

## **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 Silvermine Capital Management, LLC ("Silvermine" – we may also refer to ourselves by "we," "our" or similar terms). If you have any questions about the contents of this brochure, please contact us at (203) 399-3012 or [giorgio.boero@silverminecap.com](mailto:giorgio.boero@silverminecap.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.**

**Silvermine Capital Management has been a SEC Registered Investment - Advisor since September 4<sup>th</sup>, 2009. The SEC registration does not imply a certain level of skill or training.**

### **Item 2 - Material changes**

There are no material changes to the prior filing of this report.

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#### **Item 4 – Advisory Business**

We primarily act as the collateral manager and reference collateral manager (i.e., with respect to funds that hold only derivative obligations whose value is calculated by reference to loans or debt securities) for issuers of collateralized loan obligations ("CLOs") (collectively, the "CLO Issuers"). Each CLO Issuer typically is a non-U.S. entity that issues notes ("Notes") and equity ("Equity") under an indenture (each, an "Indenture"). The Notes are secured either by (1) a portfolio of securities, consisting primarily of "Leveraged Loans" (described further below under Methods of Analysis, Investment Strategies and Risk of Loss – Risks") acquired on behalf of the CLO Issuer and managed by Silvermine, or (2) a guaranteed investment contract and a total return swap ("TRS") referencing a portfolio of reference securities (again consisting primarily of Leveraged Loans) subject to the TRS. We also manage separate accounts ("Separate Accounts") for investors who wish to obtain exposure to Leverage Loans and similar investments through TRSs. Our investment management agreements and related Indentures contain detailed specifications and requirements regarding the types of leverage loans and debt securities we are permitted to acquire (or obtain synthetic exposure to) on behalf of our clients, and specify the circumstances in which we can acquire and divest those instruments.

We had approximately \$2.6 billion under management on March 15, 2012.

Our principal owners are George Steven Kalin and Richard F. Kurth.

#### **Item 5 – Fees and Compensation**

We are paid by each CLO Issuer, on a quarterly basis in arrears: (i) senior and subordinated fees that range, on a combined basis, between .30% and .50% per annum of assets under management and (ii) incentive fees which consist of an agreed up percentage of excess cash flow (typically 20%) payable following the receipt by Equity investors of a specified internal rate of return (collectively, the "CLO Management Fees"). CLO Management Fees are calculated by a trustee for the CLO Issuer (each, a "Trustee") and paid from the income generated by each CLO Issuer's investments in accordance with a priority of payments specified in the Indenture. Senior management fees have a higher payment priority than subordinate management fees which are paid only to the extent cash flow remains

after the CLO Issuer funds debt service on the Notes and other third party fees and expenses. CLO Management Fees are generally negotiated by us with the underwriter of the CLO Issuer's Notes and Equity at the Issuer's inception.

In addition to our CLO Management Fees, we receive reimbursement for expenses we incur in performing obligations under our management agreements, such as subscriptions for pricing services, legal and other professional fees, fees to rating agencies and other expenses contemplated in the management agreements. Our expenses are capped in the manner and amount stated in the each Indenture, management agreement and other ancillary documentation.

Further, each CLO Issuer incurs other third party fees and expenses. As compensation for the performance of its obligations related to each CLO Issuer, the Trustee will receive a fee (the "Trustee Fee"), and as compensation for the performance of its obligations under a collateral administration agreement, the CLO Issuer's collateral administrator will receive a fee (the "Collateral Administrator Fee"). The Trustee Fee and Collateral Administrator Fees are each payable quarterly out of a CLO Issuer's cash flow, and to the extent there are not sufficient funds available, in a subsequent quarter. The annual Trustee Fee and Collateral Administration Fees for each CLO Issuer range between 0.025% to 0.0325% of assets under management.

The Trustee receives reimbursement for expenses incurred by it in carrying out its responsibilities under the Indenture, such as audit and tax preparation fees, stock exchange registration fees, legal opinions and representation fees, etc.

Our fees for the management of Separate Accounts, also paid in arrears, are generally similar to our CLO Management Fees and are subject to negotiation with clients on an individual basis. Our Separate Account fees are paid directly by the client in accordance with the relevant management agreements.

Separate Account Clients may also incur other direct third party charges, such as custodian fees.

Additionally, our Separate Account fees and CLO Management Fees do not cover counterparty spreads in connection with transactions on behalf of our clients.

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

Our typical incentive performance fees and the way they are determined are described above under "Fees and Compensation."

Performance-based compensation arrangements may create an incentive for us to make investments that are riskier or more speculative than would be the case in the

absence of a performance-based fee. Performance based compensation may also create an incentive to favor accounts paying the highest fees in the allocation of investment opportunities. In that connection we have a fiduciary duty, and have established written supervisory procedures, to treat all clients fairly and to avoid conflicts of interest. We note that our investment management agreements provide for performance fees.

## **Item 7 –Types of Clients**

The kind of clients we serve is described above under "Advisory Business." Generally the minimum account size we will agree to manage is \$ 50 million.

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

### Strategy

Our investment strategy emphasizes preservation of principal and the generation of current income, with a secondary goal of capital appreciation. The assumption of credit risk is based on strong credit analysis.

We primarily focus on senior secured loans and have not invested in a material way outside of this asset class. The CLO Issuers that we currently manage have strict limitations within their Indentures that limit the opportunity to invest in asset classes beyond senior secured loans, and our investment management agreements with Separate Account clients contain similar restrictions.

Our portfolios are constructed based on the recommendations of our credit analysts ("Credit Analysts"). Their analysis focuses on the issuer's prospects as a going concern and for credit improvement. Although our investment strategy emphasizes preservation of principal and generation of current income (with a secondary focus on capital appreciation), investments in debt securities involve risks of loss that clients must be prepared to bear. Certain of these risks are described below.

### Process

Investment opportunities in the senior secured loan market are generally presented by commercial banks to investors. All transactions are reviewed and screened by one of our two Managing Directors. Transactions that meet this first screen are assigned to the appropriate industry Credit Analyst. Our Credit Analyst focuses on the variability of revenues and earnings, "worst case" debt service coverage and available sources of liquidity. Emphasis is placed on owning interests that are senior secured with liens on assets of the issuer. In addition, our Credit Analysts typically perform asset and business valuations to evaluate a secondary repayment source, if one is available, should the issuer be unable to service its debt from

internal cash flow. As part of the overall evaluation, comparisons are made to similar issuers to help assess the issuer's relative value and competitive staying power. The Credit Analyst must also demonstrate that the security is appropriate for a conservative investment strategy. During the credit analysis process our Credit Analysts may conduct one-on-one meetings with company management to discuss outstanding questions and issues and hold conversations with industry analysts, consultants and experts.

Once this analysis has been completed the Credit Analyst makes a presentation to our Credit Committee, which consists of our Credit Analysts and co-chairs Richard Kurth and G. Steven Kalin. The potential investment is then discussed in the context of market pricing, client guidelines and portfolio weightings, among other things. The ultimate purchase decision is made by the unanimous decision of Credit Committee Chairs. Some clients however, may require that credit decisions affecting their portfolios be discussed and approved by an investment committee of which a client representative is a member together with Messrs. Kalin and Kurth, in which case the client representative usually has veto power over investment decisions.

An independent cash flow model and asset valuation model is generally constructed in conjunction with the approval memo. The purpose of the model is to stress test the issuer's cash flows in a variety of scenarios in order to understand the likelihood of default, potential ways out and the framework for recovery if default occurs. In conjunction with the cash flow model, an asset valuation is performed for all assets on the issuer's balance sheet, including intangibles. This valuation provides the basis for default/recovery scenario analysis, which is then compared to the investment's position in the issuer's capital structure. Additionally, as part of this process, the Credit Analyst is charged with developing a set of review triggers. The purpose of this exercise is to create a framework to effectively monitor the investment.

After the investment has been made, the Credit Analyst is responsible for tracking its performance, documenting issuer quarterly financial information from both a qualitative and quantitative basis. The key quarterly financial information is inputted into the SCM system (the "System"), which is a proprietary software program developed exclusively for us according to our specific requirements. The System combines credit metrics and portfolio management tools in an integrated application. It provides the Credit Analyst with an overview of each credit, including exposure by client, internal rating, approved exposure, trading history and research notes.

Once the quarterly information is entered, the System generates comparisons to plan, prior year and the Credit Analyst's base-case. The System also monitors the performance against the review triggers to assist on the Credit Analyst's evaluation of the credit. In addition, our Credit Analysts are required to document their view of the quality of the issuer's earnings and the outlook for its future performance,

confirm/modify the internal risk rating and ultimately opine whether the investment is a buy/sell or hold.

## **Risks**

*Default Risk.* If there is a default on a loan, reference loan, structured financial obligation or any other security contained in a client's portfolio (collectively "Collateral Obligations"), the defaulted Collateral Obligation may become subject to either substantial workout negotiations or restructuring. That may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal and a substantial change in the terms, conditions and covenants with respect to the defaulted obligation, including the possibility that equity of the issuer may be issued in exchange for a part or the whole original Collateral Obligation. Furthermore, there can be no assurance that the ultimate recovery on a defaulted Collateral Obligation will be at least equal to either the minimum recovery rate assumed by a rating agency in rating the Collateral Obligation or any recovery rate used in connection with any analysis of the debt securities that may have been prepared by such parties as the initial purchaser of the loan or the placement agent for the loan.

*Investment in loans generally; lack of liquidity.* Loans and interests in loans have significant liquidity and market value risks as they are not generally traded in organized exchange markets but rather are traded by commercial banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities.

*Leveraged or non-investment grade loans.* Our CLO Issuers invest primarily in Leveraged Loans. A loan is classified as a Leveraged Loan if it generally meets any of the following criteria: (1) debt ratings of below Baa3/BBB- from Moody's and S&P, respectively; (2) debt/EBITDA ratio of 3.0 times or greater; or (3) pricing of at least 125 basis points over LIBOR at issue. Leveraged loans have historically experienced greater default rates than investment grade securities. As a result, we cannot provide assurance as to the levels of defaults and/or recoveries that may be experienced in a client's portfolio.

*Interest rate risk.* When interest rates rise, the price at which an interest in a loan or a bond that bears a fixed rate of interest can be sold falls, with a greater proportionate effect dependent upon the length of the loan's or bond's maturity. While many of the interests in Leveraged Loans or bonds that we buy on behalf of our clients have adjustment provisions that cause the interest payable on the loan or bond to increase as interest rates rise generally, not all do and even those that do may not have adjustment provisions that give rise to a sufficient interest rate increase to maintain the secondary market value of the interest held on behalf of a client. As a result, an increase in interest rates may give rise to a realized loss in a client's portfolio if we determine that loans or bonds in that portfolio should be sold.

*Prepayment risk.* The loans in which we primarily invest on behalf of our clients are generally pre-payable in whole or in part at any time at the option of the obligor/issuer at par plus accrued unpaid interest. Prepayments on loans may be caused by a variety of factors that are often difficult to predict. Consequently, there exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment.

*Risks of investment in Structured Finance Obligations.* A portion of a client's portfolio may consist of "Structured Finance Obligations" – i.e., collateralized loan obligation securities, issued by CLO Issuers that we do not manage, that satisfy certain criteria. Structured Finance Obligations are generally limited recourse obligations of the CLO Issuer in question and are payable solely from the assets of that CLO Issuer. The underlying assets typically consist primarily of Leveraged Loans.

Investments in Structured Finance Obligations entail a number of risks, including prepayment risk, credit (i.e., default) risk, liquidity risk, interest rate risk, structural risk and legal risk, which may be different from those of loans or other types of assets. Structural risk derives from the relative priority of a particular Structured Finance Obligation to be paid out of a CLO Issuer's cash flow (from interest payments and asset sales), or upon liquidation of the CLO Issuer, in relation to the other obligations issued by the same CLO Issuer, and may apply to the Structured Finance Obligations we purchase for our clients because we do not necessarily purchase for our clients the most protected Structured Finance Obligation issued by a CLO Issuer. Legal risk may arise because Structured Finance Obligations are typically complex instruments that may be based upon difficult to interpret or unclear documentation, as well as out of issues relating to the proper segregation and "true sale" of assets to a CLO Issuer.

*Risks relating to the accuracy and continued accuracy of ratings.* We take rating agency assessments significantly into account in reaching our judgments concerning the Collateral Obligations in which we invest on behalf of our clients. Credit ratings of obligors/issuers and Collateral Obligations represent the opinions of the rating agencies regarding the likelihood of payment of certain obligations when due but are not a guarantee of the creditworthiness of obligors/issuers or the repayment of (or payment of interest on) a Collateral Obligation. In addition, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that the current financial condition of an obligor/issuer at any given time may be better or worse than what the current rating indicates. Therefore, the ratings assigned to an obligor/issuer or its Collateral Obligations by a rating agency may not fully reflect the true risks of purchasing or being synthetically exposed to a Collateral Obligation.

## **Item 9 – Disciplinary Information**

Not applicable. Neither we nor any of our managers is subject to or has in the past been subject to any criminal or civil action in any domestic or foreign court, and neither we nor any of our managers has 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**

We do not engage in other financial industry activities and have no affiliations with other entities in the financial industry.

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

Our Code of Ethics (the "Code") was adopted pursuant to SEC Rule 204A-1. We will provide a copy of our Code upon request.

The Code establishes various procedures with respect to investment transactions in which our related persons have a beneficial interest that are designed to eliminate the potential for conflicts of interest with our clients. Those procedures include a requirement that our principals and all of our employees with access to information concerning our trading activities on behalf of our clients ("Access Persons") report all of their securities holdings and transactions to us (subject to certain exceptions permitted by Rule 204A-1).

The Code addresses the standard of business conduct for our supervised persons and any other Access Persons, including provisions relating to the use of both public and non-public information (including rules relating to the prevention of insider trading) and personal security transactions.

Additionally, the Code establishes guidelines and restrictions on gift and entertainment expenses, political contributions and service on boards of directors and other outside activities.

It is possible that our officers or employees may from time to time be members of the boards of directors of publicly held companies that may be the obligor on Leveraged Loans or other obligations that are permitted investments for our clients. In such a case, the Code provides that we must take steps such as establishing appropriate "Chinese Wall" procedures or placing the investment in question on a restricted list, which may limit or preclude the purchase or sale of such investments for our clients, or exclude such a director from making or influencing any decision related to the trading of such security for any of our clients. We are particularly



likely to use the latter mechanism when one of more of our client's holds the investment in question and it is important that we be free to sell that investment on the client's behalf.

Lastly, the Code addresses marketing and promotional activities and the anti-money-laundering procedures.

**Purchase of Securities from Clients:** Neither we nor our related persons buy portfolio securities from, or sell portfolio securities to, clients.

**Purchase and Sale of Securities Held by Clients:** Neither we nor our related persons buy, hold or sell investments held, or that are being considered for investment, on behalf of one of our clients, securities issued by the issuers of, or other obligors on, client investments (or investments that we are considering) or related options and futures. We maintain a restricted list of applicable investments and securities and require our related persons to consult the list before making personal investments so that they will not make a prohibited investment.

## **Item 12 – Brokerage Practices**

We do not generally trade securities with or through broker-dealers and do not require, request or recommend that our clients execute transactions through a specific broker-dealer.

We trade debt securities in both the primary and in the secondary bank markets. In the primary market we deal directly with the syndicating bank; in the secondary market we buy and sell interests in loans or debt securities from other holders through the intermediation of various bank trading desks.

Primary issuance is usually handled by a selected group of investment banks who allocate any new issuance among a group of lenders or potential lenders that have expressed interest in the deal. We may indicate an interest in purchasing a specific amount of a new issuance based on our credit analysis, the original issue discount borne by the offered interest and our analysis of other terms of the transaction. The allocation we receive may be less than the desired amount if the deal is oversubscribed.

Secondary trading is done following a bid and ask process. We seek the best possible execution of trades on behalf of our clients by seeking bids from multiple bank loan desks.

In order to obtain best execution, our portfolio managers must determine what securities to trade on behalf of a client based on a series of factors that start with the credit analysis (as detailed above under "Methods of Analysis, Investment

Strategies and Risk of Loss") and include other variables such as price, dealer's spread, rating and expected yield. We take into account the specific requirement of each client regarding industry and issuer concentration, weighted average purchase price, weighted average rating factor, weighted average spread, expected repayment date, cash availability and other relevant variables.

Because trading decisions for a particular client can be evaluated only after assessment of the multiple factors noted above, it will not generally be the case that available investments will be allocated proportionally to all clients. We believe available investments with similar characteristics (price, spread, rating and maturity) frequently provide a better option to optimize a client's metrics than allocating portions of the same investment among clients. However, if on a given day market conditions do not permit fulfillment of a specific buy or sell order at each client's trading target with respect to the same investment at the same price or in the desired quantity, we will effect purchases or sales pro rata in relation to each fund's independent trading goal at the average price of the applicable transactions on the day in question

### **Item 13 – Review of Accounts**

We review our clients' portfolios on a daily basis ensure compliance with each clients Indenture and other governing documents. In addition, please see our discussion above under "Method of Analysis, Investment Strategies and Risk of Loss – Process."

In the case of a CLO Issuer, reports of the clients' accounts are prepared monthly and quarterly by the Trustee and are verified by us. Reports are sent by the CLO Issuers' Trustees to the CLO Issuers' directors and investors. The monthly reports contain information regarding the assets in a CLO Issuer's investment portfolio, information regarding a CLO Issuer's performance as measured by various performance tests and its satisfaction of diversification requirements and other information relevant to the ratings of the notes issued by the CLO Issuer. The quarterly reports contain information regarding the sources and uses of funds of CLO Issuer during the subject quarter. Statements are delivered to the clients in PDF form, via e-mail. Statements are also available in the Trustee's website, with access restricted to the clients only. The Trustee sends us a copy of the Statements that were sent to the client as well as a copy of the clients' receipt confirmation.

Additionally, we provide investors in our CLO Issuer clients with quarterly reviews and an analysis of the quarterly distributions by the CLO Issuer and may provide them with other information upon request.

We provide Separate Account clients with weekly performance reports and other analytic information upon request.

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

We do not receive any economic benefit from anyone that is not a client and do not compensate any person for client referrals.

#### **Item 15 – Custody**

We do not have or obtain custody of clients' funds or securities.

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

In general we have full investment discretion to buy, hold and sell investments on behalf of CLO Issuers and other clients (subject to constraints specified in the applicable investment advisory agreements, Indentures and related documentation). We are granted the investment discretion we exercise by powers of attorney contained in our investment management agreements. Some clients however, may require that credit decisions affecting their portfolios be discussed and approved by an investment committee of which a client representative is a member together with Messrs. Kalin and Kurth, in which case the client representative usually has veto power over investment decisions.

#### **Item 17 – Voting Clients Securities**

Our clients typically delegate to us the power and responsibility to exercise voting rights with respect to Leveraged Loans, debt securities or other interests held in clients' accounts. Pursuant to SEC Rule 206 (4)-6, we have adopted policies and procedures to carry out those voting responsibilities, focusing on the requirements to closely analyze issues to be voted on, to make voting decisions exclusively in the client's best interests and, in that connection, to identify any conflicts of interest that might exist between us (or our related persons) and a client, or between clients, with respect to the exercise of such voting powers and to assure that such conflicts are resolved in a manner that is consistent with our fiduciary responsibility to our clients.

Because our supervised persons and staff are not allowed to trade in any Leveraged Loans, debt securities or in any related securities such as equities, options, futures, etc., held by clients (as described above under "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading"), we believe we have no

conflicts of interest in proxy voting on that basis. If one of our officers or employees serves on the board of directors of an issuer or guarantor of one of our client investments, we will establish procedures to exclude that person from participating in our decisions as to how to vote on matters relating to the issuer or guarantor.

We will provide a copy of our proxy voting policies and procedures, as well as a record of how we have voted a client's securities, upon a client's written or oral request

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

We are not required to provide a balance sheet in response to this item and are not subject to any financial condition that is reasonably likely to impair our ability to meet our financial obligations to our clients.