

## **Xaraf Management LLC**

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**April 2012**

This Brochure provides information about the qualifications and business practices of Xaraf Management LLC. If you have any questions about the contents of this Brochure, please contact Xaraf's Chief Compliance Officer ("**CCO**"), Christopher Walsh at (203) 861-3261 or [cwalsh@xarafllc.com](mailto:cwalsh@xarafllc.com). Additional information about Xaraf also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**") or by any state securities authority.

Registration of an investment adviser does not imply that Xaraf Management LLC, or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

**Item 2: Material Changes**

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There are no material changes to report since our initial filing of the Form ADV Part 2A in March of 2012.

**Item 3: Table of Contents**

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**Item 4: Advisory Business**

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Xaraf Management LLC (“**Xaraf**”, the “**Adviser**”, “**we**”, “**us**”, “**our**” or the “**Firm**”), a Delaware limited liability company, was founded in 2003 by Lauren Rose. Xaraf is the investment manager for Xaraf Capital LP (the “**Onshore Fund**”) and Xaraf Capital Ltd (Bermuda) (the “**Offshore Fund**”). The Onshore Fund and Offshore Fund are hereinafter referred to as the “**Feeder Funds**”.

Mr. Rose also controls the general partner of Xaraf Capital Master Fund L.P. (the “**Master Fund**”), a Bermuda exempted limited partnership organized in September 2007. The Feeder Funds invest substantially all of their assets in the Master Fund and generally all trades and investments of the Feeder Funds are executed through the Master Fund. The Feeder Funds and the Master Fund are collectively referred to as the “**Funds**”.

In addition to managing the Funds, Xaraf has also maintained an investment management relationship with an institutional managed account client (the “**Managed Account Client**”) since 2003. The Managed Account Client and the Funds are referred to hereinafter collectively as the “**Clients**” or “**Client Accounts**”. The Funds are distinct investment funds, separate from the Managed Account, although it is expected that the investment strategies of the Funds and the Managed Account will be similar.

Xaraf is controlled by Mr. Rose and Christopher Walsh has a minority interest.

As of December 31, 2011, the Firm managed US \$442 million in regulatory assets under management on a discretionary basis.

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**Item 5: Fees and Compensation**

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**Funds**

Pursuant to the investment management agreement, the Funds are generally charged a fee consisting of: (1) a management fee, payable monthly in advance on the first business day of the month; and (2) a performance fee, which is calculated based upon a percentage of the net capital appreciation of the Funds at the end of each fiscal year and is subject to a high water mark.

Xaraf's current fee schedule for the Funds is generally as follows:

**Management Fee:** 2% annually (payable quarterly in advance)

**Performance Fee:** 20% annually (subject to a high water mark)

Fees are deducted from the Funds by instructing the Funds' custodian.

Although fees generally are not subject to negotiation, we reserve the right to waive or impose different fees or otherwise modify the fee arrangements of an existing investor with the consent of such investor.

**Managed Account Client**

The Client Account pays us a fixed fee to cover general operating expenses of the Firm.

The Client Account is generally charged a performance fee which is calculated based upon a percentage of the net capital appreciation at the end of each fiscal year. The Client Account pays us any performance fees due on an annual basis.

**Expenses****Funds**

The Funds shall pay for their organizational and initial offering expenses as well as for their operating expenses, including but not limited to, all accounting, auditing, tax preparation, legal, administration, research, and trading costs. The Funds may incur brokerage and other transaction costs. For further details on the Firm's brokerage practices refer to Item 12 of this Brochure.

**Managed Account Client**

The Managed Account Client shall bear its investment expenses (e.g., brokerage commissions and fees) fund administration, audit & tax preparation, external directors and other related costs and expenses.

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**Item 6: Performance-Based Fees and Side-By-Side Management**

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An affiliate of the Firm receives a performance allocation with respect to each Client Account that is calculated based upon a percentage of the net capital appreciation of the relevant Client Account. The performance allocations are charged in compliance with Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**").

Net asset value includes net realized and unrealized profits and losses. Net profits for the Funds are calculated net of management fees, but before the performance allocation.

Performance based fee arrangements may create an incentive for Xaraf to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Xaraf has procedures designed and implemented to ensure that all Clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among Clients. These procedures include requiring that similarly managed Clients participate in investment opportunities pro rata based on asset size and requiring that, to the extent orders are aggregated, the orders for the Funds are price-averaged. Xaraf's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by the CCO.

No other hourly, flat or asset-based fees are charged to the Client Accounts.

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**Item 7: Types of Clients**

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We consider the Funds and the Managed Account Client to be our clients. The initial subscription minimums are disclosed in the respective confidential private offering memorandum for each Feeder Fund. The minimum investment for opening a separately managed account with Xaraf is to be agreed upon between Xaraf and the client.

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**Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

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***Investment Strategy***

In managing the Client Accounts, we incorporate a global capital structure arbitrage and relative value strategy with a strong bias toward trades with limited downside and positive asymmetric payoffs. We look to exploit relative risk mispricing across companies, industries and time, in order to maximize potential profits with defined and limited downside. Our bias has been towards short credit and long volatility, although this bias will change as market conditions dictate.

Most strategies in the Client Accounts will fall into one of the following categories:

- *Short Credit:* Strategies in which we have taken a net short position in the credit, generally of a corporate issuer, but include short ABS positions. Many strategies include equity hedges, either through stock positions or equity derivatives.
- *Hedged Credit:* Strategies in which we have taken a hedged position in the credit, generally of a corporate issuer. Also includes index hedges, which are generally long credit. Net credit exposure may be positive or negative depending on market conditions and our view of the credit. Many strategies include equity hedges, either through stock positions or equity derivatives.
- *Volatility and Convertibles:* Strategies in which we have taken a long or short position in the volatility of a company (i.e., risk and returns depend primarily on the volatility of the underlying stock). These strategies may consist of equity options hedged with

stock or convertible bonds hedged with stock. Credit exposure in convertible bond strategies may be hedged with credit derivatives depending on our view of the credit and the level of credit risk.

- *FX Volatility:* Strategies in which we have taken a volatility position in a foreign currency. These strategies may include outright positions in foreign currencies, although outright direct exposure to foreign currencies is typically small.
- *Other Strategies:* Include special situations, directional equity and interest rate hedges.

We may modify the investment objectives and strategies of our Clients Accounts at any time. Our right to modify strategies with respect to the Clients depends upon the terms of the agreements governing such Client Accounts.

### ***Risk of Loss Factors***

The following are certain of the material risks involved in Xaraf's investment strategy. This list does not purport to be a complete enumeration or explanation of the risks involved in such strategy.

#### *Limited Rights of Investors*

Substantially all decisions with respect to the management of the Client Accounts are made exclusively by us. Investors in the Funds have no right or power to take part in the management of the Funds. We also make all of the trading and investment decisions of the Client Accounts. In the event of our withdrawal or bankruptcy, generally the Funds will be liquidated.

#### *Nature of Investments and Limited Rights of Investors*

Investments will include holdings in fixed income securities and other financial instruments, including, without limitation, asset and mortgage backed securities, consumer and commercial loans and receivables, high yield investments and related synthetic instruments, and credit linked notes that may be affected, among other things, by business, financial market or legal uncertainties. There can be no assurance that we will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Client Accounts' activities and the value of its investments.

#### *Long-Term Investments*

The Funds will frequently require longer-term holding periods for its positions in order to be successful and positions may experience considerable price volatility over such holding periods. An investment in a Fund, therefore, may not be appropriate for investors requiring short-term liquidity or stable returns.

#### *Operational Risk*

Operational risk is the potential for loss caused by a deficiency in information, communication, transaction processing and settlement and accounting systems. We (or our agents) maintain controls that include systems and procedures to record and reconcile transactions and positions, and to obtain necessary documentation for trading activities.

*Performance Based Fee*

As described in Item 5, we charge the Client Accounts a performance based fee. A performance based fee arrangement 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. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

*Illiquid Portfolio Investments*

We may invest in securities or loans that either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. However, we may not be able to readily dispose of such investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. We may designate such investments "Special Investments."

A withdrawing Investor with an interest in a Special Investment (illiquid with little or no immediate market activity to allow for immediate liquidation) will not receive any amount in respect of such interest until the related Special Investment is realized or deemed realized. In addition, we may have difficulty selling illiquid securities and other investments, perhaps causing us to have difficulty in meeting redemptions of Investors.

*Use of Leverage*

We leverage investment positions by borrowing funds from securities broker-dealers, banks or others. While leverage presents opportunities for increasing the total return on an investment, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Client Account would likely be magnified to the extent that any of them are leveraged.

*Non-Diversification*

In general, we are not subject to limitations on the percentage of assets we may invest in a particular security. Being concentrated in a small number of securities, options or futures, exposes a portfolio to the risk of adverse developments in or affecting a single issuer or industry to a greater extent than if the investments were diversified over a large number of issuers and industries.

*Short Selling Increases Risk of Capital Losses*

We will effect short sales. Short selling, or the sale of securities not owned by the Client Account involves certain additional risks. Such transactions expose the Client Account to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein Xaraf might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.



*Derivatives*

Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading, including liquidity risk and counterparty risk.

*Non-U.S. Investments*

Investment in non-U.S. issuers or securities principally traded outside the U.S. will likely involve certain special risks due to economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting reporting and disclosure requirements than domestic issuers. The securities of some foreign governments and companies and foreign securities markets are less liquid and at times more volatile than comparable U.S. securities and securities markets.

**Item 9: Disciplinary Information**

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Neither we nor any of our management personnel are subject to or have in the past been subject to any criminal or civil action in any domestic or foreign court, and neither we nor any of our management personnel have been subject to any administrative proceedings before the SEC or any other state, federal or foreign financial regulatory authority.

**Item 10: Other Financial Industry Activities and Affiliations**

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The management and employees of Xaraf dedicate substantially all of their professional efforts to Xaraf and its affiliates, and currently have no significant outside business interests.

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

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***Participation or Interest in Client Transactions***

We serve as the investment adviser to the Funds. Employees, affiliates of the employees, and relatives of the employees may make investments in the Funds.

In addition, the Firm’s related persons may invest in the same securities (or related securities) that the Firm recommends to the Funds. Such practices present a conflict where a related person is in a position to trade in a manner that could adversely affect the Funds (e.g., by placing its own trades before or after Fund trades are executed in order to benefit from any price movements due to a Funds’ trades). In addition to affecting the related

person's objectivity, these practices by the related person may also harm the Funds by adversely affecting the price at which the Funds' trades are executed. The Firm has adopted a pre-clearance policy, as discussed below, in an effort to minimize such conflicts.

### **Code of Ethics Pursuant to Rule 204A-I of the Advisers Act**

Pursuant to Rule 204A-I of the Advisers Act, we have adopted a Code of Ethics and Employee Investment Policy that establishes various procedures with respect to investment transactions in accounts in which employees of Xaraf or related persons have a beneficial interest or accounts over which an employee has investment discretion.

The foundation of the Code of Ethics is based on the underlying principles that:

- Employees must at all times place the interests of the clients first;
- Employees must make sure that all personal securities transactions are conducted consistent with the Code of Ethics and Employee Investment Policy; and
- Employees should not take inappropriate advantage of their position at Xaraf.

All Xaraf employees (and members of their immediate households) are deemed to be "Access Persons" and are required to adhere to a comprehensive Code of Ethics and Employee Investment Policy, which covers the duty of confidentiality as well as personal trading. All employees are required to certify their adherence to the Code of Ethics and Employee Investment Policy upon commencement of employment and quarterly thereafter. Further, all employees are required to instruct their brokers to deliver transaction confirmations and statements directly to Xaraf's CCO. The Employee Investment Policy also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the CCO on a periodic basis, and that employees pre-clear certain types of personal securities transactions with the CCO.

Xaraf's Code of Ethics and Employee Investment Policy is available to clients upon request.

### **Privacy Policy**

We are committed to maintaining the confidentiality, integrity and security of our investor's personal information. It is our policy to collect only information necessary or relevant to our management business and use only legitimate means to collect such information. We do not disclose any non-public personal information about our investors or former investors to anyone except for servicing and processing transactions and as required by law. We restrict access to non-public personal information about investors to those employees with a legitimate business need for the information. We maintain security practices, physical, electronic, and procedural safeguards to guard Investor's non-public personal information.

Upon request, we will provide you with a copy of our privacy policy.

### **Item 12: Brokerage Practices**

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As an adviser and a fiduciary to our Clients, our Clients' interests must always be placed first and foremost, and our trading practices and procedures prohibit unfair trading practices and seek to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the Client's favor. We have adopted the following policies and practices to meet

the Firm's fiduciary responsibilities and to ensure our trading practices are fair to all Clients and that no Client or account is advantaged or disadvantaged over any other.

**Aggregation**

The aggregation or blocking of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. Our policy is to aggregate Client transactions where possible and when advantageous to Clients.

**Allocation**

Our allocation principles are to allocate each trade among account proportionally to the desired risk tolerance – which is not necessarily the capital level -- of each account.

**Best Execution**

As an investment advisory Firm, we have a fiduciary duty to seek best execution for client transactions. Portfolio transactions for the Funds are allocated to brokers and dealers on the basis of best execution and in consideration of, among other things, a broker's or dealer's ability to effect such transactions, its facilities, reliability and responsiveness, strength and financial responsibility, quality of coverage, and in consideration of its provision of, or payment of the costs of, research or brokerage products or services which we consider to be of benefit to Xaraf and the Client Accounts. We need not solicit competitive bids and do not have an obligation to seek the lowest available commissions or other transaction costs. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services.

**Principal Trading**

Our policy and practice is to not engage in any principal transactions.

**Soft Dollars**

We may use "soft dollars" generated by Clients' trading activities to purchase research services or products that would otherwise have been an expense of the Firm. We intend to keep any such arrangements within the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

**Trade Errors**

As a fiduciary, we have the responsibility to effect orders correctly, promptly and in the best interests of our Clients. In the event any error occurs in the handling of any Client transactions, due to our actions, or inaction, or actions of others, our policy is to assess each trade error on a case-by-case basis.

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**Item 13: Review of Accounts**

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**Review of Accounts**

We review and reconcile the portfolios of the Client Accounts on a continual basis to assure conformity with investment objectives and guidelines.

We engage in active management for the Client Accounts and, accordingly, review our transactions, positions and cash balances on a daily basis.

**Reporting**

We will distribute an audited financial report for each Fund with respect to the previous fiscal year to all investors within 120 days of year-end. In addition, each Fund will generally distribute net asset value updates on a monthly basis.

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**Item 14: Client Referrals and Other Compensation**

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We do not currently utilize the services of any third-party marketers.

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**Item 15: Custody**

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We will comply with the requirements of the Rule 206(4)-2 of the Advisers Act with regards to custody of assets of the Investment Vehicles ("**Custody Rule**").

We currently use JP Morgan Clearing Corp and Deutsche Bank as our prime brokers and custodian. Through this arrangement JP Morgan and Deutsche Bank will provide among other things, clearing, custodial and record keeping services. Annually, upon completion of each hedge fund's annual audit, Xaraf will distribute the audited financials of each Fund to the investors in the particular Fund.

The CCO shall ensure that the Funds' audited financials are delivered to all investors (within 120 days of the fiscal year end).

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**Item 16: Investment Discretion**

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As previously noted, we have full discretionary authority to manage the Client Accounts, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and the commissions paid. These terms are set out in the Confidential Private Placement Memorandum for each Fund and an investment management agreement for Managed Account Client.

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**Item 17: Voting Client Securities**

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To the extent Xaraf has been delegated proxy voting authority on behalf of its clients, Xaraf complies with its proxy voting policies and procedures that are designed to ensure that in cases where Xaraf votes proxies with respect to client securities, such proxies are voted in the best interest of the Funds. The investors in a Client Account may not direct voting of proxies.

Upon request, we will provide clients with a copy of our proxy voting policies and procedures and/or a record of all proxy votes cast.

**Item 18: Financial Information**

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