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This brochure provides information about the qualifications and business practices of Capital Tactics Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (214) 273-5208 or jrouse@captac.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Capital Tactics Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

There have been no material changes to our Form ADV since the last version; however, we encourage everyone to read this Form ADV Part 2A in its entirety.

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1. Advisory Business

Capital Tactics Advisors, LLC, (“*Capital Tactics*”) provides investment supervisory services on a discretionary basis to: (i) private investment funds and (ii) a separately managed account. W.C. Davis Parr, the principal owner of Capital Tactics, established the investment advisory firm in 2009. We focus on event-driven investment themes and place particular emphasis on corporate event detection.

We adhere to the investment strategy set forth in each of the fund’s offering documents, but do not modify our securities recommendations to the funds based on the particular interests of the funds’ underlying investors. Neither the funds nor their underlying investors may impose restrictions on investing in certain securities or types of securities.

With respect to the separately managed account, we adhere to investment guidelines which specify the instruments in which we may and may not trade in on behalf of the managed account. However, the managed account client may not otherwise impose restrictions on investing in specific securities.

We currently manage on a discretionary basis \$148,462,644 in client assets under management (calculated as of December 31, 2011).

2. Fees and Compensation

Funds:

With respect to each fund, we generally charge a quarterly management fee in advance at an annual rate of 1.5% of the value of the capital account balance of each investor in the fund. The value of the account on which the management fee is based is an investor’s capital account on the first day of the quarter. Management fees are generally non-refundable and are deducted from investors’ capital accounts quarterly. Capital Tactics Opportunity GP, LP, our affiliate, may also charge an annual performance-based profit allocation at the end of each year of 20% of the funds’ net profits attributable to each investor for such fiscal year, but only to the extent that such profits exceed any losses carried forward from prior years, based on a “high water mark” formula. The performance allocation is calculated and deducted from investors’ capital accounts at the end of each fiscal year. A performance allocation is also calculated and charged (i) with respect to any investor permitted or required to withdraw and (ii) with respect to an investor making a partial withdrawal of such investor’s capital account, as of any time other than the close of a year on the basis of net profits allocated to such investor through the withdrawal date (but only with respect to the amount withdrawn on a *pro rata* basis in the event of a partial withdrawal). Both the management fee and performance allocation are generally non-negotiable.

In addition, each fund bears all costs and expenses directly related to its investment program, including expenses related to proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees, the fees and expenses of risk and portfolio management systems, any withholding or transfer taxes and all expenses incurred in connection with locating, evaluating and implementing potential investments including travel, software subscriptions and other research-related expenses. For additional

information regarding brokerage costs, see “*Brokerage Practices*.” The funds also bear all out-of-pocket costs of their operation and administration, including accounting, audit and legal expenses, costs of any litigation or investigation involving the funds’ activities, and costs associated with reporting and providing information to existing and prospective investors.

Managed Account:

We receive a quarterly management fee in advance at an annual rate of 1.5% of the net assets of the managed account. The management fee is payable on the first day of each calendar quarter based on the value of the net assets in the managed account on such date. If additional assets are added during any calendar quarter, the management fee for such additional assets is prorated for the portion of that quarter that such assets are managed by us and the management fee for the prorated portion is payable as of the date such additional assets are added. If the investment management agreement is terminated on a date other than the last day of a calendar quarter, the management fee will be prorated based on the number of days that elapsed in such quarter and we will return the excess portion of the management fee for such quarter. Within 30 days of receipt of an invoice from us, the managed account client must direct payment of the management fee.

In addition, we charge an annual fee equal to 20% of the managed account’s net profits for each fiscal year, payable within 30 days of the end of each fiscal year, but only to the extent that such profits exceed any losses carried forward from prior years, based on a “high water mark” formula. The incentive fee may, at the direction of the client, be paid out of managed account assets.

We pay all expenses incurred by us in performing our obligations under the investment management agreement for the managed account, except that we are not required to pay: any expenses of the client with respect to the managed account including, without limitation, charges of auditors, accountants, counsel fees and other legal expenses, the cost of reporting to the plan participants and beneficiaries, interest on margin borrowing, dividends payable with respect to securities sold short, custodial fees, brokerage commissions, bank service fees and interest on managed account-related loans and debit balances, custody fees, the fees and expenses of risk and portfolio management systems, any withholding or transfer taxes and all expenses incurred in connection with locating, evaluating and implementing potential investments, including travel, software subscriptions and other research-related expenses. To the extent that such expenses are incurred on behalf of the managed account and the funds, such costs will be allocated pro rata among the managed account and the funds.

3. Performance-Based Fees and Side-By-Side Management

Capital Tactics Opportunity GP, LP (our affiliate) receives a performance-based profit allocation with respect to the funds as described in “*Fees and Compensation*” above. Performance-based fees are calculated based on capital gains or capital appreciation attributed to each investor’s investment. We also receive a performance-based fee with respect to the managed account. We do not manage any client accounts that do not pay a performance-based fee.

4. Types of Clients

Capital Tactics advises private investment vehicles and a single separately managed account. Each of the funds has a minimum initial subscription of \$1,000,000, although investments of a lesser amount may be accepted at the discretion of the general partner or directors, as applicable. There is no minimum account size for managed accounts. Currently, we advise a single managed account maintained on behalf of a trust.

5. Methods of Analysis, Investment Strategies and Risk of Loss

Funds:

Our objective is to maximize long-term, risk-adjusted absolute returns through long and short investments across the capital structure. We will employ a strategy that is focused on major corporate events to drive a superior internal rate of return. Due to the expected concentrated nature of the portfolio, volatility may be higher than that of overall market indices.

We focus on identifying situations with attractive event-driven investment themes in which we can develop a competitive advantage. We maintain professional relationships with other fund managers, industry leaders, sell-side analysts and industry contacts. In addition, we place a particular emphasis on corporate event detection based on a proprietary process in which we screen internet-based information sources. Other sources of investment ideas include the constant review of investment and industry publications, the review of insider buying and selling, and other reliable sources of information. We believe that our relationships and investment identification process will provide us with investment opportunities that may not be widely recognized by other investors.

We will pursue investment opportunities on behalf of the funds in the following general categories:

Risk Arbitrage: In a cash merger, an acquirer proposes to purchase the shares of the target for a certain price in cash. Until the acquisition is completed, the stock of the target typically trades below the purchase price. An arbitrageur buys the stock of the target and makes a gain if the acquirer ultimately buys the stock. In a stock merger, the acquirer proposes to buy the target by exchanging its own stock for the stock of the target. An arbitrageur may then short the acquirer and buy the stock of the target. After the merger is completed, the target's stock will be converted into stock of the acquirer based on the exchange ratio determined by the merger agreement. The arbitrageur delivers the converted stock into his short position to complete the arbitrage.

If this strategy were risk-free, many investors would adopt it, and any possible gain for any investor would disappear. However, risk arises from the possibility of transactions failing to consummate. This may be due to either party's inability to satisfy conditions of the merger, failure to obtain the requisite shareholder approval, failure to secure financing, failure to receive anti-trust and/or other regulatory clearances, or some other event that may change the target's or the acquirer's ability or willingness to consummate the transaction.

Additional complications can arise in stock mergers when the exchange ratio is not constant but changes with the price of the acquirer. These are called “collars” and arbitrageurs use options-based models to value transactions with collars. The exchange ratio is sometimes determined by taking the average of the acquirer's closing price over a period of time (typically a fixed number of trading days prior to the closing of the transaction).

Capital Structure Arbitrage: We may seek opportunities created by differential pricing of various instruments issued by one corporation, such as traditional bonds and convertible bonds or equity. Convertible bonds are convertible into shares of equity, and this stock-option component has a calculable value. The theoretical value of the whole instrument is the value of the traditional bonds plus the extra value of the option feature. If the difference between the convertible and the non-convertible bonds becomes excessive, then we may take a position in the expectation that such spread will converge. Similarly, there may be value discrepancies between traditional bonds and equities.

Short-term Information Advantage: Through knowledge across a broad industry base, we may become aware of material mispricings of specific securities and may seek to benefit from this knowledge. For instance, one security may experience a material earnings surprise, thus presenting a profitable trading opportunity in a security related either by industry or by capital structure.

Spin-offs: Often companies spin-off businesses into separately traded public entities in order to unlock shareholder value. In many cases, the equity of the spun-off entity may outperform the overall market due to a number of factors, including but not limited to: equity grants to the management of the spun-off company, elimination of a holding company discount prior to the spin-off and enhanced opportunities for the spun-off company to do business with competitors of the parent company.

Distressed Debt: When companies suffer a period of financial distress, the original holders often sell the debt securities of the issuer to a new set of buyers. Investors in distressed debt securities often try to influence the process by which the issuer restructures its debt, implements a plan to rationalize its business, or otherwise improve its operations. Investors may also invest new capital into a distressed company in the form of debt or equity. Investors in distressed debt securities typically must make an assessment not only of the issuer's ability to improve its operations but also whether the restructuring process (which frequently requires court supervision) might benefit one class of securities more than another.

Post-bankruptcy Equities: It is often possible to purchase the new equity of a Chapter 11 reorganization company by buying the bonds of the company prior to the company's emergence from bankruptcy. In doing so, the purchaser is often able to create an equity position at a substantial discount to fair value due to lack of equity research coverage, and ownership limitations between debt and equity investors prior to bankruptcy emergence.

Financial Restructurings: Financial restructuring involves changes in the capital structure of a company. A company may lever its balance sheet up or down via a stock or bond buyback or issuance, or payment of a cash dividend. An example of financial restructuring would be to add debt to lower the corporation's overall cost of capital. Otherwise, companies

under stress may undertake debt rescheduling or equity-for-debt swaps. Financial restructurings should be viewed with respect to the effect on return on equity and on share price. We believe that such events can provide significant trading opportunities.

Operational Restructurings: Unlike financial restructuring, operational restructuring is the process of increasing the economic viability of the underlying business of a company. Examples include mergers, the sale of divisions or abandonment of product lines, management changes, exiting a loss-making business or general cost-cutting initiatives. In most turnarounds and bankruptcy situations, both financial and operational restructuring must occur simultaneously to maximize the potential of the business.

Mutual Savings Banks Conversions: A mutual saving thrift typically comes public in two stages with the bank selling less than 50% of the shares to the public and the balance going into a mutual holding company. During this period, we believe investors fail to correctly value these banks because investors do not recognize the capital that will ultimately be raised from the bank selling the shares in the mutual holding company (“MHC”) to the public, more commonly known as a “second step.” In essence, when calculating tangible book value per share or earnings per shares, investors typically use an inflated number of shares in the denominator and do not take into account that greater than half of the shares are yet to be sold to the public. Our investment team has a history of buying thrifts in the “MHC stage” at what it views as extremely cheap multiples of tangible book value. Ultimately, the bank’s management team is incentivized to sell the shares in the MHC to the public once the thrift is appropriately levered. At this time, the thrift’s valuation usually converges to that of its fully public peers, which typically trade at a premium to tangible book value.

Other Categories: Other investment categories may include, but are not limited to: “stub” trades; share class convergence or divergence; holding company trades; litigation-based securities, and certain securities whose price may be dependent on other unconventional metrics.

Long Positions: We will generally buy equity and debt securities that we believe are likely to be affected by a specific corporate action. We will generally seek to invest in securities that represent absolute as opposed to relative value, thereby reducing exposure to market fluctuations and reducing the need to hedge each long position.

Short Positions: Short selling is the practice of selling assets that have been borrowed from a third party with the intention of buying identical assets back at a later date to return to the lender. The short seller expects to profit from a decline in the price of the assets between the sale and the repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. Shorting also refers to entering into any derivative or other contract whereby one profits from the fall in the value of an asset. We may short stock in overvalued companies that likely will miss financial or other targets and/or where management has publicized unrealistic expectations for future outcomes. We may also short stock in companies whose businesses are in secular fundamental decline.

Bank Debt, Trade Claims and other Senior Securities: Loans and other securities at the most senior part of the capital structure have increasingly become packaged for resale, allowing

an investor to buy senior securities from a bank or directly from a corporation, or in the secondary market.

Credit Default Swaps: A credit default swap (“CDS”) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the underlying credit instrument (typically a bond or loan) experiences a negative credit event, for example, a default, restructuring, or bankruptcy. Generally an investor would buy a CDS if it expects the underlying credit to deteriorate and would sell a CDS if it expects the underlying credit to improve.

CDS contracts have been compared with insurance, because the buyer pays a premium and, in return, receives a sum of money if one of the events specified in the contract occurs. However, there are a number of differences between CDS and insurance, for example:

- The buyer of a CDS does not need to own the underlying security or other form of credit exposure; in fact the buyer does not even have to suffer a loss from the negative credit event. In contrast, a buyer of traditional insurance, must have an insurable interest such as owning a debt obligation;
- the seller of a CDS need not be a regulated entity;
- the seller of a CDS is not required to maintain any reserves to pay off buyers, although major CDS dealers are subject to bank capital requirements;
- in the United States CDS contracts are generally subject to mark to market accounting and to collateral calls.

Listed Equity Options: An option is a contract between a buyer and a seller that gives the buyer the right, but not the obligation, to buy or to sell a particular asset (the *underlying asset*) on or before the option’s expiration time, at an agreed price (the *strike price*). In return for granting the option, the seller collects a payment (the *premium*) from the buyer. A call option gives the buyer the right to buy the underlying asset and a put option gives the buyer of the option the right to sell the underlying asset. If the buyer chooses to exercise this right, the seller is obligated to sell or buy the asset at the strike price.

Swap Agreements: A financial swap is a derivative contract in which two counterparties exchange certain benefits of one party’s financial instrument for those of the other party’s financial instrument. The benefits depend on the type of financial instruments involved. Specifically, the two counterparties agree to exchange one stream of cash flows against another stream. These streams are called the legs of the swap. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. Usually, at the time when the contract is initiated, at least one of these series of cash flows is determined by a random or uncertain variable such as an interest rate, foreign exchange rate, equity price or commodity price.

The cash flows are calculated over a notional principal amount, which is usually not exchanged between counterparties. Consequently, swaps can be used to create unfunded exposures to an underlying asset, since counterparties can earn the profit or loss from movements in price without having to post the notional amount in cash or collateral.

Swaps can be used to hedge certain risks such as interest rate risk, or to speculate on changes in the expected direction of underlying prices.

New Issues: There are generally three types of equity issues – an initial public offering (“IPO”), a follow-on offering of additional new securities and a secondary offering of shares by existing shareholders. An IPO is when a company issues common stock or share to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be issued by large privately-owned companies looking to become publicly traded. In an IPO, the issuer generally obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

In a new issue of debt or debt-related securities the dynamics are similar. We will attempt to capitalize on pricing discrepancies that may accompany new issues.

Managed Account:

We may effect transactions for the managed account involving securities, including U.S. and non-U.S. common and preferred stocks, stock options, convertible stocks, bonds, notes, debentures, certificates of deposit, commercial paper, currencies, demand or time deposits, savings deposits, shares of investment companies and mutual funds and contracts for publicly traded options.

Risk Factors:

General Investment Risks. All investments risk the loss of capital. No guarantee or representation is made that our program will be successful and clients bear the risk of loss of their entire investment. Investment results may vary substantially over time.

Short Sales. We may enter into transactions, known as “short sales,” in which we sell a security we do not own in anticipation of a decline in the market value of the security. Short sales that are not made “against the box” theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. We may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, we might have difficulty purchasing securities to meet our short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet our short sale obligations at a time when fundamental investment considerations would not favor such sales.

Leverage. Subject to applicable margin and other limitations, we may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the clients’ portfolios would be amplified. Interest on borrowings will be a portfolio expense of the clients and will affect the operating results of the clients. Also, we could potentially create leverage via the use of instruments such as options and other derivative instruments.

Derivatives. Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of

which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the clients to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom the clients contract for the purpose of making derivative investments. In the event of a counterparty’s default, the clients will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor’s entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

Concentration of Investments. We have broad discretion over the clients’ investment program and may choose to allocate substantial portions of the clients’ assets to a particular investment. Such an occurrence may tend to result in more rapid changes in the clients’ portfolios, upward or downward, than would be the case with greater diversification, with the result that a loss in any such position could have a material adverse impact on the clients’ capital. We may also make similar market timing decisions and asset allocation decisions regarding the investments or some combination of other strategies.

Futures Risk. We may take long and short positions in futures during the normal course of business. Futures have specific delivery periods and commitments that require the counterparties to make or take physical delivery of a commodity at a designated location if the contracts are held through the expiry period. We intend to unwind (flatten out) positions prior to final contract expiry. To the extent that we are unable to do so, the clients may incur significant costs to offset the obligations that physical delivery presents. We do not intend to regularly take physical delivery of futures.

Put and Call Options on Specific Investments. We may purchase exchange-listed and over-the-counter (“*OTC*”) put and call options on specific investments. In addition, we may

write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Options written by the clients may be wholly or partially covered (meaning that the clients hold an offsetting position) or uncovered. Options on specific investments may be used to seek enhanced profits with respect to a particular investment or commodity contract. Alternatively, they may be used for various defensive or hedging purposes. For example, they may be used to protect against a future adverse change in the market price of particular portfolio investments held by the clients without requiring a sale of the investments.

Use of put and call options may result in losses to the clients, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the clients can realize on their investments or cause the clients to hold an investment they might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by the clients to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by the clients. The use of uncovered option writing techniques may entail greater risks of potential loss to the clients than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in the clients realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments to the extent the call option position was uncovered.

Counterparty Creditworthiness. In addition to the exchange-traded and exchange-cleared options contracts, we may also invest in the OTC market in contracts which involve dealing with counterparties and their ability to meet the terms of the contracts. In particular, we may enter into repurchase agreements, forward contracts and swap arrangements, each of which expose the clients to credit risk to the extent that the counterparty defaults on its obligations to perform under the relevant contract.

Turnover. We may invest on the basis of short-term market considerations. The portfolio turnover rate of these investments may be significant, potentially involving substantial brokerage commissions and fees. We will not receive a portion of such commissions and fees.

Illiquid Investments. Some of the investments made by us may be illiquid, and consequently we may not be able to sell such investments at prices that reflect its assessment of their value or the amount paid for such investments by the clients. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the clients and other factors. Furthermore, the nature of our investments, especially those in financially distressed companies, may require a long holding period prior to profitability.

Foreign Securities. Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange

matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the clients are maintained) and the various foreign currencies in which the clients' portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

6. Disciplinary Information

We have had no disciplinary or legal events since our establishment in 2009.

7. Other Financial Industry Activities and Affiliations

We sponsored the formation of Capital Tactics Opportunity Fund, LP, Capital Tactics Opportunity Offshore Fund, Ltd. and Capital Tactics Opportunity Master Fund, L.P. Capital Tactics Opportunity GP, LP, our affiliate, serves as the general partner to each of the limited partnerships. W.C. Davis Parr controls both the funds' investment manager and general partner. We address this potential conflict of interest by fully disclosing the relationship among us, the general partner and the funds in the funds' offering documents. Although Mr. Parr's control of the funds' investment manager and general partner may give him heightened control and discretion over the funds, he manages any potential conflicts of interest by strictly adhering to the investment strategy and business philosophy discussed in the funds' private placement memoranda. In addition, the general partner entered into the investment management arrangement with us on behalf of the funds. While this may be an interested party agreement, the material terms of the investment management arrangement are fully disclosed to all investors in the funds prior to their investment.

Another federally registered investment adviser, Clover Partners, L.P. ("**Clover**"), owns an interest in our firm and in one of our affiliates. Through Clover's interest in these Capital Tactics entities, they receive a portion of the asset-based management fees and performance-based compensation that we and our affiliate receive from our fund clients. Clover provides us with certain client relations services.

In addition, one of our employees, John A. Guerry, is also an employee and minority interest holder of Clover. We do not believe this arrangement creates a conflict of interest because Mr. Guerry does not need to divide his time and investment recommendations between our clients and Clover's clients. In his role as an employee of Clover, Mr. Guerry does not conduct separate or independent research or analysis from the research and analysis he conducts as an employee of our firm. For this reason, we do not believe that Mr. Guerry's advisory services to Clover detract from or infringe upon the time and attention he needs to provide investment advice to our clients.

Typically, because of the variation in investment strategies, Clover's clients already own securities in long standing positions that Mr. Guerry may later recommend to our clients when he

believes that an investment in the same securities would serve our clients' event-driven mandate. In the event that Mr. Guerry recommends that our clients and Clover's clients buy a certain security at about the same time, he will ensure that both investment advisory firms execute trades simultaneously. In addition, because both firms' strategies generally focus on liquid securities, we do not anticipate encountering any investment opportunities limited in supply.

Because there may be some overlap in investment positions between our clients and those of Clover, we have a policy that dictates procedures in the event that Mr. Guerry determines that our clients and Clover's clients should exit the same positions. If there is limited market capacity to absorb the securities, Mr. Guerry would discuss his determinations with our principal, who would be responsible for selling, including deciding whether to sell, the positions on behalf of our clients.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under the Investment Advisers Act of 1940, as amended. If requested, we will provide at no cost a copy of our Code of Ethics.

Our Code of Ethics contains policies and procedures that ensure that all personal securities trading by our employees are conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. We prohibit personal trading on certain securities or instruments, require pre-clearance before purchasing an IPO or a new private placement, require periodic reporting of employees' personal securities transactions and holdings and require prompt internal reporting of Code violations.

Our employees and related persons may buy and sell securities for their own account or the account of others, but may not buy securities from or sell securities to the clients. Our employees and related persons may invest in the same securities in which we have invested the assets of the clients, but may purchase or sell such securities only contemporaneously with or after the clients' purchase or sale of such securities, as the case may be.

In order to prevent any potential conflicts of interest, we require all employees and partners to comply with a pre-clearance procedure before placing an order for the purchase or sale of any publicly-traded equity security. Such pre-clearance procedure requires all employees and partners to obtain approval from the compliance officer before placing any trade order. Additionally, unless otherwise excepted pursuant to the Code of Ethics, no employee or partner may purchase or sell any security within two days before or after we purchase or sell the same security for any client. No employee or partner may acquire any securities in an initial public offering or a private placement without prior approval from the compliance officer.

9. Brokerage Practices

Funds:

We are responsible for the placement of the portfolio transactions of the clients and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities' exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price.

Many of the funds' securities trades will be cleared through either Morgan Stanley or Cantor Fitzgerald. Securities transactions are executed by brokers selected by us in our sole discretion and without the consent of the funds. In placing portfolio transactions, we will seek to obtain the best execution for the funds, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria. We are not required to weigh any of these factors equally.

We are authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide us with investment and research information or to pay higher commissions to such firms if we determine such prices or commissions are reasonable in relation to the overall services provided. When selecting a broker that provides soft dollar arrangements, we must satisfy our fiduciary obligation to seek to achieve best execution, which is measured by the total services provided by the broker including execution as well as the quality of research obtained. Information so received is in addition to and not in lieu of services required to be performed by us, and the management fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by the funds may be utilized by us or our affiliates in connection with our investment services for other accounts and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by us in performing our services for the funds. Since commission rates in the U.S. are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

We have the option to use "soft dollars" generated by the funds to pay for the research and research-related services described above. The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. We intend to limit the use of soft dollars to fall within the "safe harbor."

Our use of brokerage commissions to obtain investment research services and to pay for our administrative costs and expenses creates a conflict of interest between us and the funds, because the funds pay for such products and services that are not exclusively for the benefit of the funds and that may be primarily or exclusively for our benefit. To the extent that we are able to acquire these products and services without expending our own resources (including the management fee paid by the funds), our use of soft-dollars would tend to increase our profitability. In addition, the availability of these non-monetary benefits may influence us to select one broker rather than another to perform services for the funds.

Managed Account:

Under Section 28(e) of the Securities Exchange Act of 1934, we may use brokerage commission to obtain research and other services. These brokerage commission are commonly referred to as “soft dollars.” Section 28(e) provides a safe harbor under certain circumstances, to investment managers with investment discretion who use brokerage commissions to obtain research and other services related to the execution of portfolio transactions. The controlling principle is whether a product or service provides lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. This section requires the person receiving the services make a good faith determination that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. Only products and services that fall within the Section 28(e) safe harbor will be purchased with brokerage commissions of the managed account. When selecting a broker that provides soft dollar arrangements, we must satisfy our fiduciary obligation to seek to achieve best execution, which is measured by the total services provided by the broker including execution as well as the quality of research obtained.

Managed Account and Fund Clients:

The research services that we may acquire with soft dollars include:

- research reports and analyses concerning specific issuers, industries or sectors,
- market, financial and economic forecasts and other data,
- statistics and pricing services,
- subscriptions to financial publications and periodicals and research compilations and
- services of economists and other consultants.

The products and services that we generally obtain with soft dollars include:

- hardware,
- online research tools,
- portfolio management software,

- databases and
- telecommunications services, equipment and facilities (such as quotation equipment and telephone lines).

We primarily use these research services and products to assist us with our investment decision-making responsibilities and enhance our capability to discharge those responsibilities.

When a product or service benefits both the managed account and the funds, all clients will pay their pro rata share.

All sales and purchases of securities are aggregated for all of the funds. However, fund transactions are not aggregated with managed account transactions. Because the transactions on behalf of the managed account are not aggregated with those of the funds, the managed account may incur higher transactional costs.

10. Review of Accounts

Funds:

The funds' portfolios are reviewed by our Senior Managing Director and Managing Director on a bi-monthly basis or more frequently if triggered by market and/or economic factors. Each portfolio is reviewed for compliance with the fund's investment objectives.

We provide quarterly written newsletters to the funds' investors, which contain quarterly returns and a detailed discussion of selected positions. Year-end results are audited and provided to investors upon completion of the audit.

Managed Account:

Our Senior Managing Director and Managing Director review the managed account on a bi-monthly basis or more frequently if triggered by market and/or economic factors. Each portfolio is reviewed for compliance with the client's investment objectives.

At least monthly, the client receives or has access to a report, provided by the custodian, as of the last day of such month, indicating the assets in the managed account and an estimate of the net asset value of the account as of the end of such month.

11. Client Referrals and Other Compensation

We do not receive an economic benefit from any non-client in connection with giving advice to clients.

We do not compensate any person who is not a supervised person for client referrals.

12. Custody

Funds:

While it is our practice not to accept or maintain physical possession of any client assets, we are deemed to have custody of the funds' assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to access our clients' funds and deduct fees and expenses from our clients' accounts.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all clients assets. The custodian sends monthly statements to the clients. Clients should carefully review these statements. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit the clients' accounts at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in the funds as soon as practicable after the end of the fiscal year.

Managed Account:

We do not have custody of the managed account client's assets.

13. Investment Discretion

Funds:

Our investment advisory contract with each of the funds contains language whereby the fund clients grant us broad discretionary power to manage the account. We adhere to the investment strategy set forth in each fund's private placement memorandum.

All investors in the funds are provided a private placement memorandum that sets forth, in detail, the relevant fund's investment strategy and program. By completing subscription documents to acquire an interest in a fund, investors execute a power of attorney and give us complete authority to manage their investments in accordance with the relevant private placement memorandum.

Managed Account:

Pursuant to the investment management agreement between the client and us, the client gives us complete discretionary authority to manage its assets, subject to the applicable investment guidelines set forth in the investment management agreement (See "*Methods of Analysis, Investment Strategies and Risk of Loss*" for a description of limitations placed on our investment authority).

14. Voting Client Securities

Funds:

We have been delegated the authority to vote proxies on behalf of client accounts. We have adopted and implemented policies and procedures reasonably designed to ensure that we

vote proxies in the best interest of each client. In determining how to vote a particular proxy, we will generally vote in favor of matters which follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and common market practices. Clients cannot direct our vote in any particular proxy solicitation.

Managed Account:

With respect to the managed account and in accordance with the investment guidelines set forth in the investment management agreement, we have full authority to vote all proxies and are responsible for ensuring that proxies are voted in the best interests of the client to maximize the long term value of the managed account. We must exercise our duties with respect to the voting of proxies in accordance with the investment guidelines and must maintain records to permit the client to monitor our compliance. The client cannot direct our vote in any particular proxy solicitation.

General Guidelines:

If a proxy vote creates a potential material conflict between our interests and the interests of a client, we will resolve the conflict before voting the proxy either by obtaining the consent of the client or take other reasonable steps to minimize the impact of the conflict. A copy of the proxy voting policy is available upon request. Further, upon request, we will provide a record of how proxies have been voted relative to each client's account.

15. Financial Information

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.