

COVALENT PARTNERS LLC

Form ADV Part 2A

March 31, 2012

The information contained herein is provided to Clients and prospective clients about the qualifications and business practice of Covalent Partners LLC. If you have any questions about the contents of this brochure, please contact us at the telephone number or email address below. 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.

Covalent Partners LLC is an SEC Registered Investment Adviser. However, registration does not imply a certain level of skill or training.

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Additional information about Covalent Partners LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

On August 12, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which requires us to provide clients with a brochure and a brochure supplement written in plain English. This brochure dated March 31, 2012 is prepared according to the SEC’s new requirements and rules. As a result, we are providing you with a brochure that not only looks different, but contains more information than our earlier disclosure documents.

Currently, our brochure may be requested by contacting William C. Stone, Jr., CFO/CCO at (617) 658-5500 or wcs@covalentpartnersllc.com. We are happy to provide you with a new brochure at any time without charge.

Since the last annual ADV update filing dated March 31, 2011, the following material changes have occurred:

- Client assets managed by Covalent increased from \$281.7 million on March 1, 2011 to \$507.6 million on March 1, 2012

Going forward we will ensure that you receive a summary of any material changes to our brochure annually. We may also provide updated disclosure information about material changes on a more frequent basis. Any summaries of changes will include the date of our last annual update of our brochure.

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Item 4 Advisory Business

Covalent Partners LLC ("Covalent" or "Applicant") is a Massachusetts Limited Liability company established under the laws of the State of Delaware. Covalent was established in 2005 and has been advising its clients since 2006. Covalent's principal owner is Robert Hockett. Covalent is registered with the Securities and Exchange Commission. Covalent provides investment advice to pooled investment vehicles that are not registered investment companies under the Investment Company Act of 1940, as amended (the "IC Act") and whose securities are not registered under the Securities Act of 1933, as amended (the "Securities Act"). The types of investments and the investors in these pooled investment vehicles are described in Items 7 and 8 below. As of March 1, 2012, Covalent manages client assets of \$507,649,834 which are 100% discretionary.

Item 5 Fees and Compensation

Covalent provides its investment advisory services to pooled investment vehicles which are not registered investment companies under the IC Act. These pooled investment vehicles are commingled funds in which only Qualified Purchasers, as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, invest in. Qualified Purchasers are able to invest in either an onshore or offshore fund. Covalent's compensation from advising these pooled investment vehicles consists of both an asset-based and performance-based fee.

The first component is an asset-based fee. The annual asset-based management fee paid will generally be as percentage of assets under management, depending on the size, nature and term of the account, as is set forth in the particular limited partnership agreement (or other operating agreement) or advisory agreement (collectively, the "Operating Documents") of the particular account. Depending on the terms of the particular Operating Documents, such asset-based fee may be charged monthly, in arrears or in advance. For accounts that are billed in advance, Covalent will provide, upon the effective date of termination, a pro rata refund of fees paid in advance. The termination rights with respect to a particular account are set forth in the Operating Documents with respect to such account. The second component is a performance-based fee or allocation of profits as described in Item 6 below.

The Fund will bear its own expenses, including but not limited to the Management Fee, administration fees, its proportionate share of the Master Fund's investment expenses (i.e., expenses related to the investment of the Master Fund's assets, including, without limitation, brokerage commissions, custody fees, interest and borrowing charges, and other expenses reasonably related to the investment decision and monitoring process), taxes, insurance premiums, legal expenses, regulatory expenses, the costs of brokerage services and research (including, without limitation, news, quotation, statistics and pricing services, analytical software, and certain data and other services utilized in the investment management and administration process), accounting, audit and tax preparation expenses, other expenses associated with the operation of the Fund, organizational expenses, placement agent fees (note that the Management Fee will be reduced by an amount equal to the placement agent fees paid by the Fund), and all extraordinary expenses.

NOTE: Investors should refer to each Fund's Offering Memorandum, Subscription Agreements and other Offering Documents for addition/supplementary information regarding the Funds as well as the fees and expenses paid by the Funds. Covalent reserves the right to negotiate fees and investment minimums.

Item 6 Performance-Based Fees and Side-by-Side Management

Covalent provides its investment advisory services to pooled investment vehicles which are not registered investment companies under the IC Act. These pooled investment vehicles are commingled funds able to invest in either an onshore or offshore fund. Covalent's compensation from advising these pooled investment vehicles consists of both an asset-based and performance-based fee. The performance-based fee or allocation of profits may be paid either as a fee to Covalent or as an incentive allocation to Covalent or an affiliate of Covalent that serves as the general partner of a limited partnership or as a member of a limited liability company for such investment fund client. Any performance fees (or incentive allocations) will be computed and charged in accordance with Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") and Rule 205-3 (including the client qualification provision) promulgated under the Advisers Act, and in accordance with the terms of the particular Operating Documents. The General Partner, in its sole discretion, may waive any or all fees and terms specified in the Operating Documents.

NOTE: Investors should refer to each Fund's Offering Memorandum, Subscription Agreements and other Offering Documents for addition/supplementary information regarding the Funds as well as the fees and expenses paid by the Funds. Covalent reserves the right to negotiate fees and investment minimums.

Item 7 Types of Clients

Covalent provides its investment advisory services to pooled investment vehicles which are not registered investment companies under the IC Act. These pooled investment vehicles generally comprise both domestic and foreign investors, including institutional investors, trusts, charitable organizations, pensions and high net worth individuals, and may in the future include profit sharing plans, estates, bank or thrift institutions and other U.S. and non-U.S. institutional investors and individual high-net-worth clients. Covalent has a \$5,000,000 minimum investment for each investment into the pooled investment vehicles it advises. The general partner of the pooled investment vehicle reserves the right to negotiate the minimum.

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

Covalent security analysis methods include, but are not limited to the following:

- Fundamental analysis
- Technical analysis
- Cyclical
- Others as described below

The main sources of information Covalent uses include, but are not limited to the following:

- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others
- Annual reports, prospectuses and filings with the U.S. Securities and Exchange Commission
- Corporate rating services
- Company press releases
- Other as described below

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Investment strategies used to implement investment advice given to clients include:

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Short sales
- Margin transactions
- Option writing, including covered options, uncovered options or spreading strategies
- Exchange-traded and OTC derivatives, including interest rate, currency and equity swaps; interest rate caps, collars and floors; equity and currency options; futures and options on futures; forward foreign currency exchange contracts; capped, inverse, dual index and range floaters; and structured notes.
- Others as described below

Covalent's investment approach is focused foremost on analyzing fundamental factors. When making investment decisions, Covalent typically considers industry- and company-specific cyclical factors and technical factors, such as the availability and recent trading price and volume characteristics of an instrument targeted for purchase or sale. In addition, Covalent may analyze other factors, including but not limited to the relative rights and potential standing of various instruments in the event of issuer financial distress (including in the event of a possible bankruptcy).

In addition to the sources of information set forth above, Covalent may visit corporate management, attend professional forums and conferences, participate in analyst meetings, review Federal bankruptcy court and other court and regulatory filings, and utilizes various online information services.

In addition to the investment strategies described above, Covalent will engage in hedging transactions for certain of its pooled investment vehicles. Hedging transactions are structured with the goal of taking advantage of arbitrage opportunities either within a company's capital structure or across a particular industry. Hedging transactions will include for example, purchasing a company's bonds and shorting the company's equity securities.

Types of Investments

From time to time, Covalent may offer advice on investments, both long and short, in a wide range of domestic as well as international securities and financial instruments, including, but not limited to, common stocks, preferred stocks, corporate bonds (investment grade and non-investment grade), bank debt (assignments and participations) and other loan obligations, mezzanine financings, convertible securities and other equity-linked instruments, U.S. government securities, debt/equity indices and index futures/options, ETFs, closed-end funds and other commingled investment vehicles, credit and fixed income derivatives, equity and equity-linked derivatives and futures, currencies and currency forwards, swaps and contracts for differences, mortgage-backed and other collateralized obligations, asset-backed instruments and other structured notes, municipal bonds, and other public and private instruments, including Rule 144A securities, private equity and limited partner interests. In addition, Covalent may offer advice regarding hedging transactions for certain pooled investment vehicles, as described below.

Note: All investments involve the risk of loss, including (among other things) loss of principal, a reduction in earnings (including interest, dividends and other distributions), and the loss of future earnings. These risks include, but are not limited to, market risk, interest rate risk, bankruptcy and distressed investing risk, issuer risk, currency risk, foreign and emerging market risk, market capitalization risk and general economic risk. For a more comprehensive description of the risks associated with Covalent's investment strategy, please see the applicable Offering Documents. Although

we manage the assets in a manner consistent with risk tolerances, there can be no guarantee that our efforts will be successful. The investor should be prepared to bear the risk of loss.

Item 9 Disciplinary Information

Covalent is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our business or the integrity of our management. Covalent has no such legal or disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Covalent does not partake in any other financial industry activities or affiliations outside of providing investment advice to pooled investment vehicles that are not registered investment companies under the Investment Company Act of 1940, as amended and whose securities are not registered under the Securities Act of 1933, as amended.

Covalent is not registered and does not have an application pending as a securities broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor.

Covalent does not have arrangements that are material to its advisory business and its clients and investors with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, commodity pool operator, commodity trading adviser, futures commission merchant, bank or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited liability companies.

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

Covalent either directly, or through a related person, is the general partner and/or provides advisory services to the following commingled investment vehicles:

- Covalent Capital Partners Master Fund, L.P. (primarily invests in debt and equity securities and other instruments).
- Covalent Capital Partners, LP (primarily invests in Covalent Capital Partners Master Fund, L.P.).
- Covalent Capital Partners Intermediate Fund, L.P. (primarily invests in Covalent Capital Partners Master Fund, L.P.).
- Covalent Capital Partners (Offshore), L.P. (primarily invests in Covalent Capital Partners Intermediate Fund, L.P.).

Conflicts of Interest

At all times, Covalent will endeavor to avoid conflicts of interest and fully disclose all material facts concerning any conflict that does arise with respect to any Client.

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Participation or Interest in Client Transactions

Covalent has an indirect financial interest in the securities owned by certain of its clients by reason of the fact that an affiliate of Covalent serves as the general partner of certain private investment fund clients organized as limited partnerships. When, in the professional judgment of Covalent, a particular transaction is suitable for a client based on such client's cash needs, investment strategy or other appropriate considerations, Covalent may cause the simultaneous purchase by one client and sale by another client of securities, or a purchase or sale by a client of a security in which another client may have a position.

Summary of Covalent's Code of Ethics

Covalent's reputation for integrity and ethics is one of its most important assets. In order to safeguard this reputation, Covalent believes that it is essential not only to comply with relevant federal and state securities laws and regulations, but also to maintain high standards of personal and professional conduct at all times. Covalent's Code of Ethics is designed to ensure that its conduct is at all times consistent with these standards, with its obligations to its clients, and with industry and regulatory standards for investment advisors.

The general principles underlying Covalent's Code of Ethics are as follows:

- The interests of Covalent's clients must always come first.
- Covalent employees should not take inappropriate advantage of information learned through his or her position with or on behalf of a client, whether or not there is a loss to the client.
- Covalent employees must take care to avoid even the appearance of impropriety in his or her personal actions.
- Covalent employees should not advise or encourage others to take actions that such employee would be prohibited by the Code of Ethics from taking himself or herself for his or her own account.
- Information concerning the identity, security holdings and financial affairs of clients is confidential.
- Independence in the investment decision-making process is very important and such independence should be safeguarded.

In order to implement these basic principles, the Code of Ethics contains detailed rules including, but not limited to, prohibitions and pre-approval procedures with respect to personal securities transactions applicable to all employees of Covalent. Covalent will provide any client or prospective client a copy of its Code of Ethics upon written request to its Chief Compliance Officer, Bill Stone, at (617) 658-5508 or at wcs@covalentpartnersllc.com.

Item 12 Brokerage Practices

Covalent manages its investment funds on a fully discretionary basis, consistent with the funds' investment objectives and restrictions, with authority to determine the securities to be bought or sold, the amount of securities to be bought and sold and the broker-dealers to be used and related commission rates. In selecting brokers, Covalent attempts to identify the best overall combination of price and execution of purchase or sale orders under prevailing circumstances. The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental facts will be considered as they are deemed relevant. Consideration may be given to the reputation, perceived soundness, and performance of the various firms, their demonstrated execution capability, both generally and in regard to particular securities transactions, their proposed commission charges, as well as other factors including the nature of the security or instrument being traded, the size and type of the transaction, the nature and character of the markets for the security or

instrument to be purchased or sold, the desired timing of the trade, the activity existing and expected in the market for the particular security or instrument, confidentiality, and the firm's clearance and settlement capabilities. Transactions in over-the-counter securities may be made with broker-dealers who are not market makers in those securities at such times as Covalent in its judgment believes that it is in the best interests of its client to execute a trade with such non-market-maker. When it appears that a number of firms can satisfy the required standards in respect to a particular transaction, consideration may also be given to research services which such brokerage firms have provided in the past or may provide in the future. Such research services may include the provision of supplemental investment research, including information on particular securities or individual companies or industries or sectors, legal interpretations and legal developments affecting portfolio securities, investments or issuers, general, economic and political information, analytical and statistical data, relevant market information and market quotations in connection with the analysis of securities; such information may be used in connection with some or all of Covalent's client accounts and not just those paying for it. Subject to the safe-harbor provisions of Section 28(e) of the Securities Exchange Act of 1934 and in accordance with SEC interpretive guidance regarding the application of such provisions, a portion of brokerage commissions may be paid to firms which, in the normal course of business, publish statistical, research or other research-related material which is received by Covalent and which may or may not prove useful to Covalent in the management of its funds. Accordingly, Covalent's client may pay higher brokerage commissions in connection with trades for its accounts than would otherwise be the case in reflection of the receipt of such material.

Occasions may arise when Covalent determines that an investment in a particular security or the disposition of a particular security is simultaneously a proper investment decision for more than one of its clients. In this event, purchases and sales normally will be averaged as to price and allocated as to amount among such clients in a manner deemed equitable to each client. Further, on occasions when Covalent deems the purchase or sale of a security to be in the best interests of a number of clients, it may aggregate such securities to be purchased or sold among a number of accounts to obtain best execution and lower brokerage commissions in such manner as Covalent deems equitable and fair to its clients. With respect to the allocation of public offerings which trade at a premium in the secondary market whenever such secondary market begins ("new issues"), Covalent will allocate new issues, if available, among clients for which such investments are appropriate and desirable in a manner Covalent deems fair and equitable, taking into account factors Covalent deems relevant, including the investment objectives and strategies of such clients and the past brokerage of the various clients believed to have "generated" the new issue opportunity. However, certain clients may not be permitted under the rules of the FINRA to purchase new issues, even where such client's past brokerage may have generated the opportunity.

Item 13 Review of Accounts

Covalent's Managing Partner, Chief Financial Officer and Principal, in conjunction with other members of the operations and investment team, are responsible for and conduct reviews of all accounts managed on an ongoing basis. As a general rule, Covalent's operations and investment professionals review commingled fund accounts on a daily basis. Such review may involve an examination of the accounts compliance with its objectives and restrictions, current market value of portfolio investments, developments in portfolio companies and other factors affecting decisions with respect to the portfolio. In addition, the portfolio managers and other investment professionals meet on a regular basis to discuss specific positions in, and potential investments for, commingled fund client accounts.

Generally, Covalent, directly or through its third party administrator, provides monthly updates and quarterly reports to its investment fund investors. On an annual basis, financial statements and K-1 statements are provided to the applicable investment fund investors. The reports and/or information required to be provided by such investment fund clients to their investors are set forth in the particular

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Operating Documents for such investment fund client. In addition, due to legal and/or regulatory constraints that must be followed by some of the firm's investors and/or the specific needs and requests by certain investors, the firm may at its discretion agree to provide certain investors more frequent reports and/or certain other reports than those described above.

Item 14 Client Referrals and Other Compensation

Covalent does not receive any economic benefit from non-clients in connection with giving advice to clients.

Covalent does have placement agent arrangements with certain individuals and entities. These placement agents introduce prospective investors to the advisor for its client Funds for which Covalent receives management fees and performance fees. The placement agent receives compensation which is formula-based on the amount of management fees paid. There are no conflicts of interests that arise from any of these arrangements.

Item 15 Custody

Covalent does not maintain direct custody or possession of any of its client's funds or securities. Covalent will ensure that information on all trades executed on behalf of the Funds is delivered to the corresponding Custodians. Daily and monthly holdings reconciliation are conducted between the Custodian's records and Covalent's records.

Item 16 Investment Discretion

Covalent manages client assets on a fully discretionary basis. Covalent receives discretionary authority from its clients by way of investment advisory contract executed at the outset of the client relationship. Covalent's discretionary authority includes managing client assets consistent with the client's investment objectives and restrictions, with authority to determine the securities to be bought or sold, the amount of securities to be bought and sold and the broker-dealers to be used and related commission rates.

Item 17 Voting Client Securities

Covalent has the authority and discretion to vote proxies for its clients, and therefore has adopted and implemented proxy voting policies and procedures. Clients will not be able to direct the vote on proxies. Proxy voting decisions will be made according to guidelines that protect the economic interests of Covalent clients while considering both short-and long-term implications. Covalent has formed a proxy voting committee to review proxy statements.

Covalent seeks to vote proxies in a manner which serves the best interest of its clients. All proxy solicitations shall be reviewed on a per issuer basis. In making proxy voting decisions, Covalent may consider various specific factors, including without limitation, potential impact on future operating performance of the company, potential impact on the value, ranking or voting rights of the securities held, alignment of interests between management and the company's shareholders, or other factors. Covalent considers the views of the issuer's management when making proxy decisions unless it is believed that such a vote would be contrary to the objectives of its clients.

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Additionally, Covalent's proxy voting committee has adopted procedures to resolve cases where Covalent or an employee of Covalent has a material conflict of interest with a proxy proposal. Covalent maintains records of its proxy voting for a minimum of five years. Covalent will furnish proxy voting information to any client, free of charge, upon request to its Chief Compliance Officer, Bill Stone, at (617) 658-5508 or at wcs@covalentpartnersllc.com.

Item 18 Financial Information

Item 18 is not applicable to the Adviser.

Item 19 Requirements for State Registered Advisers

Item 19 is not applicable to the Adviser.