

## Hill-Townsend Capital, LLC

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*This brochure provides information about the qualifications and business practices of Hill-Townsend Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 301-215-4300. 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. Hill-Townsend Capital, LLC is a registered investment advisor (RIA) with the SEC. Registration does not imply or endorse a certain level of skill or training.*

## Item 2: Summary of Material Changes

As a registered investment advisor with the SEC, Hill-Townsend Capital LLC (“the Advisor”) is required to develop and update this brochure on an annual basis or as material changes occur. This brochure has not been disseminated previously. As such, there are no material changes to summarize. As this brochure is updated in the future, this section will list any such changes.

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#### Item 4: Advisory Business

- A) Describe your advisory firm, including how long you have been in business and identify your principal owner(s).
- B) Describe the type of advisory services you offer:
- C) Explain whether (and if so how) the firm tailors its services to individual needs of clients.
- D) If you participate in a wrap-fee program by providing portfolio management services, describe the differences between how you manage those accounts versus other accounts.
- E) Disclose the amount of client assets you manage on a discretionary basis and on a non-discretionary basis.

Hill-Townsend Capital LLC (“the Advisor”) was founded in 2008 by Vernon W. Hill II and Gary B. Townsend, who are the firm’s members and general partners.

The Advisor advises the Hill-Townsend family of funds (“the funds”), which invest in financial companies’ securities, including equities, preferred equities, options and warrants, using a fundamental, long/short, predominantly U.S.-focused strategy. The Advisor generates advice through the use of proprietary models, rigorous fundamental research, and the founder’s industry expertise to exploit deep value opportunities as well as inefficiencies that arise from company, sector, or market dislocations. The funds employ long-term holding periods for core positions and take alpha-generating positions in shorter-term opportunities. The Advisor seeks capital appreciation in excess of the S&P 500 and KBW Bank indexes with low correlation of returns.

The Advisor seeks to meet its clients’ needs through a wide range of guidelines providing clients with maximum flexibility. The firm’s liquidity policies, waivable minimum investment thresholds, and principal accessibility all ensure that clients’ individual needs are given full consideration. Beyond these attributes, bespoke client needs are evaluated in the context of the firm’s stated policies, fairness to existing investors, utilization of resources, and portfolio investment constraints.

As of February 29, 2012, the Advisor managed \$35.8 million in client assets, all of which were discretionary.

#### Item 5: Fees and Compensation

*A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable. **Note:** If you are an SEC-registered adviser, you do not need to include this information in a brochure that is delivered only to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940.*

*B. Describe whether you deduct fees from clients’ assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.*

*C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.*

*D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.*

*E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.*

*1. Explain that this practice presents a conflict of interest and gives you or your supervised persons an incentive to recommend investment products based on the compensation received, rather than on a client's needs. Describe generally how you address conflicts that arise, including your procedures for disclosing the conflicts to clients. If you primarily recommend mutual funds, disclose whether you will recommend "no-load" funds.*

*2. Explain that clients have the option to purchase investment products that you recommend through other brokers or agents that are not affiliated with you.*

*3. If more than 50% of your revenue from advisory clients results from commissions and other compensation for the sale of investment products you recommend to your clients, including asset-based distribution fees from the sale of mutual funds, disclose that commissions provide your primary or, if applicable, your exclusive compensation.*

*4. If you charge advisory fees in addition to commissions or markups, disclose whether you reduce your advisory fees to offset the commissions or markups. **Note:** If you receive compensation in connection with the purchase or sale of securities, you should carefully consider the applicability of the broker-dealer registration requirements of the Securities Exchange Act of 1934 and any applicable state securities statutes.*

The funds pay the Advisor an advisory fee quarterly, in advance, at a rate equal to 1/4 of 2.00% of net asset value of each of the funds' members' capital account (before reduction for any accrued but unpaid Performance Allocations) as of the beginning of each fiscal quarter. Each member will bear its *pro rata* share of the advisory fee and the fees are deducted from each member's account. For capital activity occurring other than quarterly, the advisory fee will be adjusted *pro rata*. Pursuant to the terms of the Investment Advisory Agreement, the advisory fee may be waived or reduced by the Advisor in its sole discretion.

Members also bear operational cost expenses, which include but are not limited to: brokerage commissions, other charges for transactions in securities and other instruments, insurance costs, administration fees and expenses, taxes and internal and external accounting fees and expenses, audit fees, legal fees, consulting and recording fees and expenses, servicing fees, and expenses the Advisor reasonably determines to be directly related to the investment of the funds' assets.

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

*If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts*

Depending on fund performance, the Advisor could potentially earn performance-based fees.

Item 7 Types of Clients

*Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.*

The Advisor advises the funds, the members of which consist of qualified purchasers and accredited investors.

The minimum initial subscription size is \$250,000 for the Hill-Townsend Financial Opportunity Fund, and \$500,000 for the Hill-Townsend Onshore and Offshore Funds.

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

*A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.*

*B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.*

*C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.*

**Investment Objective and Process**

The Advisor's investment objective is to achieve long-term capital appreciation through its activities, while preserving capital. The funds seek to achieve its investment objective by investing in equity and debt securities of financial companies, foreign and domestic, with the prudent use of leverage. To maximize returns, the funds may sell securities short, utilize leverage and derivative instruments, and engage in other approved investment strategies. The Advisor regards capital preservation as a primary objective of any well-managed fund. To preserve capital, the Advisor continually researches, monitors, and measures the various elements of risk that bear on the funds' individual and aggregate positions. The funds' goals

are to achieve average annual returns (net of fees and expenses) in excess of relevant equity index benchmarks, including the S&P 500 index and KBW Bank Index. Because of the difficulty in achieving above market or superior risk-adjusted returns, the funds conduct most of their activities in those segments of equity and debt markets in which the Advisor believes it holds a competitive advantage, that is, in its managing partners' experience in and unique knowledge of U.S. financial institutions, particularly with respect to growth retail and commercial bank business models. Strategies reflect a bias toward liquidity. Tax efficiency is a priority. The funds may invest in illiquid securities that will be held as Designated Investments.

**Financial Institutions Focus.** Due to its members' experience in the financial service industry, the Advisor has extensive knowledge of U.S. retail and commercial bank models and will focus on equity investments in the financial institutions industry. The funds invest predominantly in the banking sector, though it may also invest in the securities of asset managers and processors, broker-dealers, financial exchanges, insurance companies, real estate and mortgage companies, REITs, specialty finance companies, government sponsored enterprises, financial technology companies, and companies that provide services to financial institutions.

The Advisor believes that in a commercial bank, market value is created on the liability side of the balance sheet. Thus, companies that have developed the talent and ability to take low-cost deposit market share will typically grow earning assets, revenues, and earnings per share at a better-than-industry rate and earn premium price to book and earnings multiples. Conversely, value destruction is most often due to weakness in credit administration and in ill-advised and dilutive merger and acquisition activity.

The funds expect to invest a proportion of their assets in mid-cap commercial bank equities, where the Advisor's experience provides a competitive advantage. The funds' investments are based on the Advisor's assessment of relative value, the soundness and competitiveness of a company's business model, growth prospects, and trends related to capital adequacy, credit quality, net interest margin, and operating leverage.

**Investment Philosophy.** The Advisor is an active portfolio manager, with a style that combines value and growth at a reasonable price. The Advisor seeks attractive risk-adjusted returns by discovering and exploiting market inefficiencies and opportunities that arise from company, sector, or market dislocations. The funds allocate capital between sectors and determine gross and net long, short, cash, and leverage positions based on its analysis of market and industry valuations in combination with macro-economic and financial trends. As a matter of course, allocations change over time.

**Research Process.** With respect to specific investments, the Advisor selects securities based on valuation and a fundamental analysis of a company's financial performance. The Advisor employs financial modeling and other proprietary analytical methods to identify and exploit market inefficiencies where securities appear materially over- or under-valued. The Advisor augments its fundamental analysis with qualitative analysis of management teams, marketing effectiveness, comparative store growth, and customer satisfaction.

**Portfolio Construction.** In selecting long investments, the Advisor first looks for companies that have (1) demonstrated the ability to attract new customers and low-cost transaction deposits, (2) generally eschewed acquisitions, (3) administered credit well, and (4) built a strong balance sheet. In its buy/sell decision-making, opportunities are viewed in the context of their current market valuations, macro-economic trends, as well as the probability that a company is positioned to benefit from the ongoing consolidation of financial institutions.

The funds invest opportunistically in special situation and event-driven trades, both long and short, in order to take advantage of market fluctuations, short- and long-term market inefficiencies, and other transient market opportunities. The funds take short positions to attempt to profit when stock valuations become rich, growth slows, fundamentals weaken, or negative catalysts seem likely to depress stock valuations. Short positions may be paired against long positions and may serve as a partial or full hedge against the funds' total long exposures. At times, the funds may hold a net short position. The funds may also invest in debt, convertible, derivative, and other investment securities when Advisor believe that these securities can enhance risk-adjusted returns.

### **Risk Management**

In achieving the funds' investment return performance goals, the Advisor considers risk management to be a key control component, ensuring that strategies are implemented within agreed risk parameters.

The Advisor controls risk through a combination of position limits, portfolio diversification, and ongoing analytics and administrative controls.

The Advisor analyzes portfolio risk daily utilizing multiple Value at Risk methodologies, RiskMetrics, and stress testing. Risk factors included in such analyses include changes in equity and debt pricing, interest rates, foreign exchange rates, commodity prices, correlations between risk factors, credit, liquidity, and market volatility.

Risks undertaken through the deployment of capital are controlled to ensure that despite unlikely one-off economic shocks, the funds will be able to profit from, or in a worst case scenario, recover from such events. Ongoing, the funds are analyzed from a cash flow, mark-to-market, sensitivity, hedging, profit and loss, and value at risk.

The Advisor employs multiple methods to ensure leverage is maintained at satisfactory levels and that risk factors are analyzed on a real time basis, in order that decisions regarding risk and return parameters can be determined to take advantage of opportunities as presented.

The Advisor believes that a strong operations infrastructure is essential to proper operational risk management. Thus, operations follow strict audit and trade reporting procedures. To minimize legal and contractual risk and in order to diminish regulatory and other external risks, operations also seek to ensure (through administrative personnel, external administrators and service-providers, and systems of controls) that documentation and payment messages, confirmations, and other operation priorities are timely completed under strict guidelines.



Compliance procedures have been put in place to reduce human risks. In combination with external administrators, a strong technology platform ensures business continuity.

### **Risks and Potential Conflicts of Interest**

Investments in the funds entail a high degree of risk and are suitable only for sophisticated investors for whom investments in the funds does not represent a complete investment program and who fully understand and are capable of bearing the risks of an investment in the funds. Prospective investors should carefully consider the following factors, which do not purport to be a complete list of all risks and potential conflicts of interest involved in an investment in the funds. There can be no assurance that the funds will be able to achieve its investment objective or that investors will receive a return of their capital, and investment results may vary substantially on a monthly, quarterly or annual basis.

#### **Business Risks**

**Dependence on Key Individuals.** The Advisor is granted authority on behalf of the funds to manage the business and affairs of the funds, without any participation by the Members. The Advisor has the right in its discretion to select the securities and other intangible investment instruments in which the funds invest and to determine the amount of funds to be used for each purpose. The Advisor is dependent upon the expertise of Messrs. Hill and Townsend to develop and implement investment strategies that achieve the funds' investment objectives, which expertise is likely to be more crucial in the initial period of operations. If the Advisor were to lose the services of Messrs. Hill and Townsend, particularly within the initial period from the funds' commencements of operations, the funds would likely be adversely affected. Messrs. Hill and Townsend currently expect to invest their full time and attention to the business of the funds for the foreseeable future. It is possible that in the future Messrs. Hill and Townsend may devote only part of his time to the business of the funds and devote a significant amount of his time to other investment activities and investing in transactions without presenting such opportunities to the funds, even if such opportunities may otherwise be appropriate.

**General Market Risks.** Markets in which the funds may invest are subject to fluctuations, and the market value of any particular investment may be subject to substantial variation. Notwithstanding the existence of a public market for particular financial instruments, such instruments may be thinly traded or may cease to be traded after an investment is made in them. In addition to being relatively illiquid, such instruments may be issued by unstable or unseasoned issuers or may be highly speculative. No assurance can be given that the funds' investments will appreciate in value.

**Not a Complete Investment Program.** An investment in the fund(s) is not designed to be a complete investment program. Investors should consult with their independent advisors regarding the construction of a diversified portfolio of investments.

**No Material Limitation on Strategies.** The funds opportunistically implement whatever strategies or discretionary approaches they believe from time to time may be best suited to prevailing market conditions. There can be no assurance that the Advisor will be successful in applying any strategy or discretionary approach to the funds' trading.

**Risk of Trading Activities.** All trading activities risk the loss of capital. While the Advisor attempts to moderate these risks through the funds' investment programs and risk management techniques, there can be no assurance that the funds' investment and trading activities will be successful or that investors in the funds will not suffer losses.

**High Risk Investing.** Substantial risks are involved in investing in securities. The prices of many of the securities in which the funds trades are highly volatile and market movements are difficult to predict. Moreover, the value of the funds' investment positions may be subject to decreases as a result of general economic conditions and/or adverse effects upon the companies in which the funds owns securities.

**Availability of Investment Strategies.** Identification and exploitation of the funds' investment strategies to be pursued by the funds involves a high degree of uncertainty. No assurance can be given that the Advisor will be able to locate suitable investment opportunities in which to deploy all of the funds' capital.

**Fixed Income Securities.** The value of fixed income securities in which the funds will invest will change in response to fluctuations in interest rates, response to perceptions of credit worthiness, political stability or soundness of economic policies, and changes in the economic environment that may affect future cash flows.

**Investments in Governmental Debt.** The funds may invest in debt of governments and quasi-governmental entities. The issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the funds may have limited legal recourse in the event of default. Governmental actions could have a significant effect on the value of any of the funds' investments.

**Short Sales.** The funds may utilize short selling. Short selling involves directly or indirectly selling (or having the equivalent exposure to) securities or other instruments or derivatives thereof which may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace any such borrowed securities at a later date. Short selling allows one to profit from declines in market prices to the extent such decline exceeds the transaction costs and any costs of borrowing. However, because the borrowed assets generally must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. Purchasing assets to close out the short position can itself cause the price to rise further, thereby exacerbating the loss. Market participants may take steps to acquire or "corner" the floating supply of assets needed to close out short positions making it extremely costly or impossible to cover or close out a short position. In addition, there are rules prohibiting short sales of equity securities at prices below the last sale price,

which may prevent one from executing short sales at the most desirable time. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. They can also be implemented on a leveraged basis. Lastly, even though the funds secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the funds to purchase the security at the then-prevailing market price which may be higher than the price at which such security was originally sold short by the Fund.

**Trading in Futures, Options, Swaps, Commodities and Other Derivatives.** As discussed in greater detail below, certain risks are associated with trading in futures, options, swaps, commodities and other derivatives. The prices of all derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of futures, options and commodities contracts and payments pursuant to swaps are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swaps also depends upon the price of the commodities or financial instruments underlying them. In addition, the funds' assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or counterparties.

**Option Transactions.** The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, either to purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of either a change in the volatility of the underlying security or the actual price movement in the underlying security in excess of the premium payment received. The funds may purchase or sell customized options and other derivatives in the over-the-counter market that may have features different from traditional exchange-traded options (in which the Fund may also invest), though they also share the same risks. These options and derivative instruments may also subject such the funds to risk of default by the counterparty. Investments in these financial instruments may also be subject to additional risks such as interest rate and other risks. The ability of the funds to close out a position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange. Among the possible reasons for the absence of a liquid secondary market on an exchange are (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other

restrictions imposed with respect to particular classes or series of options or underlying securities; (iv) interruption of the normal operations on an exchange; (v) inadequacy of the facilities of an exchange or similar facility to handle current trading volume or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

**Leverage.** The use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested, magnifies both the favorable and unfavorable effects of price movements in the investments made by the funds. Although the Advisor expects to limit the use of leverage, to the extent the funds employs leverage in its investment operations, the funds and, consequently, the Members will be subject to a substantial risk of loss. With volatile instruments, downward price swings can result in margin calls that could require liquidation of securities at inopportune times.

**Hedging.** The Advisor may employ various hedging techniques in an attempt to reduce certain risks, including but not limited to currency risks associated with investments denominated in foreign currencies. For example, hedging in options may reduce the risks of both short-selling and taking long positions in certain transactions. The Advisor will recalculate and adjust specific position hedges as market conditions warrant. However, such position hedges entail risks of their own. For example, unanticipated changes in currency exchange rates may result in an overall poorer performance for the Fund than if currency risks had not been hedged. If the Advisor analyzes market conditions incorrectly or employs a risk reduction strategy that does not correlate well with the funds' investments, the funds' risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return.

**Diversification.** Although diversification may be used as one of the tools of risk management of the funds, the Advisor is not restricted as to the percentage of the funds' assets that may be invested in any particular instrument or market in order to optimize the risk-reward profile of the funds. To the extent the Advisor concentrates the funds' investments in a particular asset, issuer, security, currency or market, the funds' investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions affecting that particular asset, issuer, security, currency or market.

**Derivative Instruments.** The funds may invest in complex derivative instruments that seek to modify or emulate the investment performance of particular securities, commodities, currencies, interest rates, indices or markets, or specific risks thereof, on a leveraged or unleveraged basis which can be equivalent to a long or short position in the underlying asset or risk. These instruments generally have counterparty risk and may not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the Fund than might otherwise be anticipated. These investments are all subject to additional risks that may result in a loss of all or part of an investment, such as interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity. Derivatives may have very high leverage embedded in them which may substantially magnify market

movements and result in losses substantially greater than the amount of the investment and which, in some cases, could represent a significant portion of the funds' assets. Finally, when used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the funds from achieving the intended hedging effect or expose the Fund to the risk of loss.

**Commodity Derivative Contracts.** Trading in commodity interests may involve substantial risks. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for commodity derivative contracts and the funds may be required to maintain a position until expiration, which could result in losses.

**Other Derivative Instruments.** The funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and legally permissible.

**Swaps.** Investments in swaps involve the exchange by the funds with another party of all or a portion of their respective interests or commitments. For example, in the case of currency swaps, the funds may exchange with another party their respective commitments to pay or receive currency. Use of swaps may subject the Fund to risk of default by the counterparty. If there is a default by the counterparty to such a transaction, the funds will have contractual remedies pursuant to the agreements related to the transaction. The funds may enter into currency, interest rate, total return or other swaps which may be surrogates for other instruments such as currency forwards, interest rate options and equity instruments and indices on the foregoing. The value of such instruments generally depends upon changes in volatility, price movements in the underlying assets and counterparty risk.

**Futures.** Futures markets are inherently leveraged and highly volatile. To the extent the funds engages in transactions in futures contracts and options on futures contracts, the profitability of such funds will depend to some degree on the ability of the Advisor to correctly analyze the futures markets, which are influenced by, among other things, changing supply and demand relationships, governmental policies, commercial and trade programs, world political and economic events and changes in interest rates. Moreover, investments in commodity futures and options contracts involve additional risks including, without limitation, leverage (margin is usually only 5-15% of the face value of the contract but exposure can be nearly unlimited) and credit risk vis-à-vis the contract counterparty. Finally, the CFTC and futures exchanges have established limits referred to as "speculative position limits" on the maximum net long or net short position which any person may hold or control in particular commodity contracts. Trading in futures is also subject to the risk that government regulators or exchange self-regulatory organizations will change futures exchange rules or contract specifications between the time a contract is entered and the time it is closed in ways which are materially detrimental to a party trading in those contracts or on such exchanges.

**Common Stock.** The funds may invest in common stock. Although common stock has historically generated higher average total returns than fixed-income securities over the long term, common stock also has experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the funds. Also, the price of common stock is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stock in which the funds invest. Common stock prices fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

**Preferred Stock.** The funds may invest in preferred stock. There are special risks associated with investing in preferred securities. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the funds own a preferred security that is deferring its distributions, the funds may be required to report income for tax purposes although it has not yet received such income. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Generally, preferred security holders have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of trustees to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

**Convertible Securities.** The funds may invest in convertible securities. The value of a convertible security is influenced by both the yield of non-convertible securities of comparable issuers and by the value of the underlying common stock. The value of a convertible security viewed without regard to its conversion feature (that is, strictly on the basis of its yield) is sometimes referred to as its "investment value." A convertible security's investment value tends to decline as prevailing interest rate levels increase. Conversely, a convertible security's investment value tends to increase as prevailing interest rate levels decline. However, a convertible security's market value will also be influenced by its "conversion price," which is the market value of the underlying common stock that would be obtained if the convertible security were converted. A convertible security's conversion price tends to increase as the price of the underlying common stock increases, and decrease as the price of the underlying common stock decreases. In the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the funds' holding may occur in the event the underlying stock is subdivided, additional equity securities are issued for below market value, a stock dividend is declared or the issuer enters into another type of corporate transaction that has a similar effect.

**Warrants.** The purchase of warrants involves the risk that the funds could lose the purchase value of a right or warrant if the right to subscribe to additional shares is not exercised prior to the warrants' expiration. Also, the purchase of warrants involves the risk that the effective price paid for the warrant added to the subscription price of the related security may exceed the value of the subscribed security's market price such as when there is no movement in the level of the underlying security.

**Depository Receipts.** The funds may invest in both sponsored and unsponsored American Depository Receipts ("ADRs"), European Depository Receipts ("EDRs"), Global Depository Receipts ("GDRs") and other similar global instruments. Available information concerning the issuer of unsponsored ADRs, EDRs and GDRs may not be as current as for sponsored ADRs, EDRs and GDRs, and the prices of unsponsored ADRs, EDRs and GDRs may be more volatile than if such instruments were sponsored by the issuer. Investments in ADRs, EDRs and GDRs may present additional investment considerations of non-U.S. securities.

**Illiquid Portfolio Instruments.** The funds may invest part of its assets in illiquid investments. The funds may not be able to readily dispose of such illiquid investments and in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Where appropriate, positions in the funds' investment portfolios that are illiquid and do not actively trade will be marked to market by the Advisor, taking into account actual market prices, market prices of comparable investments and/or such other factors (e.g., the tenor of the respective instrument) as the Advisor deems appropriate.

**Portfolio Turnover.** The funds may engage in frequent trading and thus, the funds' brokerage commission to assets ratio may significantly exceed those of other investment entities.

**Non-U.S. Investments.** Investments outside of the United States or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and/or market manipulation. In addition, less information may be available regarding non-U.S. issuers and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, as stringent as or as uniform as those of U.S. companies. Further, non-U.S. securities markets may not be as liquid as U.S. markets. Transaction costs of investing outside of the United States are generally higher than in the United States. Higher costs result because of the cost of converting a non-U.S. currency to U.S. dollars, the payment of fixed brokerage commissions on some non-U.S. exchanges and the imposition of transfer taxes or transaction charges by non-U.S. exchanges. There is generally less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the U.S. and there is greater difficulty in taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the funds' performance.

**Non-U.S. Currency Risk Exposure.** To the extent the funds do not or are not able to hedge non-U.S. currency risks, the funds may be exposed to additional risk due to any exchange rate fluctuations. The capital subscriptions to the funds will be denominated in U.S. dollars. The funds also may hedge currency exchange risks if it is considered to be economically justifiable. The funds may attempt within the parameters of currency and exchange controls that may be in effect, to obtain rights to exchange its invested capital, dividends, interest, fees, other distributions and capital gains into convertible currencies. Further, the funds may incur costs in connection with conversions between various currencies. Global currency exchange rates have been highly volatile in recent years. The combination of volatility and leverage gives rise to the possibility of large profit and large loss. In addition, there is counterparty risk since currency trading is done on a principal to principal basis.

**Emerging Markets.** Many securities markets in developing and/or emerging markets have substantially less volume and are subject to less government supervision than in the U.S. and other developed country securities markets. Securities of many issuers in emerging markets may be less liquid and more volatile than securities of comparable U.S. and other developed country issuers. In addition, there is generally less governmental regulation of securities exchanges, securities dealers and listed and unlisted companies and less stringent reporting requirements in emerging markets than in the U.S. and other developed countries. Emerging markets may have slower clearance and settlement procedures, higher transaction costs and restrictions on investment in certain instruments, which may restrict or delay investments in such markets by the Fund. In addition, certain governments may require approval for, or otherwise restrict, the repatriation of investment income, capital or proceeds of sales of securities by foreign investors. War, governmental intervention, lack of capital, generally smaller size companies with less management depth and expertise or lack of availability of capital are also common risks in these markets.

**Financial Services Industry Risk.** Most financial services companies are subject to extensive governmental regulation which limits their activities and may affect the ability to earn a profit from a given line of business. Certain financial services businesses are subject to intense competitive pressures, including market share and price competition. The removal of regulatory barriers to participation in certain segments of the financial services sector may also increase competitive pressures on different types of firms. Similarly, the removal of regional barriers in the banking industry has intensified competition within the industry. Financial services companies in foreign countries are subject to similar regulatory and interest rate concerns. In particular, government regulation in certain foreign countries may include controls on interest rates, credit availability, prices and currency movements. In some cases, foreign governments have taken steps to nationalize the operations of banks and other financial services companies.

The profitability of financial services companies is largely dependent upon the availability and cost of capital funds, and has shown significant recent fluctuation as a result of volatile interest rate levels. In addition, general economic conditions are important to the operations of financial services companies, with exposure to credit losses resulting from possible financial difficulties of borrowers potentially having an adverse effect.



**Default and Counterparty Risk.** Some of the markets in which the funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. In addition, in the case of a default, the funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the funds have concentrated its transactions with a single or small group of counterparties. The funds do not have a formal internal credit function which evaluates the creditworthiness of its counterparties. The ability of the funds to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the funds.

**Event Risk.** The funds may invest in public company debt. A possible increase in private equity for public companies would tend to adversely affect the value of such companies' debt securities and loans to the extent a change of control default does not occur.

### **Management Risks**

**Conflicts of Interest.** Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Advisor, its affiliates and their respective clients. The following briefly summarizes some of these conflicts; it is not intended to be an exhaustive list of all such conflicts.

The Advisor, its affiliates and their respective clients may invest in securities and loans that would be appropriate for the funds. Such investments may be different from those made on behalf of the funds. The Advisor and/or its affiliates may also have ongoing relationships with, render services to or engage in transactions with other investment vehicles which have investment goals similar to those of the funds. The Advisor serves, and expects to serve in the future, as investment advisor or sub-advisor (or in a similar role) for other pooled investment vehicles. In addition, affiliates and clients of the Advisor may invest in obligations, securities or loans that are senior to, or have interests different from or adverse to, the obligations, securities or loans in which the funds invest. The Advisor and/or its affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for its respective account, the funds, any similar entity for which it serves as investment advisor and for its clients or affiliates. Subject to the requirements of the governing instruments pertaining to the Advisor or its affiliates, investment opportunities sourced by the Advisor will generally be allocated to the funds in a manner that the Chief Investment Officer or governing bodies or committees of the Advisor or other of its affiliates believe, in their judgment, to be appropriate given factors they believe to be relevant. Such factors may include the investment objectives, liquidity, diversification, lender covenants and other limitations of the funds and the Advisor or other affiliates and the amount of funds each of them has available for such investment. The

Advisor or its affiliates may have leveraged investment opportunities available to them on terms such that greater or lesser leverage may be provided based upon the specific terms of each investment vehicle including the funds, accordingly the proceeds of such leverage may be directed toward the funds or toward other investment vehicles in the sole discretion of the Advisor based on such terms. In the event that the funds and another account managed by the Advisor should purchase or sell the same securities or loans at the same time, the Advisor anticipates that such purchases or sales, respectively, will be aggregated and allocated. The Advisor intends to use its best efforts to ensure that such investments are allocated among its accounts in an equitable manner and in accordance with applicable law. It is the intention of the Advisor that all investments will be purchased and sold on terms prevailing in the market.

Neither the Advisor nor any of its affiliates is under any obligation to offer investment opportunities of which they become aware to the Fund or to account to the funds (or share with the funds or inform the funds of) any such transaction or any benefit received by them from any such transaction or to inform the funds of any investments before offering any investments to other funds or accounts that the Advisor and/or its affiliates manage or advise. Furthermore, the Advisor and /or its affiliates may make an investment on behalf of any account that they manage or advise without offering the investment opportunity or making any investment on behalf of the funds. Furthermore, affiliates of the Advisor may make an investment on their own behalf without offering the investment opportunity to, or the Advisor making any investment on behalf of, the funds. Affirmative obligations may exist or arise in the future, whereby affiliates of the Advisor are obligated to offer certain investments to funds or accounts that such affiliates manage or advise before or without the Advisor offering those investments to the funds. The Advisor may make investments on behalf of the funds in securities, loans or other assets that it has declined to invest in for its own account, the account of any of its affiliates or the account of its other clients. The Advisor will endeavor to resolve conflicts arising therefrom in a manner that it deems equitable to the extent possible under the prevailing facts and circumstances and applicable law.

Although the principals, employees and professional staff of the Advisor will devote as much time to the funds as the Advisor deems appropriate to perform its duties in accordance with the Investment Advisory Agreement and in accordance with reasonable commercial standards, such principals, employees and professional staff may have conflicts in allocating their time and services among the funds and the Advisor's other accounts.

The Advisor may also effect client cross-transactions where the Advisor causes a transaction to be effected between the funds and another account managed or advised by it or any of its affiliates. In addition, with the prior authorization of the funds, which can be revoked at any time, the Advisor may enter into agency cross-transactions where it or any of its affiliates acts as broker for the funds and for the other party to the transaction, to the extent permitted under applicable division of loyalties and responsibilities regarding both parties to the transaction.

No funds, securities or property of the funds will be commingled by the Advisor with the property of any other fund or person.

Subject to certain limited rights of the Members, all as set forth in the LLC Agreement, and certain other limitations imposed by law, the Advisor may act as investment advisor, sponsor, managing member or general partner for other clients, accounts and collective investment vehicles and may give advice, and take action, with respect to any of those clients, accounts and pooled investment vehicles that may differ from the advice given, or the timing or nature of action taken, with respect to the funds. Where there is a limited supply of an investment opportunity, the Advisor will seek to allocate or rotate investment opportunities in a manner deemed equitable, but the Advisor cannot assure, and assumes no responsibility for, equality among all accounts and clients. The Advisor, its affiliates and members, officers, directors and employees of the Advisor and its affiliates, may engage in transactions or investments, or cause or advise other clients to engage in transactions or investments, that may differ from or be identical to the transactions or investments engaged in by the funds' accounts. The Advisor shall not have any obligation to engage in any transaction or investment for the funds' accounts or to recommend any transaction to the funds that the Advisor or its affiliates, or any of the members, officers, directors or employees of the Advisor or its affiliates, may engage in for their own accounts or the account of any other account or client, except as otherwise required by applicable law. To the extent permitted by law, the Advisor is permitted to bunch or aggregate orders for the funds' accounts with orders for other accounts, notwithstanding that the effect of such aggregation may operate to the disadvantage of the funds.

**Lack of Transferability of Interests.** The Interests have not been registered under the securities laws of any jurisdiction and are subject to restrictions on transfer. Interests are not assignable or transferable without the prior written consent of the Advisor, which consent may be given or withheld in its sole discretion. It is not expected that any market for the Interests will develop.

**Multiple Levels of Expense.** The funds' structure have expenses and management costs that will be borne by the funds' various levels.

**Effect of Performance Allocations.** The Performance Allocation may result in substantially higher payments to the Managing Member than alternative arrangements in other types of investment vehicles. The existence of the Performance Allocation may create an incentive for the funds to make riskier or more speculative investments than it would otherwise make in the absence of such allocations. The Performance Allocation includes amounts in respect of any unrealized appreciation of the funds' investments.

**Side Letters and Other Agreements with Clients.** The funds may enter into separate agreements with certain investors, such as those affiliated with the Advisor or those deemed to involve a significant or strategic relationship, to waive certain terms, or allow such investors to invest on different terms than those specifically described in this Memorandum, including, without limitation, with respect to fees, liquidity or depth of information provided to such investors concerning the funds. Under certain circumstances, these agreements could create preferences or priorities for such Members with respect to other Members of the funds. In addition, the Advisor may, through the Master Fund or otherwise, specifically allocate capacity with respect to some of the funds' investments to clients or investors who desire increased exposure to such investments.

The Advisor, its affiliates and their respective directors, officers, partners, principals and employees may offer other clients additional or different information than that offered to the Members of the funds. Similarly, the funds may offer certain Members additional or different information and reporting than that offered to other Members of the funds. Such information may provide the recipient greater insights into the funds' activities than is included in standard reports to Members, thereby enhancing the recipient's ability to make investment decisions with respect to the funds.

**"Soft Dollar" Payments.** The Advisor may consider various factors in selecting banks, brokers and dealers to effect transactions. Such factors may include: price, ability to effect the transactions, facilities, reliability and financial responsibility, as well as the products or services that may be provided by such banks, brokers or dealers to the Advisor. These products and services may include research utilized by the Advisor in its investment processes. As a result, to the extent permitted by law, such "soft dollar" arrangements may cause the Advisor to conduct transactions with a specific bank, broker or dealer even though such party may not offer the lowest transaction fees.

**Limited Management Rights.** Subject to certain limited rights of the investors all as set forth herein, and certain other limitations imposed by law, the Advisor has full, exclusive and complete authority to implement the funds' objectives. The Interests are non-voting and do not permit the Members to vote on any matters except as set forth herein.

**Lack of Operating History.** Although the Advisor includes experienced investment professionals, the Advisor has no operating history in the strategies contemplated by the funds on which prospective investors may base an evaluation of future performance. The past performance of Messrs. Hill and Townsend should not be construed as an indication of the future performance of the funds.

### **Fund Risks**

**Operating Deficits.** The expenses of operating the funds could exceed their income. This would require that the difference be paid out of the funds' capital, reducing the funds' investments and potential for profitability.

**Limited Liquidity Rights.** A Member is materially restricted in its right to withdraw from the funds. In addition, permitted withdrawals and liquidity may be further restricted or delayed due to the temporary inability of the funds to withdraw its capital in order to satisfy the requested withdrawal.

**Mandatory Withdrawal of Interests.** The funds may withdraw all or part of the Interests of any investor in the funds at any time for any or no reason, including without limitation if the Advisor determines that the continued ownership by such investor of Interests in the funds would be detrimental to the funds such as by involving the funds or any investor in litigation or causing the funds to be required to register under the Investment Company Act.

**Legal, Tax and Regulatory Risks.** Legal, tax and regulatory changes could occur during the term of the funds which may adversely affect the funds.

**Effect of Substantial Withdrawals.** In the event that there are substantial withdrawals from the funds, it may be more difficult for the funds to generate the same level of profits operating on a smaller capital base. In the event that there are substantial withdrawals on any date, the Advisor may find it difficult to adjust its asset allocation to the suddenly reduced amounts of assets under management. Under such circumstances, in order to provide sufficient funds to pay withdrawals, the Advisor might be required to liquidate positions at an inappropriate time or on unfavorable terms, or to suspend withdrawals in whole or in part.

**Fund Valuation.** Because of the overall size and concentrations in particular markets and maturities of positions that may be held by the Fund from time to time, the liquidation values of the funds' securities and other investments may differ significantly from the interim valuations of such investments. Such differences may be further affected by the time frame within which such liquidation occurs. Third-party pricing information may at times not be available regarding certain of the funds' securities and other investments. Valuations of the funds' securities and other investments, which will affect the amount of the Performance Allocation, may involve uncertainties and judgments, and if such valuations should prove to be incorrect, the net asset value of the funds could be adversely affected. In addition, valuations based on models will be affected by assumptions in the models and may not reflect the prices at which positions could, in fact, be covered or sold. Absent bad faith or manifest error, valuation determinations will be conclusive and binding.

**Early Withdrawal Fee.** Each Capital Contribution by a Member is subject to a lock-up period that shall expire on the day prior to the second anniversary of such Member's Capital Contribution. Each Member will be permitted to make withdrawals prior to the expiration of the applicable lock-up period, but any amounts withdrawn prior to the expiration of such lock-up period will be subject to a 5% withdrawal fee charged against the amount being withdrawn prior to the expiration of such lock-up period. The Managing Member may waive the Early Withdrawal Fee in its sole discretion and the Early Withdrawal Fee is expected to be waived or reduced with respect to withdrawals by the Advisor, its affiliates, and their respective directors, officers, principals and employees and their respective family members.

**Performance Allocations.** Performance Allocations are based on realized and unrealized profits and losses for each Member's Capital Account. As a result, Performance Allocations may be paid on unrealized gains which may subsequently never be realized by a Member as positions may be closed out at a loss in a later period with a consequent reduction in the net asset value of a Member's Capital Account on a later Withdrawal Date. Further, payment of Performance Allocations may create an incentive to the Advisor to select riskier or more speculative trades than would be the case in the absence of such an arrangement.

**Withdrawal Charges and Restrictions.** Interests are subject to significant early withdrawal fees as set forth in "Summary of Terms – Withdrawals."

In addition, the Advisor may suspend or postpone in whole or in part for indefinite periods of time in certain circumstances as set forth in "Summary of Terms – Withdrawals." If the payment of withdrawal proceeds is suspended or postponed, the outstanding Interests that would otherwise have been withdrawn will continue to participate in the profits and losses of the Feeder Fund until such withdrawal proceeds are paid.

**Investment Company Act.** The funds will not be subject to the provisions of the Investment Company Act, applicable to investment companies registered thereunder (which, among other things, place restrictions on certain investment practices such as short sales and leverage, require investment companies to have a majority of disinterested directors, require securities held in custody for the account of the investment company to be segregated from the securities of any other person and marked to clearly identify the securities as the property of the investment company and regulate the relationship between the investment company and its investor adviser and affiliates).

**Master-Feeder Structure.** The Feeder Fund invests in the Master Fund through a master-feeder structure. The master-feeder structure presents unique risks to investors relating to actions and events taken by other feeders into the Master Fund. For example, a smaller feeder fund investing in the Master Fund may find that its indirect portfolio becomes less diverse or its ongoing indirect expenses increase due to a withdrawal by another feeder fund.

#### **Force Majeure, Terrorism and Other Acts**

In addition to historic market risks, fund performance may be adversely affected by market fluctuations resulting from certain risks which are unprecedented in nature or magnitude and therefore not amenable to existing risk management techniques which are based on modeling past events and assigning probabilities to the recurrence of those events. Such events include, without limitation, natural catastrophes and catastrophic acts of terror resulting in mass casualties and associated destruction and subsequent abandonment of large areas in urban locales; imposition or declaration of martial law in jurisdictions with a long history of civil rule of law; mass disruption of telecommunications facilities due to terrorist acts; pandemics resulting from bio-terror attacks or outbreaks of fatal disease for which there is no cure or treatment; urban terror using nerve gas or other toxins; terrorist use of nuclear weapons, radiation dispersal weapons or other weapons of mass destruction; cyber-terror and terrorist attacks on financial markets, exchanges and payments systems; and acts of Providence. In no case will the Advisor be held responsible for such acts which are beyond their control or the consequential effects thereof such as computer failure, market distortion or other extraordinary results.

*The foregoing list of risk factors does not purport to be a complete explanation of the risks involved in investing in the funds. Potential investors should read the Private Placement Memorandum before determining whether to invest in the Interests and consult with their own financial and tax advisers. Potential investors should also be aware that, if they decide to purchase Interests, they will have no role in the management of the funds and will be required to rely on the expertise of the Advisor in dealing with the foregoing (and other) risks on a day-to-day basis.*

### Item 9 Disciplinary Information

*If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.*

*Items 9.A, 9.B, and 9.C list specific legal and disciplinary events presumed to be material for this Item. If your advisory firm or a management person has been involved in one of these events, you must disclose it under this Item for ten years following the date of the event, unless (1) the event was resolved in your or the management person's favor, or was reversed, suspended or vacated, or (2) you have rebutted the presumption of materiality to determine that the event is not material (see Note below). For purposes of calculating this ten-year period, the "date" of an event is the date that the final order, judgment, or decree was entered, or the date that any rights of appeal from preliminary orders, judgments or decrees lapsed.*

*Items 9.A, 9.B, and 9.C do not contain an exclusive list of material disciplinary events. If your advisory firm or a management person has been involved in a legal or disciplinary event that is not listed in Items 9.A, 9.B, or 9.C, but nonetheless is material to a client's or prospective client's evaluation of your advisory business or the integrity of its management, you must disclose the event. Similarly, even if more than ten years have passed since the date of the event, you must disclose the event if it is so serious that it remains material to a client's or prospective client's evaluation.*

*A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which your firm or a management person*

- 1. was convicted of, or pled guilty or nolo contendere ("no contest") to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;*
- 2. is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;*
- 3. was found to have been involved in a violation of an investment-related statute or regulation; or*
- 4. was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.*

*B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which your firm or a management person*

- 1. was found to have caused an investment-related business to lose its authorization to do business; or*
- 2. was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority*
  - a. denying, suspending, or revoking the authorization of your firm or a management person to act in an investment-related business;*
  - b. barring or suspending your firm's or a management person's association with an investment-related business;*
  - c. otherwise significantly limiting your firm's or a management person's investment-related activities; or (d) imposing a civil money penalty of more than \$2,500 on your firm or a management person.*

*C. A self-regulatory organization (SRO) proceeding in which your firm or a management person*

- 1. was found to have caused an investment-related business to lose its authorization to do business; or*
- 2. was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.*

**Note:** *You may, under certain circumstances, rebut the presumption that a disciplinary event is material. If an event is immaterial, you are not required to disclose it. When you review a legal or disciplinary event involving your firm or a management person to determine whether it is appropriate to rebut the presumption of materiality, you should consider all of the following factors: (1) the proximity of the person involved in the disciplinary event to the advisory function; (2) the nature of the infraction that led to the disciplinary event; (3) the severity of the disciplinary*

*sanction; and (4) the time elapsed since the date of the disciplinary event. If you conclude that the materiality presumption has been overcome, you must prepare and maintain a file memorandum of your determination in your records. See SEC rule 204-2(a)(14)(iii).*

Not Applicable.

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

A. If you or any of your *management persons* are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.

B. If you or any of your *management persons* are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.

C. Describe any relationship or arrangement that is material to your advisory business or to your *clients* that you or any of your *management persons* have with any *related person* listed below. Identify the *related person* and if the relationship or arrangement creates a material conflict of interest with *clients*, describe the nature of the conflict and how you address it.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

D. If you recommend or select other investment advisers for your *clients* and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.

Not Applicable.



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

*A. If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any client or prospective client upon request.*

*B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise. Examples: (1) You or a related person, as principal, buys securities from (or sells securities to) your clients; (2) you or a related person acts as general partner in a partnership in which you solicit client investments; or (3) you or a related person acts as an investment adviser to an investment company that you recommend to clients.*

*C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.*

*D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.*

**Note:** The description required by Item 11.A may include information responsive to Item 11.B, C or D. If so, it is not necessary to make repeated disclosures of the same information. You do not have to provide disclosure in response to Item 11.B, 11.C, or 11.D with respect to securities that are not “reportable securities” under SEC rule 204A-1(e)(10) and similar state rules.

The Advisor abides by a Code of Ethics (the “Code”) that requires the highest level of conduct, treatment of client interests, and responsibility for client assets. Among other things, the Code governs fiduciary obligations, conflicts of interest, suitability of investments, books and record keeping, advertizing and marketing, insider trading, brokerage, and privacy policies. The Advisor will provide a copy of the Code to any client or prospective client upon request.

**Item 12 Brokerage Practices**

*A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).*

- 1. Research and Other Soft Dollar Benefits. If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”), disclose your practices and discuss the conflicts of interest they create.*

**Note:** Your disclosure and discussion must include all soft dollar benefits you receive, including, in the case of research, both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

- a. Explain that when you use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.*

- b. *Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your clients' interest in receiving most favorable execution.*
  - c. *If you may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.*
  - d. *Disclose whether you use soft dollar benefits to service all of your clients' accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.*
  - e. *Describe the types of products and services you or any of your related persons acquired with client brokerage commissions (or markups or markdowns) within your last fiscal year.*
  - f. *Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for soft dollar benefits you received.*
2. *Brokerage for Client Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.*
- a. *Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving client referrals, rather than on your clients' interest in receiving most favorable execution.*
  - b. *Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for client referrals.*
3. *Directed Brokerage.*
- a. *If you routinely recommend, request or require that a client direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their clients to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of client transactions, and that this practice may cost clients more money.*
  - b. *If you permit a client to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of client transactions. Explain that directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.*
- B. *Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating. **Note:** If your clients only have directed brokerage arrangements subject to most favorable execution of client transactions, you do not need to respond to the last sentence of Item 12.A.3.a. or to the second or third sentences of Item 12.A.3.b.*

The Advisor deals with brokers in connection with its activities on behalf of the Funds and other accounts of the Advisor or accounts it may manage or advise in the future, and may, in placing brokerage business, take into consideration the value of research and other services provided to it, such as broker-dealer participation in U.S. Treasury warrant auctions, for use in making investment decisions on behalf of the Fund and any other accounts. The Advisor may also take into account services provided in connection with the sale or placement of Interests. In any such event, the commission paid to such brokers could be in excess of the lowest commission available in the brokerage marketplace. The Advisor would in such case, however, before placing any brokerage business, determine in good faith that the amount of commission charged is reasonable in relation to the value of the brokerage, execution, research, sales and other services provided by the broker for the benefit of the Fund, viewed in terms of the particular transaction or the Advisor's overall responsibilities to all of its clients.

The research services provided by brokers could relate to specific transactions placed with such brokers, but for the most part the research services would consist of a wide variety of information useful to the Advisor in connection with its responsibilities on behalf of the Fund. Such material might relate to general economic, interest rate and stock market conditions as well as information on specific companies and industries. The following types of products, research and services could be paid with client commissions: quantitative, fundamental and technical research strategy and charting services; economic, international and market investment strategy services; on-line fundamental databases; on-line securities quotations (and equipment used in connection therewith); performance measurement services; on-line investment news and news retrieval services; and investment publications, periodicals and subscriptions. The research materials may be originated by the broker performing execution services or by third parties who are paid by the broker. These services and research are valuable to the Advisor, which, in the absence of such agreements, would have to spend time and resources to generate similar research internally.

#### Item 13 Review of Accounts

*A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.*

*B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.*

*C. Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.*

The funds provide to the Members audited financial reports of the funds annually and the funds' annual tax information as promptly as practicable after the end of each fiscal year. The Advisor currently provides such reports generally no later than 120 days after the end of each fiscal year. In addition, promptly following the end of each month, the Advisor makes available to each member an estimate of such member's Capital Account balance as of the end of such month via a password-protected website. The fiscal years of the funds end on December 31st or such other date as required by law. Rothstein, Kass and Company, P.C. has been retained as independent accountant to the funds. Members are required to keep confidential all such reports and notices and any other information provided to members by the Advisor with respect to its operations that is not otherwise publicly available or required to be disclosed by applicable law. Reports may be electronically delivered in the discretion of the Advisor or Managing Member to members at the email address provided in the Subscription Booklet.

#### Item 14 Client Referrals and Other Compensation

*A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.*

*B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.*

***Note:** If you compensate any person for client referrals, you should consider whether SEC rule 206(4)-3 or similar state rules regarding solicitation arrangements and/or state rules requiring registration of investment adviser representatives apply.*

Not applicable.

Item 15 Custody

*If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.*

All client funds are held by qualified custodians. Client statements are provided monthly, but are prepared by the funds' administrator based on marked to market month-end fair values of cash and securities.

Item 16 Investment Discretion

*If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).*

The Advisor manages accounts with complete discretionary authority in accordance with the constraints listed in our Private Placement Memoranda. There are no current limitations on this authority.

Item 17 Voting Client Securities

*A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.*

*B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.*

The Advisor receives all proxy documents and has authority to vote client securities. The Advisor makes a determination in its opinion as to what vote is in the best interest of the advisory clients and the funds as a whole. The Advisor requires a written record of the proxy

vote on each occasion that a vote is required. Members may obtain a copy of proxy voting policies and procedures upon request.

#### Item 18 Financial Information

*A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.*

- 1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.*
- 2. Show parenthetically the market or fair value of securities included at cost.*
- 3. Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X. **Note:** If you are a sole proprietor, show investment advisory business assets and liabilities separate from other business and personal assets and liabilities. You may aggregate other business and personal assets unless advisory business liabilities exceed advisory business assets.*

**Note:** If you have not completed your first fiscal year, include a balance sheet dated not more than 90 days prior to the date of your brochure. **Exception:** You are not required to respond to Item 18.A of Part 2A if you also are: (i) a qualified custodian as defined in SEC rule 206(4)-2 or similar state rules; or (ii) an insurance company.

*B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients. **Note:** With respect to Items 18.A and 18.B, if you are registered or are registering with one or more of the state securities authorities, the dollar amount reporting threshold for including the required balance sheet and for making the required financial condition disclosures is more than \$500 in fees per client, six months or more in advance.*

*C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.*

Please see Item 8 for a discussion on investment risks born by the clients, including withdrawal risks, liquidity risks, and valuation risks of certain investment types.

***If you are registering or are registered with one or more state securities authorities, you must respond to the following additional Item.***

#### Item 19 Requirements for State-Registered Advisers

*A. Identify each of your principal executive officers and management persons, and describe their formal education and business background. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item.*

*B. Describe any business in which you are actively engaged (other than giving investment advice) and the approximate amount of time spent on that business. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item.*

*C. In addition to the description of your fees in response to Item 5 of Part 2A, if you or a supervised person are compensated for advisory services with performance-based fees, explain how these fees will be calculated. Disclose specifically that performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.*

*D. If you or a management person has been involved in one of the events listed below, disclose all material facts regarding the event.*

*1. An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500, involving any of the following:*

- (a) an investment or an investment-related business or activity;*
- (b) fraud, false statement(s), or omissions;*
- (c) theft, embezzlement, or other wrongful taking of property;*
- (d) bribery, forgery, counterfeiting, or extortion; or*
- (e) dishonest, unfair, or unethical practices.*

*2. An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:*

- (a) an investment or an investment-related business or activity;*
- (b) fraud, false statement(s), or omissions;*
- (c) theft, embezzlement, or other wrongful taking of property;*
- (d) bribery, forgery, counterfeiting, or extortion; or*
- (e) dishonest, unfair, or unethical practices.*

*E. In addition to any relationship or arrangement described in response to Item 10.C. of Part 2A, describe any relationship or arrangement that you or any of your management persons have with any issuer of securities that is not listed in Item 10.C. of Part 2A.*

Not applicable.