

# SOF MANAGEMENT, LLC

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This Brochure provides information about the qualifications and business practices of SOF Management, LLC (“Advisor”). If you have any questions about the contents of this Brochure, please contact us at 713-224-3100 or [john.unger@smhgroup.com](mailto:john.unger@smhgroup.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.

SOF Management, LLC is a registered investment adviser. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information about which you determine to hire or retain an Advisor. Additional information about SOF Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

There have been no material changes in our brochure since March 30, 2011.

The date of our last annual update of our brochure was on March 30, 2011.

You will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further 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 by contacting John T. Unger, Chief Compliance Officer at 713-993-4645 or [john.unger@smhgroup.com](mailto:john.unger@smhgroup.com).

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

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## **Advisory Business**

SOF Management, LLC (the “Advisor”) serves as investment advisor, on a discretionary basis, to two private investment partnerships: Sanders Opportunity Fund, L.P. (“SOF”) and Sanders Opportunity Fund (Institutional), L.P. (the “Institutional Fund” and together with SOF, the “Funds”), both Delaware limited partnerships. The Advisor also serves as the general partner of the Funds. The Funds were available only to persons who are “accredited investors” under the Securities Act of 1933 and “qualified clients” under the Investment Advisers Act of 1940 (the “Advisers Act”). Investors in the Institutional Fund must also be “qualified purchasers” under the Investment Company Act of 1940. The Funds are not made available to the general public and are not registered investment companies. As of December 31, 2011, the net asset value of the Funds was \$33,031,091. The Funds are closed to new investors and are in the process of liquidating their investment portfolios and winding up their operations.

Generally, the principal investment objective of the Funds is to achieve consistently superior long term growth of capital. The Advisor believes that this can be achieved by investing in a group of 20 to 40 small to medium capitalization companies, both public and private, which the Advisor believes are significantly undervalued relative to growth potential. A full description of the investment objectives of each Fund is set forth in its Offering Memorandum.

The Advisor was founded in February 2001 and is wholly owned by Sanders Morris Harris Inc. (“SMHI”), a registered broker dealer and investment advisor, member of the Financial Industry Regulatory Authority (FINRA), and wholly-owned subsidiary of The Edelman Financial Group Inc.

## **Fees and Compensation**

As compensation for its services to each Fund, the Advisor receives a fee (the “Management Fee”) from each Fund on the first day of each quarter, which is debited pro rata from the capital account of each limited partner, equal to 0.25% of each Fund’s net asset value as of the end of the preceding quarter (an annual rate of one percent (1%)). The Advisor reserves the right, in its sole discretion, to reduce or waive the Management Fee.

In addition to the Management Fee, the Advisor is also allocated an annual performance fee as described below in “Performance Based Fees and Side-by-Side Management.”

Each Fund pays (and, as a result, its limited partners are indirectly subject to), any and all research fees, interest on margin accounts, legal, accounting, and other professional fees, borrowing charges on securities sold short, custodial fees, trustee fees, brokerage commissions, bank service fees, interest on loans and debit balances, and any taxes attributable to the Fund on account of its operations, and pays any and all other reasonable expenses related to the management and operation of the Fund as well as the purchase, sale, or transmittal of Fund assets, as the Advisor determines in its sole discretion.

From time to time the Funds may hold investments in other private equity limited partnerships or limited liability companies managed by affiliates of the Adviser. The managers of such affiliated limited partnerships and limited liability companies charge management fees similar to the Management Fee paid

by the Funds. The Management Fees paid by the Funds are in addition to the fees assessed by the private equity funds and limited partnerships or limited liability companies in which the Funds' assets may be invested.

"Brokerage Practices" further describes the factors that Advisor considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **Performance-Based Fees and Side-By-Side Management**

In addition to the Management Fee, the Advisor is allocated an annual performance fee from each limited partner if (i) through the end of a year, the cumulative net gain allocated to such limited partner (after taking into account performance allocations for prior years) exceeds the highest amount of cumulative net gain allocated to such limited partner as of the end of the prior year ("High Watermark") and (ii) the net gain allocable to such limited partner for such year represents a percentage return to such limited partner's capital contributions (as of the beginning of such year) of not less than the "Hurdle Rate" for such year. In such event the Advisor is allocated 10% of the net gain for such year otherwise allocable to such limited partner in excess of the Hurdle Rate and any portion of the net gain which must be counted towards the cumulative net gain in order for it to equal the High Watermark.

The Hurdle Rate for each year is determined by the Advisor by averaging the "bond equivalent yields" on the one-year Treasury Bills auctioned immediately prior to the last business day of each calendar quarter during such year, as reported by The Wall Street Journal (under the "Ask Yld." Column) on the last business day of each quarter.

The performance allocation, if any, is charged to each limited partner at his initial 12-month anniversary and then on December 31<sup>st</sup> of each year or upon a limited partner's complete or partial withdrawal from a Fund and is based upon the limited partner's maximum capital account, plus the Hurdle Rate, from the date of the initial capital contribution or prior calculation to the date of the current calculation. The Advisor reserves the right, in its sole discretion, to reduce or waive the performance allocation.

The performance allocation provisions described in the foregoing paragraphs, along with certain related risks to the limited partners of the Funds, are disclosed in detail in each Fund's Offering Memorandum and Limited Partnership Agreement.

The performance fee arrangement is structured in accordance with Section 205(a)(1) of the Advisors Act and the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring Fund assets for the calculation of performance-based fees, the Advisor includes realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for the Advisor 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. Advisor 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.

## **Types of Clients**

Advisor provides portfolio management services solely to the Funds.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

The Funds may invest in exchange-listed securities, securities traded over-the-counter, private or restricted securities, foreign issues, warrants, corporate debt securities, certificates of deposit, commercial paper, United States government securities, options contracts on securities, interest in partnerships investing in real estate, oil and gas interests, and other securities.

Investments recommended by the Advisor may include limited partnerships that invest in private and small and mid-cap companies, private and public companies in the health and life science sectors, and venture capital funds. Investments may also include warrants and other rights to acquire common or preferred stock. The Funds may also make investments in limited liabilities companies organized by SMHI for the purpose of facilitating an investment in equity or debt securities of a private issuer. The Fund may invest in initial public offerings (IPOs) so long as 10% or less of the limited partners in the Funds are “restricted persons” (essentially persons in the broker dealer industry and their immediate families, finders, and fiduciaries to managing underwriters and their immediate families, and persons in the portfolio management business).

The Fund will invest primarily in the equity and equity-linked securities of its portfolio companies, which may be privately-held or publicly-traded. Investments will be primarily long term, but the Funds may also seek current income from dividend-paying stocks and enhanced returns from short term trading. The investment program permits the use of certain trading and hedging strategies and techniques, including leverage, put and call options, index options, and short selling, to enhance the Funds’ returns and hedge against risk. While the Funds may use these strategies and techniques, they are unlikely to do so to any great extent. Most investments are expected to be in domestic companies, but the Funds may also invest in foreign companies. At times the Funds may hold a substantial portion of their assets in cash and cash equivalents.

In order to ensure a degree of liquidity in the Partnerships’ portfolio, the Partnerships will invest at least 75% of total Commitments in “Freely-Traded Securities.” Freely-Traded Securities are securities that are traded on a national exchange, The Nasdaq National Market, or over-the-counter (or are readily convertible into securities so traded) with trading volumes sufficient for the Manager to reasonably believe that they may be liquidated in a reasonable period of time without adversely affecting the Partnerships’ net asset value.

Although the Advisor utilizes information, reports, and data from various external sources, its investment decision making with respect to each Fund is based primarily upon its internal research and analytical capabilities, including the research and analytical experiences and expertise of its chief investment officer, Don A. Sanders.

## Risk Factors

As funds investing primarily in publicly traded securities, the Funds will be subject to normal market risks, such as the risk that stock prices in general may decline over short or extended periods. The stock market tends to be cyclical, with periods in which prices generally rise or decline. In addition, the strategy of the Funds will be primarily long term, and the Funds do not expect to make regular, frequent or substantial cash distributions. Accordingly, an investment in the Funds may not be suitable for investors with a need for current income.

Micro, small, and mid-sized companies are generally riskier than larger, more mature ones. While many of the companies in which the Funds invest will be established concerns with profitable histories, others may involve a high degree of business and financial risk. Such companies may have operating losses or significant volatility in operating results, may be engaged in rapidly changing businesses and may require substantial infusions of capital for operations or to implement strategic plans.

The Funds will focus their investments in a relatively small number of companies. Thus, the Funds may be subject to greater volatility than would usually be present in a more diversified portfolio, inasmuch as poor performance with respect to any one investment by the Funds may expose the Funds to a greater degree of loss than would be the case with a more broadly diversified investment program. Further, as the Funds will invest primarily in small to medium capitalization companies. Adverse economic or market trends particularly applicable to such companies generally could have a substantial negative effect on the Funds which would not be offset by investments in larger companies.

Although the Funds expect to invest principally in listed securities, it is possible that they may also invest in unlisted or unregistered and restricted securities. Because of the absence of any substantial trading market for these investments, and, as to unregistered securities, the imposition of restrictions on resale, the Funds might take longer to liquidate these positions than would be the case for publicly-traded securities. Although these securities may be resold in privately negotiated transactions, the prices on these sales could be less than those originally paid by the Funds. Further, issuers whose securities are not publicly-traded may not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities.

The Funds will not be registered as an investment company under the 1940 Act, by reason of the exemptions from registration afforded by Sections 3(e)(1) and 3(c)(7) thereunder. Accordingly, they will not be subject to regulation under the 1940 Act, including rules for the protection of investors which require investment companies to have a majority of disinterested directors, which mandate segregation of securities, held in custody from the securities of any other person, and that regulate the relationship between an investment adviser and an investment company.

There is no public trading market for the limited partnership interests in the Funds and none is expected to develop. Further, the Partnership Agreement restricts the transferability of interests. While limited partners will have the right to withdraw their investments in the Funds quarterly, such withdrawals may only be made as of the end of a fiscal quarter of the Funds, and there can be no assurance that the value of a limited partner's interest in the Funds may not decrease

between the time such limited partner determines to withdraw and the effective date of such withdrawal. Further, the Partnership Agreement provides that, under certain conditions (such as prevailing market conditions which make the determination of the value of an interest in the Funds impossible or impracticable) the General Partner may suspend the right of limited partners to withdraw or may limit withdrawals to up to 50% of a limited partner's initial investment in the Funds at any fiscal quarter end.

**Investing in securities involves risk of loss that clients should be prepared to bear.**

### **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 Advisor or the integrity of Advisor's management. Advisor has no information applicable to this Item.

### **Other Financial Industry Activities and Affiliations**

Don A. Sanders, the Chief Investment Officer of Advisor is an employee and registered representative of SMHI. SMHI is the sole member of the Advisor, but does not have any discretion over the investment advisory services of the Advisor or that the Advisor provides to the Funds. The Advisor shares office space with SMHI.

The Advisor has overall investment discretion with respect to investment decisions made for the Funds and such discretion includes the ability of the Advisor to select broker-dealers to execute transactions for the Funds.

The Advisor is authorized to determine the broker-dealers to be used to effect and clear securities transactions for the Funds. The Advisor does not have an obligation to seek the lowest bid or solicit competitive bids. Each Fund's portfolio transactions will generally be allocated by the Advisor to broker-dealers on the basis of best execution, price, and brokerage service (e.g. special execution capabilities, clearance, settlement, and custodial services) which are of benefit to a Fund. In addition, the Advisor may also make such allocations based, in part, upon the ability to make "soft" or commission dollars for third party research and brokerage services utilized for the benefit of a Fund including special execution, clearance, settlement, and custodial services and charges for newswires, quotation equipment, and periodical subscriptions.

The Advisor will execute a number of trades through Sanders Morris Harris Inc. Mr. Sanders is a registered representative of SMHI, but will not act in such capacity in the connection with the Advisor or the Funds.

The Funds' prime broker is currently Sanders Morris Harris Inc., which clears all transaction on a fully disclose basis through Pershing, LLC. However, the Advisor may engage other brokers to provide similar services. A broker will not be excluded from receiving brokerage business because it is not identified as providing research services.



## Code of Ethics

The Advisor will implement policies and procedures intended to avoid conflicts of interest with the Funds and will resolve such conflicts appropriately if they occur. The Advisor, Mr. Sanders, and/or other affiliates of the Advisor may acquire or sell for their personal accounts securities which may also be purchased or sold for the Funds' accounts. The Advisor recognizes that these situations may create either actual or perceived conflicts of interest. As such, the Advisor has adopted a written Code of Ethics designed to prevent and detect personal trading activities that may interfere or be in conflict with client interests. The full text of the Advisor's Code of Ethics is available to you upon request.

Advisor has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and personal securities trading procedures, among other things. All supervised persons at Advisor must acknowledge the terms of the Code of Ethics annually, or as amended.

The Advisor's Code of Ethics is enforced in conjunction with the Code of Ethics adopted by SMHI.

Advisor anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Advisor has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Advisor, its affiliates and/or clients, directly or indirectly, have a position of interest. Advisor's employees and persons associated with Advisor are required to follow Advisor's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Advisor and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Advisor's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Advisor will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Advisor's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Advisor and its clients.

Generally, the Advisor will aggregate orders with respect to a security if such aggregation is consistent with achieving best execution for the Funds. When orders are aggregated, each Fund receives the average share price for the transaction and bears a proportionate share of all transaction costs, based upon each Fund's participation in the transaction, subject to market conditions and the duty to achieve best execution for each account.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Advisor's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Advisor will retain records of the trade order and its allocation.

Advisor's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting John T. Unger.

The Advisor's practice (and that of its principals) is to avoid engaging in securities transactions where Advisor or a related person (such as Sanders Morris Harris Inc.), as broker or agent for any person other than the Funds, effects transactions in which securities owned by the Fund are sold to, or the Fund buys securities from, a brokerage customer of Sanders Morris Harris Inc. However, the Advisor believes that there may be circumstances from time to time where it is beneficial to the Funds for the Advisor (or its principals including Sanders Morris Harris Inc.) to engage in an agency cross transaction with a client of Sanders Morris Harris Inc. This would most likely involve the purchase by the Funds in a private sale by a client of Sanders Morris Harris Inc. of another private equity limited partnership or limited liability company managed by affiliates of the Advisor.

It is Advisor's policy that the firm will not affect any principal transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where the Advisor as an investment adviser in relation to a transaction in which the Advisor, or any person controlled by or under common control with the Advisor, acts as broker for both the advisory client and for another person on the other side of the transaction.

## **Brokerage Practices**

The Advisor has overall investment discretion with respect to investment decisions made for the Funds and such discretion includes the ability of the Advisor to select broker-dealers to execute transactions for the Funds.

The Advisor is authorized to determine the broker-dealers to be used to effect and clear securities transactions for the Funds. The Advisor does not have an obligation to seek the lowest bid or solicit competitive bids. Each Fund's portfolio transactions will generally be allocated by the Advisor to broker-dealers on the basis of best execution, price, and brokerage service (e.g. special execution capabilities, clearance, settlement, and custodial services) which are of benefit to a Fund. In addition, the Advisor may also make such allocations based, in part, upon the ability to make "soft" or commission dollars for third party research and brokerage services utilized for the benefit of a Fund including special execution, clearance, settlement, and custodial services and charges for newswires, quotation equipment, and periodical subscriptions.

The investment information received from brokers may be used by the Advisor in servicing other entities to which the Advisor may provide investment advice and not all such information may be used by the Advisor in connection with the Funds.

In accordance with Section 28(e) of the Securities Exchange Act of 1934, the Advisor may pay a broker or dealer a commission in excess of that which another broker or dealer might have charged for effecting the same transaction in recognition of the value of brokerage or research services provided to the Advisor by such broker or dealer; provided the Advisor determines that such commission charges are reasonable in relation to the value of such services. The reasonableness of commissions paid will be evaluated regularly in light of what competing brokers and dealers are willing to charge for similar brokerage and research services. The Advisor will seek to obtain commission rates that are competitive on an overall basis, with those paid by similar clients for similar transactions. The Advisor's objective will be to seek the best overall brokerage services, consistent with best execution, and not necessarily the lowest available commission on every transaction.

Research services related to portfolio management furnished by brokers and dealers through which the Advisor effects securities transactions may be used in servicing any additional accounts managed by the Advisor. In addition, research services received from broker or dealers that execute transactions for a Fund will not necessarily be used by the Advisor specifically in connection with the management of such Fund's investment account.

Notwithstanding the foregoing, the Advisor intends to rely upon the expertise of its chief investment officer, Don A. Sanders, in rendering investment advice and therefore primarily upon internally generated research and analysis. Accordingly, the provision of research by third parties is not expected to be a significant factor in the allocation of transactions to broker-dealers.

If Advisor uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Advisor receives a benefit because it does not have to produce or pay for the research, products or services. Advisor may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on Advisor's client's interest in receiving most favorable execution.

The Funds' prime broker is currently Sanders Morris Harris Inc., which clears all transaction on a fully disclose basis through Pershing, LLC. However, the Advisor may engage other brokers to provide similar services. A broker will not be excluded from receiving brokerage business because it is not identified as providing research services.

Advisor seeks to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

Advisor and its related persons did not acquire and products or services with client brokerage commissions (or markups or markdowns) within Advisor's last fiscal year.

Generally, the Advisor will aggregate orders with respect to a security if such aggregation is consistent with achieving best execution for the Funds. When orders are aggregated, each Fund

receives the average share price for the transaction and bears a proportionate share of all transaction costs, based upon each Fund's participation in the transaction, subject to market conditions and the duty to achieve best execution for each account.

### **Review of Accounts**

Don A. Sanders and other authorized representatives of the Advisor, review all securities transactions of the Funds on at least a daily basis. This review consists of an analysis of each Fund's portfolio performance to date in light of its investment objective and an evaluation of any appropriate changes that should be made to its portfolio.

Limited Partners of the Funds receive an annual audited financial statement for the Funds and quarterly updates.

### **Client Referrals and Other Compensation**

The limited partnership interests were offered by each Fund on a "best efforts" basis. Neither the Funds nor the Advisor receive commissions or other compensation for sales made in this manner. The Advisor, as the general partner of each Fund, reserves the right, however, to select one or more registered broker-dealers (including Sanders Morris Harris Inc.), to effect sales of limited partnership interests and to pay placement fees or commissions to such broker-dealers in amounts that the Advisor believes to be appropriate. Any broker-dealer retained by a Fund must be a member in good standing of the Financial Industry Regulatory Authority and registered as a broker-dealer in any state in which limited partner interests are offered by such broker-dealer.

The Advisor agreed to pay each sales representative of a soliciting broker-dealer out of the Advisor's fee a fee of 1% of the amount invested by a client of such sales representatives and 20% of the management fees received by the Advisor with respect to such client's investment in a Fund.

### **Custody**

The current custodian for the Funds is Pershing, LLC.

The Funds receive at least quarterly statements from Pershing, LLC, the custodian that holds and maintains client's investment assets. Advisor urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Investment Discretion**

Advisor has discretionary authority from the Funds to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Advisor observes the investment policies, limitations and restrictions of the clients for which it advises.

## **Voting Client Securities**

Advisor as general partner of the Funds votes on all proxy solicitations received from portfolio companies. Advisor votes proxies related to securities held by the Funds in a manner solely in the best interests of the Funds. Advisor considers only those factors that relate to the Funds' investment, including how its vote will economically impact and affect the value of the Funds' investment. Proxy votes generally are cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. In voting on each and every issue, Advisor and its employees shall vote in a prudent and diligent fashion and only after a careful evaluation of the issue presented on the ballot.

Clients may obtain a copy of Advisor's complete proxy voting policies and procedures upon request. Clients may also obtain information from Advisor about how Advisor voted any proxies on behalf of their account(s).

## **Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Advisor's financial condition. Advisor 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.