempts to manage risk through a variety of methods. The goal of preservation of capital guides its investment decisions. Sheffield manages company-specific risk by limiting position sizes, as well as by building the Funds' portfolios from the bottom up, through independent, proprietary research.

Sheffield manages the Funds' portfolios in a manner designed to ensure that gross market exposure, *i.e.*, the value of long positions and the absolute value of short positions in the portfolios as a percentage of equity, and net market exposure, *i.e.*, the value of long positions minus the value of short positions in the portfolios as a percentage of equity, are within specified limits.

The General Partner generally adjusts position size in light of the liquidity of the underlying investments. The liquidity of an investment is one of several important factors the Partnership will consider in determining the maximum amount of capital that the Partnership will allocate to it. Sheffield sets buy and sell targets for each Fund investment before the initiation of a position, and will reappraise such targets on an ongoing basis until the investment is sold. Sheffield generally establishes positions incrementally in a manner so that the Funds' commitments may increase as more detailed analysis permits a better assessment of each investment's prospects.

There is no assurance that even robust risk management will mitigate or prevent the Funds' portfolios from experiencing significant losses. By investing in the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund, investors must be prepared to bear these losses. By investing in these Funds, subscribers are relying on the discretionary, market judgment of Sheffield, trading in a wide range of strategies and markets, as well as in investing in positions with a wide range of different

durations, without being subject to diversification, leverage or any other form of mandatory trading policies.

### **Material Risks of Sheffield's Strategy**

Investing in securities involves a risk of loss that investors in the Funds should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Funds' trading. This summary does not attempt to describe all of the risks associated with an investment in the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund, or even all risks associated with the Funds' strategy. Although no summary can fully describe all of the risks associated with an investment in the Funds, the confidential private placement memoranda for the U.S. Fund and the U.S. Institutional Fund and the confidential offering memorandum for the Offshore Fund contain a more complete description of the risks associated with an investment in the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund.

*Small to Medium Capitalization Companies.* The Funds invest in and trades the debt and equity securities of companies with small-to medium-sized market capitalizations in the United States and abroad. Small and medium capitalization companies provide significant opportunities, but they also involve higher risks in some respects than do investments in securities of larger companies. For example, prices of these securities are often more volatile than prices of securities of large-capitalization companies, and the public information regarding the securities of small-to medium-sized companies may be less complete, accurate and timely. In addition, due to thin trading in some of these securities, investments may be less liquid than investments in the securities of larger capitalization companies.

*Concentration.* The Funds are not subject to any formal policies regarding diversification and may sometimes concentrate portfolio holdings in sectors and companies in light of investment considerations, market risks and other factors. There is no minimum or maximum holding period for any of the securities in the portfolio. Each buy and sell decision will be re-evaluated and monitored on an ongoing basis in light of then-existing conditions.

*Distressed Securities.* The mispricings on which the Funds attempt to capitalize in their distressed investing reflect both the risk and the uncertainty of these investments. The long-term and illiquid nature of many of these investments increases their risk, as the Funds may be unable to exit these investments in order either to recognize profits or limit losses. Distressed securities exhibit high volatility, require extensive due diligence and medium- to long-term holding periods, are generally illiquid and demand constant monitoring and carefully engineered exit strategies. Furthermore, it may be difficult to obtain information as to the true condition of the issuers in which the Funds invest.

*Non-U.S. Government Securities.* A portion of the Funds' trading operations may involve the purchase of non-U.S. government securities. Securities of some non-U.S. government issuers are less liquid and more volatile than comparable U.S. government securities. Similarly, volume and liquidity in most non-U.S. securities markets are less than in the United States and, at times, price volatility can be greater than in the United States. The Funds therefore may be subject to additional risks, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest on such securities or might restrict the payment of principal and interest to investors located outside the country of the issuer.

*Non-U.S. Investments.* The Funds may invest in securities of non-U.S. issuers. Non-U.S. investments involve certain special risks, including: political or economic instability; the possibility of non-U.S. governmental actions such as expropriation, nationalization or confiscatory taxation; currency controls; withholding taxes on dividends, interest and gains; different bankruptcy laws and practice; fluctuating currency exchange rates; and the lack of, or different, regulations.

As compared to U.S. entities, non-U.S. entities generally disclose less financial and other information publicly, and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. In addition, it may be more difficult to obtain and enforce legal judgments against non-U.S. entities than against U.S. entities.

*Currency Risk.* In the event that the Funds hold securities denominated in currencies other than U.S. dollars, those securities will be affected favorably or unfavorably by changes in currency rates and in exchange control regulations, and the Funds may incur costs in connection with conversions between various currencies.

*Reliance on Corporate Management and Financial Reporting.* Sheffield relies on the financial information made available by the issuers in which the Funds invest. Sheffield does not have the ability to independently verify the financial information disseminated by the issuers in which the Funds invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general.

*Short Selling.* The Funds sell securities short in implementing some of their trading strategies. Securities sold short must later be replaced or offset by market purchases, and therefore any appreciation in the market price of these securities therefore results in a loss. Purchasing securities to close out short positions can itself cause their market price to rise further, thereby increasing losses. Furthermore, in the case of short sales of securities in which the Funds do not hold a long position, the Funds may prematurely be forced to close out a short position if a counterparty demands the return of such borrowed securities. There can be no assurance that the securities necessary to cover a short position will be available for purchase.

Short selling is continually the subject of regulatory scrutiny, and regulatory restrictions in one or more markets in which Sheffield trades, like the short-selling ban imposed by the SEC in September 2008, could severely impair its ability to engage in short selling and render a strategy unprofitable. Restrictions may be imposed with little or no warning, which could result in substantial losses to the Funds.

*Financing Arrangements.* As a general matter, the banks and dealers that provide financing to the Funds can apply or change margin, financing and security and collateral valuation policies at their discretion. Changes by banks and dealers in financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. In addition, the dealers have broad authority to terminate credit lines, and dealers used this authority to terminate credit lines for many hedge funds during the credit crisis that began in 2008. The Funds may not be able to maintain adequate financing to pursue its investment program, and if they cannot this could result in portfolio liquidations and losses.

*Counterparty and Custody Risk.* When the Funds invest in options, swaps, derivative or synthetic instruments, forward contracts or other over-the-counter instruments, the Funds may take a credit risk with regard to parties with whom they trade and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded

transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties may not benefit from such protections and expose the parties to the risk of counterparty default.

*Leverage.* The Funds may use leverage by purchasing instruments with borrowed funds, selling securities short and/or trading options, futures or other derivative instruments, which would increase any loss incurred. The more leverage employed, the more likely a substantial change will occur, either up or down, in the value of an open position. The investment strategies utilized by the Funds may from time to time require the use of substantial leverage.

*Derivatives in General.* The Funds may make use of various derivative instruments, such as convertible securities, options, futures, forwards and interest rate, credit default, total return and equity swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying the derivatives may not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including dependence on the ability to predict movements in the price of the securities hedged; imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and difficulties in managing a portfolio or meeting short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

*Futures Trading.* Futures prices are highly volatile, and price movements are influenced by a multitude of factors such as supply and demand relationships, government trade, fiscal, monetary and exchange control policies, political and economic events and emotions in the marketplace. Futures trading is highly leveraged. Furthermore, futures trading may be illiquid as a result of daily limits on movements of prices. The Funds' futures trading could be adversely affected by speculative position limits.

*Options.* Trading options is highly speculative and may entail risks that are greater than investing in other securities. Prices of options are generally more volatile than prices of other securities. In trading options, Sheffield speculates on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying such option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that Sheffield purchases options that it does not sell or exercise, the Funds will suffer the loss of the premium paid in such purchase. If Sheffield must buy those underlying securities, the Funds risk the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Furthermore, the risk of nonperformance by the seller of an option may be greater and the ease with which Sheffield can dispose of such an option may be less than in the case of an exchange traded option.

*Swaps and Other Derivatives.* The Funds enter into swap and similar derivative transactions involving or relating to interest rates, credit risks, non-U.S. currencies, commodities, securities, investment fund interests, indices, prices or other items. Currently, swap contracts and similar derivative contracts are individually negotiated and are not traded on exchanges, which means that in entering into these contracts the Funds are subject to risks including counterparty default and the lack of active markets for the instruments. The Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the “Reform Act,” adopted in July 2010 includes provisions that comprehensively regulate the over-the-counter derivatives markets for the first time. While the Reform Act is intended in part to reduce some of the risks described above, which in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years. In addition, even if the Reform Act addresses these risks, margin and other costs imposed on dealers are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks.

*Hedging.* Hedging techniques involve risks including imperfect correlation between the performance and value of the instrument and the value of the Funds’ securities, the possible lack of a secondary market for closing out a position in such instrument, losses from market movements not anticipated by Sheffield and the possible imposition of additional margin or other payment requirements.

*Suspensions of Trading.* Securities exchanges typically have the right to suspend or limit trading in any instrument traded on the exchanges. A suspension in trading could render it impossible for the Funds to liquidate positions and thereby expose the Funds to losses.

Sheffield will not, in general, attempt to hedge all market or other risks inherent in the Funds’ positions, and hedges certain risks, if at all, only partially. Specifically, Sheffield may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Funds’ overall portfolios. The Funds’ portfolio composition will commonly result in various directional market risks’ remaining unhedged. Sheffield may rely on diversification to control such risks to the extent that Sheffield believes it is desirable to do so; however, the Funds are not subject to formal diversification policies.

#### **ITEM 9: DISCIPLINARY INFORMATION**

Not applicable.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Brian Feltzin, one of Sheffield’s Principals, has a non-controlling interest in Waveland Capital Management L.L.C. and Waveland Capital Management II, L.L.C., each of which is an investment adviser to a private investment fund that is currently liquidating and closed to new investors. Mr. Feltzin has discretionary trading authority with regard to certain accounts maintained by either of these advisors and is assisting the managing principal of the advisors by participating in the liquidation of the funds that they advise.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

As an SEC-registered advisor, Sheffield has adopted a Code of Ethics pursuant to the SEC's Rule 204A-1. The Code of Ethics includes Sheffield's policies as they relate to personal investment and trading by Sheffield management and employees, and includes a requirement that securities holdings be reported and approval procedures for transactions. The Code of Ethics defines material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code of Ethics includes policies and procedures on issues of security as they relate to sensitive and confidential materials and record retention of all documents and electronic information.

All principals and employees of Sheffield must acknowledge understanding and agree to comply with the Code of Ethics initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

In its role as investment advisor to the Funds, Sheffield and its principals and employees make investment decisions for the Funds. Sheffield and its principals and employees may trade and invest for their own accounts in the same securities as those in which it invests on behalf of the Funds. Sheffield's Code of Ethics has procedures designed to ensure that principals and employees do not enter into transactions in their personal accounts which could as a result of their direction or timing, materially disadvantage the Funds. However, it is possible that Sheffield's principals or employees could have long positions in a security where the Funds have a short position; principals or employees may not under the Code of Ethics have a short position opposite to that of the Funds because short selling in personal accounts is prohibited. The records of this trading will not be made available to investors in the Funds. To address the conflicts of interest posed by this type of trading, Sheffield maintains the Code of Ethics, as described above. Specifically, the Code of Ethics requires supervised persons to submit periodic written reports about their securities holdings, transactions and accounts, which are intended to identify conflicts of interest. Supervised persons must submit initial and annual holdings reports, quarterly transaction reports and disclose their use of brokers. Sheffield will promptly review each report and each account statement or trade confirmation.

Sheffield's Code of Ethics is available to investors and potential investors upon request.

### **Conflicts of Interest**

In addition to the conflict of interest arising from trading by Sheffield or its principals or employees for their own accounts, as discussed immediately above, and conflicts relating to Sheffield's receipt of performance-based compensation, which are discussed under the heading "Performance-Based Fees and Side-by-Side Management" above, clients or investors in the Funds are subject to additional conflicts of interest. Some of these conflicts are summarized here, but this summary does not attempt to describe all of the conflicts of interest associated with an investment in the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund, which are the only Funds open to outside investors. The confidential private placement memoranda for the U.S. Fund and the U.S. Institutional Fund and the confidential offering memorandum for the Offshore Fund contain a more complete description of what Sheffield believes to be the most significant conflicts of interest associated with an investment in the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund.

Clients or investors should carefully consider the conflicts of interest described here and, as applicable, in the offering documents for the U.S. Fund, the U.S. Institutional Fund or the Offshore Fund before deciding to open an account or invest in a Fund. Sheffield will consider any client or investor to have consented to these conflicts as a result of opening an account or investing in a Fund, as applicable.

*Devotion of Time.* Sheffield and the Principals devote as much of their time to the business of the Funds as in their judgment is reasonably required but are not required to devote a particular amount of time to this business. However, Sheffield and/or its Principals may currently be involved in other business ventures or may organize or become involved in other business ventures in the future. The Funds will not share in the risks or rewards of such other ventures, which may compete with the Funds for the time and attention of Sheffield and therefore create additional conflicts of interest.

*Interest in Fund Investments.* Sheffield, its principals, employees and affiliates may trade securities for their own accounts. Although Sheffield's Code of Ethics has procedures designed to prevent activities such as trading ahead of the Funds, it is possible that principals, officers or employees of Sheffield may buy or sell securities or other instruments that Sheffield has purchased or sold for the Funds and may engage in transactions for their own accounts in a manner that is inconsistent with the investment decisions made by the Funds. Personal securities transactions by employees may raise potential conflicts of interest when the employees trade in a security that is owned by, or considered for purchase or sale for, a Fund.

*Other Accounts of Sheffield.* Sheffield may, in the future, manage and advise accounts other than the Funds. These accounts may be managed on terms that differ significantly from those applicable to the Funds. Sheffield may have financial incentives to favor certain other accounts over the Funds. Even if Sheffield does not do so, Sheffield would be required to allocate its limited resources among the Funds and any other accounts that it advises. Certain trades and entire strategies that Sheffield utilizes on behalf of the Funds, as well as many of the positions acquired for the Funds, may be materially different from the trades and strategies which Sheffield implements on behalf of other accounts.

*Allocation of Investment Opportunities.* When Sheffield determines that it would be appropriate for the Funds and other accounts managed by Sheffield to participate in an investment opportunity, Sheffield will seek to execute orders for all of the participating accounts, including the Funds, on an equitable basis. In addition, because the U.S. Fund and the U.S. Institutional Fund do not invest in the Master Fund, Sheffield must determine whether to allocate investment opportunities among the U.S. Fund, the U.S. Institutional Fund and the Master Fund and the applicable percentages. Specifically, to the extent feasible under applicable rules and regulations, if Sheffield has determined to invest at the same time for more than one account, it may place combined orders for all such accounts simultaneously, and if an order is not filled at the same price, Sheffield may average the prices paid or use any other allocation technique it believes is fair. Similarly, if an order cannot be fully executed under prevailing market conditions, Sheffield may allocate the securities traded among different accounts on a basis which Sheffield considers equitable. In general, allocations are made *pro rata* based on the current Assets Under Management of each Fund. The two most common reasons why Sheffield will deviate from *pro rata* allocations among the Funds are: tax or regulatory differences between the Onshore and Offshore Funds and capital flows into and out of the Funds. Situations may occur in which a Fund could be disadvantaged because of the investment activities conducted by Sheffield for other accounts managed by Sheffield.

*Special Opportunity Investments.* Sheffield has the ability to designate certain investment opportunities as “special opportunities” where it determines that the investment is either not suitable for the Funds or the Funds’ participation in the investment should be limited. Special opportunities present a conflict of interest because they may divert the time and attention of Sheffield’s investment personnel from the Funds’ investment activities. In addition, Sheffield itself may participate in special opportunities, and therefore has a conflict in determining whether an investment opportunity is suitable for the Funds or should be treated as a special opportunity.

### **Trade Errors**

Although Sheffield has procedures designed to minimize mistakes made in executing trades, trade errors may occasionally occur. Sheffield will seek reimbursement from broker-dealers for trade errors caused by the broker-dealers. However, Sheffield will not request or accept reimbursement from broker-dealers for losses resulting from trade errors caused by Sheffield.

Sheffield’s policy is that trade errors caused by Sheffield resulting in losses to a Fund are netted against trade errors resulting in gains over the course of the calendar year. As of the end of each year the gain resulting from this netting will be credited to the Funds, without interest, or Sheffield will reimburse the Funds for any net loss. If Sheffield makes a “material” trade error, which it defines as a trade error that would decrease the net asset value of a Fund by more than one-half of one percent, Sheffield must promptly reimburse the affected Fund for the amount of the loss. However, any loss from a material loss will still be netted against any gains from trade errors occurring in the same year. Sheffield will only reimburse the Funds for any net losses from trading errors at the end of each calendar year, other than material trading losses, which are reimbursed immediately, and accordingly an investor making a withdrawal or redemption within a calendar year is exposed to the risk of losses from trading errors that have not yet been reimbursed by Sheffield.

If Sheffield does not have funds available to make a reimbursement required under its trade error policy, any management fees or performance-based compensation payable to Sheffield will continue to accrue but will not be paid to Sheffield until Sheffield has reimbursed the Funds.

### **ITEM 12: BROKERAGE PRACTICES**

Transactions for the Funds are generally allocated to brokers on the basis of best price and execution. However, Sheffield may also take into consideration brokers’ provision of, or payment of the costs of, certain services that are of benefit to the Funds and Sheffield itself.

Services which may be provided to Sheffield by the Funds’ brokers may include, without limitation, in addition to research, services such as special execution capabilities, clearance, settlement, net pricing, online pricing, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, on-line access to computerized data regarding clients’ accounts, performance measurement data, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, financial strength and stability, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short sales and custody, recordkeeping and similar services. The Funds may pay for research and these other services with “soft” or commission dollars.



Section 28(e) of the Securities Exchange Act of 1934 provides a “safe harbor” to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services from companies that provide lawful and appropriate assistance to the manager in the performance of investment decision making responsibilities. Sheffield intends to only accept “soft dollar” services that come within the safe harbor of Section 28(e).

In selecting the brokers for the Funds, Sheffield considers such factors as price, execution capabilities, reputation, infrastructure, reliability, financial resources, quality of research products or services and other value-added services. Sheffield determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage, research products or services and other property, products and services provided by the broker. However, the Funds may pay commissions in an amount greater than the amount another broker might charge.

Brokers used by the Funds may discharge the Funds’ obligations to third parties. Under these arrangements the Funds may pay commissions at higher rates than those another broker might charge, but would do so only if Sheffield determines in good faith that the amount of such commissions is reasonable in relation to the value of all the property including rebates, products and services. However, Sheffield may choose to incur expenses on behalf of the Funds directly and to obtain reimbursement from the Funds, even if the expenses could otherwise be paid through the use of commissions from the Funds’ trading, or “soft dollars.”

In addition, brokers may provide certain research or other products or services to all of its customers, including Sheffield, without being requested to do so. Similarly, brokers may refer investors to Sheffield. Sheffield pays bundled commission rates and receives proprietary research from many of its executing and prime brokers. As a result, Sheffield may pay commissions in excess of what another broker might have charged for the same transactions in recognition of the value of the brokerage and research services provided by the broker and used for the benefit of the Funds managed by Sheffield. Examples of research services provided by brokers may include information on the following: economic data and forecasts, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, credit analysis, risk measurement analysis and performance analysis. These research services are received primarily in the form of written reports, calls and meetings with research analysts. In addition, such research services may be provided in the form of access to computer-generated data, and meetings arranged with corporate and industry spokespersons, economists, academicians, and/or government representatives. Subject to our best execution policy, Sheffield may trade with certain brokers primarily in consideration for providing research services. We may allocate brokerage to these firms, provided that the value of any research and brokerage services is reasonable in comparison to the amount of commission. Sheffield will take advantage of the products or services provided rather than producing or paying for them from another provider. Similarly, Sheffield may accept investor referrals from brokers in appropriate circumstances. In these situations Sheffield receives a benefit because it does not have to pay for the products or services, such as research, or because it will receive additional compensation if the Funds accept new investments. In addition, Sheffield may have an incentive to recommend broker-dealers based on benefits that it receives from brokers, even in the absence of soft dollar arrangements, rather than the interests of the Funds in receiving the most favorable execution. Any products or services that Sheffield receives from broker-dealers will be used in connection with its management of all client accounts, not just selected accounts. As noted above, any such benefits would not be provided under any formal arrangement, and therefore Sheffield does not allocate these benefits among client accounts in proportion to the amount of their trading or any other factor.

### **ITEM 13: REVIEW OF ACCOUNTS**

Sheffield's Chief Compliance Officer and its Principals review records of trades placed for the Funds on a daily basis with a view towards identifying trade errors or transactions not in accordance with the Funds' investment objectives. The Funds' accounts are also reviewed on a daily basis to ensure that Sheffield's records are in agreement with those of its custodians and the Funds' administrators.

Each investor in the U.S. Fund, the U.S. Institutional Fund and the Offshore Fund receives a monthly statement showing its capital account balance. Performance information specific to an investor as well as performance information for the Funds is available to such investor at any time upon request. In addition, each investor in the U.S. Fund, the U.S. Institutional Fund and the Offshore Fund receives an annual report containing audited financial statements for the Fund in which they were invested. Each investor also receives a quarterly letter that describes performance attribution for the previous quarter and often contains details of the investment thesis of a current or recent portfolio position.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Sheffield and the Funds have entered into an agreement with a third-party solicitor under which Sheffield will compensate the solicitor with respect to investments in the Funds by investors introduced by the solicitor. The compensation is the form of a cash payment based on a fixed percentage of the amount invested. Neither Sheffield nor the Funds imposes any sales charge in connection with investments in the Funds, although third-party solicitors may independently impose sales charges which would be disclosed to investors by the solicitor.

### **ITEM 15: CUSTODY**

While Sheffield places all Fund assets in custody with unaffiliated broker-dealers or banks, it is considered to have custody over these assets because of its role as general partner or investment manager of the Funds. Investors in the Funds do not receive statements from the custodian. Instead, the Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of the respective Fund's fiscal year end.

### **ITEM 16: INVESTMENT DISCRETION**

Pursuant to the offering documents of the U.S. Fund, the U.S. Institutional Fund and the Offshore Fund, Sheffield, as investment manager or general partner, has complete investment authority with respect to all securities owned by the Funds. There are no limitations on this authority. Investors in the Funds execute subscription agreements which, along with the confidential private placement memoranda for the U.S. Fund and the U.S. Institutional Fund and the confidential offering memorandum for the Offshore Fund document Sheffield's authority.

### **ITEM 17: VOTING CLIENT SECURITIES**

Sheffield has the authority to vote the securities held by the Funds by virtue of the investment management agreements for the Offshore Fund and the Master Fund and the limited partnership agreements for the Onshore Fund and the U.S. Institutional Fund. None of the Funds nor any investor in the Funds may direct Sheffield's vote with respect to any particular solicitation.

Sheffield's policy is generally to vote proxies in the manner that it believes is consistent with achieving the applicable Fund's stated objectives, primarily maximizing portfolio values and in accordance with the recommendation of the underlying portfolio company's management on routine matters. In certain circumstances, such as with respect to a position held for the Funds as of the record date but not as of the voting date, Sheffield may not vote a proxy.

In voting proxies, Sheffield will follow procedures designed to identify and address material conflicts that may arise between Sheffield's interests and those of its clients before voting proxies on behalf of clients. Specifically, Sheffield will monitor the potential for conflicts of interest on the part of Sheffield with respect to voting proxies on behalf of client accounts as a result of personal relationships, significant client relationships or special circumstances.

If Sheffield determines that a conflict of interest exists with respect to a particular issuer, Sheffield's Chief Operating Officer will determine whether the conflict of interest is material. If it is determined that the conflict of interest is not material, Sheffield may vote proxies notwithstanding the existence of the conflict. If it is determined that the conflict of interest is material, Sheffield will resolve the conflict in one of several possible ways, such by engaging a third party to recommend a vote with respect to the proxy.

Investment adviser clients of Sheffield, or investors in a Fund, may request a copy of the Sheffield's Proxy Voting Policy, as well as relevant proxy voting records, by making a written request to:

Amy Rosenow  
Chief Operating Officer  
Sheffield Asset Management, L.L.C.  
900 N. Michigan Avenue  
Suite 2000  
Chicago, Illinois 60611

**ITEM 18: FINANCIAL INFORMATION**

Not applicable.