

# **CASTLE HILL ASSET MANAGEMENT LLC**

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## **BROCHURE**

### **PART 2A**

February 10, 2012

**This brochure provides information about the qualifications and business practices of Castle Hill Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at +1 (434) 284 4791. 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.**

**Additional information about Castle Hill Asset Management LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT CASTLE HILL ASSET MANAGEMENT LLC OR ANY PRINCIPALS OR EMPLOYEES OF CASTLE HILL ASSET MANAGEMENT LLC POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.**

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### SUPPLEMENT - BIOGRAPHIES OF KEY PERSONNEL

## ITEM 4 • ADVISORY BUSINESS

### General Description of Advisory Firm

Castle Hill Asset Management LLC (or “Castle Hill”) is a Delaware limited liability company formed on December 8, 2009. Castle Hill commenced operations in 2010.

The founders and owners of Castle Hill are Brian Bassett, Jaime Vieser and IIML Management Ltd., a Delaware corporation formed on December 10, 2009.

Brian Bassett and Jaime Vieser are the Class A members and together hold a 51% interest in Castle Hill. Brian Bassett is also Castle Hill’s Chairman and Chief Executive Officer (“CEO”) and Jaime Vieser is Castle Hill’s Chief Investment Officer (“CIO”).

IIML Management Ltd holds a 49% interest as the Class B member of Castle Hill. IIML Management Ltd is a wholly owned subsidiary of Ignis Investment Services Ltd (“Ignis”), a UK limited liability company. Ignis is authorised and regulated by the Financial Services Authority in the United Kingdom and is a registered investment adviser with the SEC. Ignis in turn is ultimately controlled by the Phoenix Group, which is a publicly traded company based in the United Kingdom and whose shares are listed on the NYSE. Phoenix Group is the ultimate holding company of the Phoenix group of companies, a diversified global financial services group which includes other entities engaged in investment advisory, insurance and related businesses.

### Description of Advisory Services

Castle Hill tailors its advisory services to the specific investment objectives and restrictions of each client. Castle Hill may agree in the investment management agreement with each client to investment restrictions or guidelines with respect to the types or amounts of securities or other financial instruments that may be purchased or sold for the client’s account. Castle Hill may pursue different investment strategies for different clients.

Castle Hill is generally granted broad investment authority with respect to the management of the accounts of its clients. Castle Hill generally seeks to produce attractive risk-adjusted returns in all types of market environments by identifying mispriced investment opportunities in credit strategies which include investment in various types of swaps, caps, floors, over-the-counter options and other derivative instruments, including credit default swaps; asset-backed and structured products; and foreign exchange.

Castle Hill provides advice to private investment funds (the “Castle Hill Funds”). Investors and prospective investors in each Castle Hill Fund should refer to the confidential private placement

memorandum, limited liability company agreement, articles of association and other governing documents for each Castle Hill Fund (the “**Governing Documents**”) for more complete information about the investment objectives and investment restrictions with respect to a particular Castle Hill Fund. There is no assurance that any of the Castle Hill Funds’ investment objectives will be achieved.

Castle Hill may enter into “side letters” or similar agreements with certain investors in the Castle Hill Funds granting the investor certain specific rights, benefits, or privileges that are not made available to investors generally.

Castle Hill also provides advice to certain private investment funds other than the Castle Hill Funds where it is appointed to provide such advice by the investment manager to these private investment funds.

Castle Hill does not participate in wrap fee programs.

Castle Hill manages its clients’ assets both on a discretionary basis and on a non-discretionary basis. As of December 31, 2011, Castle Hill managed the following client assets:

Non-Discretionary Client Assets:	US\$	1,717,108,327
Discretionary Client Assets:	US\$	<u>234,981,565</u>
Total Assets under Management:	US\$	1,952,089,892

With respect to the non-discretionary client assets that it manages, Castle Hill is not responsible for arranging or effecting the purchase or sale of specific securities or other investments which Castle Hill may select or recommend for the account.

Castle Hill may in the future provide advisory services, either on a discretionary or non-discretionary basis, to other private funds and managed accounts on behalf of clients.

## ITEM 5 • FEES AND COMPENSATION

### Advisory Fees and Compensation

Castle Hill Funds - All investors should review the Governing Documents for each Castle Hill Fund in conjunction with this brochure for more complete information on the fees and compensation payable with respect to a particular Castle Hill Fund.

The basic fees charged to the Castle Hill Funds are currently a fixed annual management fee equal to 2% of net assets, generally payable monthly in arrears, and an annual performance allocation equal to 20% of the amount by which the net value of each investor’s account as of the end of each calendar year exceeds the net market value of the account as of the beginning of the year.

The management fee is usually deducted directly from the assets of each account as such fees become payable, which is monthly in arrears. The performance allocation is payable annually in arrears, or upon withdrawal of capital from any Castle Hill Fund. Upon termination of any client account, all management fees and performance allocations accrued as of the date of termination will be payable.

Investors and prospective investors in the Castle Hill Funds should note that similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

Managed Accounts - Castle Hill charges each managed account separately negotiated fees which generally include a combination of annual management fees based on the value of assets in the client portfolio (and which may vary according to the type of assets) and performance based fees.

Castle Hill may also participate in a committee of lenders in relation to specific securities held in a client account to which Castle Hill provides investment supervisory services, for which Castle Hill generally charges a fixed fee.

### **Deduction of Fees**

Castle Hill Funds - As disclosed above, the management fee and performance allocation charged to the Castle Hill Funds is deducted directly from the assets of each account.

Managed Accounts - Castle Hill bills its managed account clients directly for fees incurred. Castle Hill does not allow its managed account clients to elect that Castle Hill deduct its fee directly from their account.

### **Other Fees and Expenses**

The clients of Castle Hill are responsible for all costs and expenses incurred in connection with the investments in their accounts, including brokerage commissions; clearing fees; fees, interest and other costs in connection with margin accounts or other borrowings; borrowing charges on securities sold short; custodial fees; bank service fees; costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged by Castle Hill in connection with specific investments (including transactions that fail to close); costs of research and data services; and any legal fees and costs arising in connection with any litigation or regulatory investigation instituted against Castle Hill or any client. The Castle Hill Funds also pay all of their operating costs, including administrative, legal, accounting, auditing and insurance costs and expenses, as described in greater detail in the Governing Documents for each Castle Hill Fund.

The section below titled “**Brokerage Practices**” describes the factors Castle Hill considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

## Timing of Payments

Castle Hill's fees for its investment advisory services are generally payable monthly in arrears. However Castle Hill may charge fees in advance for participating in a committee of lenders in relation to specific securities held in a client account to which Castle Hill provides investment supervisory services.. In such cases, no fee is payable in relation to any period after Castle Hill ceases to participate in such committee.

Please refer to the Governing Documents of the Castle Hill Funds for more complete information on the timing of advisory fee payments for the Castle Hill Funds.

## Transaction-Based Compensation

Neither Castle Hill nor its supervised persons will receive any form of compensation for the sale of securities or other investment products by any client or Castle Hill Fund.

### ITEM 6 • PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

## Performance Fees

Castle Hill ordinarily receives a performance-based fee or a special allocation of profits from each of its clients (including the Castle Hill Funds). Different client accounts may be subject to different performance-based compensation arrangements. The performance-based compensation arrangements comply with Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act").

Performance-based compensation arrangements received by Castle Hill may create an incentive for Castle Hill to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Please refer to the Governing Documents of each Castle Hill Fund for more complete information on the performance-based compensation arrangements of each Castle Hill Fund.

## Side-by-Side Management

Where Castle Hill is entitled to receive a higher percentage of the net profits of the account of one client than the percentage that Castle Hill receives from another client, then Castle Hill may have an incentive to favor, or to allocate certain riskier or more speculative investments to, the client that is subject to the higher percentage. Castle Hill will, as a policy, allocate all investment opportunities among its clients in a manner that it considers fair and equitable to all clients, considering all factors potentially applicable to each client. Among the factors that may be considered by Castle Hill in allocating trades among client accounts are: investment policies, guidelines or restrictions applicable to each specific client; cash availability; liquidity requirements for payment of redemptions or other purposes; risk tolerances; restrictions under ERISA or other applicable laws or regulations; available

credit lines; counterparty arrangements; account size; industry and security weightings; and hedging objectives and activity. In the event investment opportunities are suitable for more than one client account, Castle Hill will allocate such investment opportunities in a manner that is fair and equitable to each client account relative to the other client accounts over time, taking into account all relevant facts and circumstances.

Castle Hill may provide concurrent advisory services to clients that are not charged a performance-based fee or allocation by Castle Hill or a related person and clients that are charged a performance-based fee or allocation by Castle Hill or a related person. As a result, the potential for Castle Hill to receive greater fees or allocations from accounts paying performance-based fees creates a potential conflict of interest with respect to the allocation of investment opportunities, as Castle Hill may have an incentive to direct the best investment ideas to, or to allocate investments in favor of, the account that pays a performance fee or allocation. To alleviate potential conflicts of interest, the allocation of commitments and investment decisions with respect to each client account are made by Castle Hill with respect to all client accounts in accordance with Castle Hill's investment allocation policy.

Castle Hill may also receive fixed fees, generally charged monthly, where it acts as an adviser in connection with the restructuring and sale of certain securities. Such securities may be held by Castle Hill in its clients' accounts or by its related persons.

## ITEM 7 • TYPES OF CLIENTS

### Types of Clients

Castle Hill provides advice to the Castle Hill Funds. The investors in the Castle Hill Funds may include corporations, endowments, foundations, trusts, estates, individuals and pension and profit sharing plans. The Castle Hill Funds are offered in the United States exclusively to investors who qualify as an "accredited investor" as defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and are therefore not required to register as investment companies under the Investment Company Act in reliance upon certain exemptions available to funds whose securities are not publicly offered.

Castle Hill also provides investment management and supervisory services to private funds other than the Castle Hill Funds and other managed account clients which may include its related persons. Castle Hill also acts as an adviser to clients in connection with the restructuring and sale of certain securities. Such securities may be held by Castle Hill in its clients' accounts or by its related persons.

## Minimum Investment Requirements

Generally, investors must invest a minimum dollar amount of US\$100,000 (or its equivalent in foreign currency for foreign currency denominated interests) to invest in each Castle Hill Fund. The board of directors of each Castle Hill Fund may waive the minimum investment amount.

Castle Hill generally requires a minimum initial investment of US\$10,000,000 for managed accounts. However, Castle Hill may accept a lesser initial investment in its sole discretion.

## ITEM 8 • METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

Castle Hill pursues credit investment strategies by investing in a wide range of instruments on behalf of its clients, including listed and unlisted equities, debt securities, loans, bonds, indices, options on indices, derivative contracts, currencies, futures, warrants, swaps and other derivative instruments. Derivatives may be exchange-traded or over-the-counter. Castle Hill may engage in short sales in all of the above.

Castle Hill employs a range of relative value trading and investment strategies to express fundamental and technical credit views and hedge prospective risks. Castle Hill's strategic focus is on long/short credit and event-driven opportunities, including stressed and distressed situations, the shorting of investment grade and high yield debt, capital structure arbitrage, special situations, and deep value situations where Castle Hill believe that there exists a particular catalyst that may release value. The sub-strategies employed by Castle Hill may include one or more of the following:

*Performing Credit.* This sub-strategy focuses on performing, below investment-grade loans and bonds that Castle Hill believes offer a compelling current rate-of-return and limited market-to-market volatility under normal market conditions. Castle Hill looks for companies that have significant asset- or cash-flow coverage relative to the security held in Castle Hill's clients' accounts in order to limit potential downside-risk.

*Relative value.* This sub-strategy is based on fundamental analysis of companies at both the equity and debt level. Within this sub-strategy, Castle Hill may seek to exploit valuation differentials between (a) different companies, (b) different parts of the capital structure of a single company or (c) a single company and its generic market comparables. At different times, Castle Hill may be net long or net short stocks and/or net long or net short credit risk. Options on equities may be purchased or sold to create long or short positions in the underlying equities. Similarly, cash and derivative instruments may be employed to create long and short credit positions. Both debt and equity positions may be held in the same company.

*Event-Driven.* This sub-strategy exploits the expected change in valuation of a security based on a discrete event or series of events. For shorter-horizon trades, the event may involve earnings announcements, perceived capital structure inefficiencies or expected ratings actions.



Longer horizon trades may develop based on expected covenant breaches, mergers and acquisitions activity (including asset acquisitions or disposals), or liquidation. In these situations, Castle Hill will perform fundamental analysis as well as significant analysis of technical and process risk. To validate its analyses, Castle Hill may initiate contact with sell-side analysts, industry consultants, management, private-equity sponsors, restructuring advisors, law firms, lending-group members or steering committee members.

*Distressed.* This sub-strategy entails investment in stressed and distressed debt and other obligations of companies experiencing financial difficulties. Distressed opportunities typically involve companies that are undergoing a debt restructuring process or, in Castle Hill's view, are likely to enter into such a process. Fundamental analysis of each company and its capital structure will be a primary driver of investment decisions. There may be limited diversification in this part of the sub-strategy, and these situations may be less liquid and more difficult to value.

*Equity.* This sub-strategy entails investing in the equity or junior-most security of companies, which may include publicly and privately traded equities. Typically, these investments tend to be in below-investment grade companies that have undergone a restructuring and which the equity investment is the result of a debt-for-equity swap or similar action. Castle Hill may choose to take a long or short position in the equity of a company based on fundamental analysis of cash flows and asset valuations. Furthermore, Castle Hill will typically identify an event or catalyst that will release value.

Castle Hill's investment strategies are largely based on fundamental bottom-up credit research as well as top-down technical market and company analysis. Castle Hill also employs a variety of quantitative techniques in its analysis of companies or investments, including derivative or option based techniques for assessing relative value opportunities and executing those strategies.

Castle Hill's principal sources of information include quarterly and annual reports, personal interviews with directors and officers of portfolio companies, visits to portfolio companies, SEC and other public filings, general industry knowledge, and contacts with other participants in the relevant industry and financial markets. Castle Hill also utilizes a variety of pricing sources which incorporate counterparty prices, trading levels from the market, third party pricing vendors and counterparty derivative pricing.

## **Material Risks**

Although investments in credit strategies may result in significant returns to the clients of Castle Hill, they also involve a substantial degree of risk. Castle Hill generally accepts only clients that are able to bear the financial risk of the investment strategy for an indefinite period of time and are able to sustain the loss of all or a significant part of their investment.

The investment strategy employed by Castle Hill on behalf of its clients involves significant risks. Prospective clients and investors in the Castle Hill Funds should carefully review the risks described in the Governing Documents for the relevant Castle Hill Fund, and should evaluate the merits and

risks of an investment in the context of their overall financial circumstances. The risk factors below are not intended to be exhaustive and should be considered carefully by prospective investors together with the full text of the applicable Governing Document or client agreement.

Credit Risk. The issuers of debt instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine each issuer's ability to make timely payment of interest and principal. In addition, major economic downturns and financial market swings have adversely affected, and could in the future adversely affect, the ability of some issuers to repay principal and pay interest and may increase the incidence of default for debt instruments. Changes in the financial condition of an issuer, changes in general economic conditions, and changes in specific economic conditions that affect a particular type of issuer, can impact the credit quality of an issuer and the value of an issuer's outstanding debt. Lower quality instruments are often considered to be speculative in nature and involve greater risk of default, and tend to be more sensitive to these changes than higher quality instruments.

Interest Rate Risk. A change in interest rates can have a significant effect on any portfolio of fixed income assets. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the currency value of the payment may be linked to then-prevailing interest rates.

Bonds. Castle Hill will invest in bonds or other fixed income securities, including commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. An economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Loans. Castle Hill may invest in loans. Loans may include fixed and floating rate loans arranged through private negotiations between one or more financial institutions and borrowers. Although loans are traded among certain financial institutions, some of the loans that Castle Hill may invest in will be considered illiquid.

Loan Participations. Castle Hill may invest in loan participations. Investment in loan participations involves certain risks in addition to those associated with direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement.

in the event of a default, and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a syndicated loan generally does not have the voting rights, which are retained by the lender. In addition, a loan participant is subject to the credit risk of the lender as well as the borrower, since a loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan. Castle Hill will acquire participations only if the seller of the participation is determined to be creditworthy by Castle Hill.

Hedging Transactions. Castle Hill may utilize financial instruments such as forward contracts, options and swaps for hedging purposes or as part of its trading strategies. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the value of the portfolio positions. Hedging transactions may also limit the opportunity for gain if the value of the portfolio position should increase. The success of Castle Hill's hedging transactions is subject to the movements in the direction of securities prices and currency and interest rates. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Such imperfect correlation may prevent Castle Hill from achieving the intended hedge or expose clients to risk of loss.

Concentration of Investments. A portfolio may at times hold relatively few investments. The result of such concentration of investments is that a loss in any such position could materially reduce the value of the client portfolio.

Distressed Securities. Castle Hill may invest in high yield and distressed securities, loans, private claims and other obligations of highly leveraged companies, bankrupt entities or entities experiencing financial difficulties. Castle Hill may lose a substantial portion or all of its investment in such an entity or may be required to accept cash or securities with a value less than its original investment. It may be difficult to obtain information as to the true financial condition of entities experiencing significant financial or business difficulties. Investments in distressed companies also may be adversely affected by laws relating to fraudulent conveyances, voidable preferences, lender liability and the bankruptcy courts' discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of instruments issued by distressed companies may be subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and ask prices of such instruments may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic values. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Investments in distressed securities made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may involve substantial litigation.

Leverage. Certain investment practices or trading strategies such as investment in financial and commodity futures and in derivative instruments may involve significant leverage. Leverage can be

employed in a variety of ways including direct borrowing, margining, short selling and the use of futures, warrants, options and other derivative products. Generally, leverage is used to increase the overall level of investment in a portfolio. Higher investment levels may offer the potential for higher returns. This may expose an investor to increased risk as leverage can increase an account's market exposure and volatility. The risk of leverage in futures contracts, options warrants and other derivatives is that small movements in the price of the underlying asset or index can result in large losses or profits. Many derivatives are not traded on any exchange, and no assurance can be given that a liquid market will exist for any particular futures contract or other derivative at any particular time. If assumptions made by managers are wrong or if the instruments do not work as anticipated, the relevant portfolio could lose more than if the portfolio had not used such investment techniques.

Short Selling. Castle Hill's investment program may include short selling. Such practice can, in certain circumstances, substantially increase the impact of adverse price movements on a portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the security sold short.

Mortgage-Backed and Asset-Backed Securities. Castle Hill may invest in mortgage-backed securities, asset-backed securities, collateralized debt obligations and other similar instruments representing interests in pools of underlying residential or commercial mortgage loans, commercial loans, lease obligations, or other assets. Payments of principal and interest on the underlying loans are passed through to the holders of mortgage-backed and asset-backed securities over the lives of the securities. The investment characteristics of mortgage-backed and asset-backed securities differ significantly from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly or quarterly, and that principal may be prepaid at any time because the underlying residential or commercial mortgage loans or other assets generally may be prepaid at any time. Early repayments of principal can ordinarily be expected to accelerate during periods of declining interest rates. For certain types of asset pools, such as collateralized mortgage obligations, prepayments may be allocated to one tranche of securities ahead of other tranches, in order to reduce the risk of prepayment for the other tranches. On the other hand, mortgage-backed and asset-backed securities are subject to substantially the same risk of depreciation during periods of rising interest rates as other fixed-income securities. Castle Hill may also invest in derivative mortgage-backed securities, such as principal-only ("POs") and interest only ("IOs") or inverse floating-rate securities, which are more exposed to mortgage repayments, and which therefore generally involve a greater amount of risk. Small changes in repayments can significantly impact the cash flow and the market value of these securities. In addition, particular derivative securities may be leveraged such that their exposure (i.e., price sensitivity) to interest rate and/or prepayment risk is magnified.

Convertible Instruments. Castle Hill may invest in convertible instruments. A convertible instrument is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible debt instruments have characteristics of both fixed income and equity investments. Castle Hill may invest in convertible

instruments that have varying conversion values. If a convertible instrument held by Castle Hill is called for redemption, Castle Hill will be required to permit the issuer to redeem the instrument, or convert it into the underlying stock, and may hold the stock to the extent that Castle Hill determines that such equity investment is consistent with Castle Hill's investment objective.

Forward Currency Contracts. Castle Hill may invest in forward currency contracts with banks, financial institutions or dealers acting as principal. Forward currency contracts may not be liquid in all circumstances, so that in volatile markets, to the extent Castle Hill wishes to do so, it may not be able to close out a position by taking another position equal and opposite to such position on a timely basis or without incurring a sizeable loss. Closing transactions with respect to forward currency contracts usually are affected with the currency trader who is a party to the original forward contract and generally require the consent of such trader. There can be no assurance that Castle Hill will be able to close out its obligations. There are no limitations on daily price moves in forward contracts. Trading of forward contracts through banks is not regulated by any U.S. or foreign governmental agency. Castle Hill will be subject to the risk of bank failure and the inability of, or refusal by, a bank to perform with respect to such contracts.

Futures. Trading in commodity futures and forward contracts and related options involves a high degree of risk. The prices for such contracts and options tend to be very volatile, and may be influenced by changing supply and demand relationships, weather, governmental, agricultural, commercial and trading programs and policies, and world political and economic events. Due to the small amount of margin required, trading in futures involves a high degree of leverage. A relatively small change in market prices, interest rates or other factors may produce a disproportionately large profit or loss. Although Castle Hill ordinarily purchases or sells commodity futures contracts only if there is an active market for each such contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Futures contract prices could move to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

Derivatives. Castle Hill may utilize exchange-traded and over-the-counter futures, swaps, "synthetic" or derivative instruments, certain types of options and other customized financial instruments issued by banks, brokerage firms or other financial institutions. A swap is an agreement between an investor and a financial intermediary whereby cash payments periodically are exchanged between the parties based upon changes in the price of an underlying asset (such as an equity security, an index of securities, or another asset or group of assets with a readily determinable value). For example, an interest rate swap involves one party agreeing to make periodic fixed payments to the other party in return for the other party agreeing to make periodic payments to the first party that vary with the prime rate or another variable interest rate indicator. Swaps and other derivatives are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty. Swaps and other forms of derivative

instruments are not guaranteed by an exchange or clearing house or regulated by any U.S. or foreign governmental authority. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and the account may not be able to enter into an offsetting contract in order to be able to cover its risk. New rules recently adopted in several major jurisdictions may require that certain swaps be traded on exchanges, and may limit the availability of certain types of swaps.

Emerging Markets Securities. Castle Hill may invest in securities of issuers based or with substantial business activities in emerging markets, which involves additional risks not associated with investments in more developed markets. Investments in such markets will be exposed to the direct and indirect consequences of potential political, economic and social changes in such markets. Adverse political changes, or the deterioration of a country's domestic economy or balance of trade, may impact investments within that country. The availability of information about countries in emerging markets, including their economies and the securities of the companies in such countries, may be more limited than in more developed markets. The auditing and financial reporting standards and practices of companies in such countries may not be equivalent to those employed in the United States, Europe or other developed markets. There is generally less government supervision and regulation of private companies and securities in emerging markets than in more developed markets.

Illiquid Investments. Certain investment positions may be or become illiquid. A portfolio may invest in "restricted" or non-publicly traded securities or thinly traded securities. It may not be easy to dispose of such non-publicly or thinly traded securities, and in some cases, there may be contractual restrictions preventing the disposal of securities for a specified period of time. An exchange or regulatory authority may suspend trading in a particular security or contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Such investments may require a significant amount of time from the date of initial investment before disposition.

Prime Broker and Custodian Insolvency. A client portfolio may be at risk of a prime broker or custodian entering into an insolvency procedure. During such a proceeding (which may last many years), the use of assets held by or on behalf of the prime broker and custodian may be restricted. During such a proceeding, especially outside the United States, a client portfolio may be an unsecured creditor in relation to certain assets, and accordingly may be unable to recover such assets from the insolvent estate of the relevant prime broker or custodian in full or at all.

Realization of Profits and Valuation of Investments. Certain assets that are not regularly traded on recognized markets may be difficult to value. Changes in circumstances or market conditions may lead to revaluation of certain assets, which may result in material increases or decreases in the value of a client's portfolio.

Recent Changes in Regulation. Legal, tax and regulatory developments could occur. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced

by the SEC, other U.S. and non-U.S. regulators and self regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The regulatory environment for private funds is evolving, and changes in the regulation of hedge funds and their trading activities may adversely affect the ability of investors to pursue certain investment strategies, the ability to obtain leverage and financing, and the value of certain investments. The U.S. Congress recently enacted sweeping financial legislation (the "Dodd-Frank Act") regarding the operation of banks, private fund managers and other financial institutions, which includes provisions regarding the regulation of derivatives. Many provisions of the Dodd-Frank Act will be implemented through regulatory rulemakings and similar processes over a period of time. The impact of the Dodd-Frank Act, and of follow-on regulation, on certain trading strategies and operations is impossible to predict, and may be adverse.

#### **ITEM 9 • DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Castle Hill does not have any legal or disciplinary information to disclose.

#### **ITEM 10 • OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

##### **Registered Broker-Dealers**

None of Castle Hill or its management persons are registered as a broker-dealer or a registered representative of a broker-dealer. In addition, Castle Hill and its management persons are not affiliated with any broker-dealer or bank.

##### **Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors**

None of Castle Hill or any of its management persons are registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

##### **Relationships with Related Persons**

Castle Hill is a member of, and receives advisory services from, Castle Hill Asset Management LLP ("Castle Hill UK"), an investment advisor formed as a United Kingdom limited liability partnership and which is authorised and regulated by the Financial Services Authority ("FSA") in the United Kingdom.

Brian Bassett and Jaime Vieser, the principals of Castle Hill, are also the controlling members of Castle Hill UK.

As disclosed under **Item 4 • Advisory Business** above, Castle Hill's minority member is a wholly owned subsidiary of Ignis Investment Services Ltd ("Ignis"), a UK investment advisor. Ignis is ultimately controlled by the Phoenix Group which is the ultimate holding company of the Phoenix group of companies, a diversified global financial services group which includes other entities engaged in investment advisory, insurance and related businesses. Ignis is also a client of Castle Hill. Potential conflicting interest or duties may arise as a result of Castle Hill rendering investment advisory services to Ignis.

Employees of Castle Hill and its affiliates may serve as officers, advisors, directors or in comparable management functions for portfolio companies held in Castle Hill's client portfolios, including the Castle Hill Funds, or provide other services to portfolio companies, and may receive compensation in connection therewith. Employees of Castle Hill may also from time to time serve on the board of directors or a creditors committee of a portfolio company, or be given access for other reasons to confidential information relating to companies held in Castle Hill's client portfolios. As a result, Castle Hill may, under certain circumstances, be prohibited for a period of time from recommending or engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on Castle Hill's clients including the Castle Hill Funds.

Pursuant to a Distribution Agreement between Castle Hill and Ignis in relation to the Castle Hill Funds, Ignis may receive fees for the sale of interests in the Castle Hill Funds to investors introduced by Ignis.

Castle Hill may from time to time cause client accounts to hold securities issued by the Phoenix Group.

Castle Hill may purchase different classes of debt or equity securities of the same borrower or issuer on behalf of different clients. These and other investments may be deemed to create a conflict of interest. Castle Hill may be required to take certain actions for some clients with respect to one class of debt or equity that may be adverse to other clients who hold other classes of debt or equity of the same borrower or issuer.

### **Selection or Recommendation of Other Advisers**

Castle Hill does not recommend or select other investment advisers for its clients and receive compensation from such advisers in a manner that would create a material conflict of interest. Castle Hill does not have other business relationships with other advisers that create a material conflict of interest.



<b>ITEM 11 • CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING</b>
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Castle Hill has adopted a Code of Ethics under Rule 204A-1 of the Advisers Act expressing Castle Hill's commitment to ethical conduct. Castle Hill's Code of Ethics describes its fiduciary duties and responsibilities to its clients, and sets forth Castle Hill's (i) policies on receipt of gifts by employees and campaign contributions and (ii) practice of monitoring the personal securities transactions of supervised persons with access to client investment recommendations. Under Castle Hill's Code of Ethics, all supervised personnel have a duty to act only in the best interests of the clients and all potential conflicts and violations of the Code of Ethics must be promptly reported to Castle Hill's Chief Compliance Officer ("CCO"). All supervised personnel must acknowledge the terms of the Code of Ethics annually, or as amended. It is the expressed policy of Castle Hill that no person employed by Castle Hill shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients.

The Code of Ethics contains policies and procedures with respect to personal securities transactions by employees and related accounts that are designed to prevent front-running, scalping, the misuse of inside information and other improper practices. Compliance with the Code of Ethics by Castle Hill, its principals and employees, is the primary method employed by Castle Hill to address the conflicts of interest that arise with respect to these transactions. Among other requirements, the Code prohibits Castle Hill employees from buying or selling any security held in or contemplated for Castle Hill's clients accounts, including investing in a limited offering, private placement or initial public offering (except that certain personnel of Castle Hill may, and do from time to time, invest in interests of the Castle Hill Funds). Additionally, the Code requires all staff to seek prior approval from the CCO (or a designee) for their personal securities transactions (subject to limited exceptions set out in the Code), and to report all of their personal securities transactions and holdings to the CCO. The CCO (or a designee) monitors all transactions by employees in order to ascertain any pattern of conduct which may evidence conflicts or potential conflicts with the principles and objectives of the Code, or other inappropriate behavior.

Castle Hill requires that all individuals act in accordance with all applicable federal and state regulations governing investment advisory practices. Castle Hill's Code of Ethics also includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline or termination.

Castle Hill will provide a complete copy of its Code of Ethics to any person upon request.

Castle Hill may, on occasion, cause one or more of its clients to buy securities from, or sell securities to, other clients of Castle Hill at current market prices, including accounts in which Castle Hill, its principals or employees are investors or in which such persons may have a financial interest due to the payment of a performance allocation to Castle Hill by such client. Where applicable, the consent of the appropriate client (which, in certain circumstances, may be provided by the client's

independent directors) to such transaction will be obtained in accordance with the Advisers Act and related rules.

Castle Hill may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable Castle Hill to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission or other transaction costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. Castle Hill has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which Castle Hill or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which Castle Hill or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

Castle Hill may waive the investment management and performance fees for its employees who invest into the Castle Hill Funds.

## **ITEM 12 • BROKERAGE PRACTICES**

### **Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

Subject to the investment objectives, policies and restrictions of each Castle Hill Fund as set forth in such Castle Hill Fund's Governing Documents, Castle Hill has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Castle Hill Fund or other client, including the selection of, and commissions paid to, brokers.

In selecting broker-dealers to effect securities transactions, Castle Hill seeks to obtain best execution by considering factors including, but not limited to, execution quality, price, the level of service offered, reliability, the size of transaction, liquidity, counterparty risk, credit risk, perceived settlement capabilities and such other factors as Castle Hill considers relevant and beneficial to each client.

### **Research and Other Soft Dollar Benefits**

Castle Hill selects brokers and dealers to execute transactions for client accounts based on the benefits and costs of their services as compared to others in the marketplace. Castle Hill attempts at all times to achieve best execution. Castle Hill may take into account special expertise or capacities of a particular broker as well as research and other services provided to Castle Hill by brokers. Castle Hill does not necessarily solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

Castle Hill may cause a higher commission to be paid to a broker or dealer that furnishes research or execution services than might be charged by another broker or dealer for effecting the same transaction, provided that Castle Hill determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research or investment management-related services provided by such broker or dealer.

Research services provided to Castle Hill by brokers may include written information and analyses concerning specific securities, companies or sectors (whether produced by the broker or a third party); market, financial and economic studies and forecasts (whether produced by the broker or a third party); statistics and pricing services; discussions with research personnel; data bases; and other news, technical and telecommunications services utilized by Castle Hill in the investment management and execution process. Castle Hill does not generally receive any benefits outside the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended, for the use of commissions or “soft dollars” to obtain “research and execution” services. Research services provided by brokers may be used for the benefit of all clients of Castle Hill. Clients may pay higher commissions than are obtainable from other brokers as a result of the consideration of research services as a factor in selecting brokers in addition to commission cost and best execution.

Castle Hill’s use of client brokerage commissions to obtain research services is a benefit to Castle Hill because Castle Hill does not have to produce or pay for such research services. This may result in an incentive for Castle Hill to select or recommend a broker-dealer based, in part, on the interest of Castle Hill in receiving such research services, rather than exclusively on the interest of Castle Hill’s clients in receiving most favorable execution.

### **Broker Client Referrals**

Castle Hill does not select or recommend broker-dealers based on whether it receives client referrals from such broker-dealer.

### **Directed Brokerage**

Castle Hill does not have directed brokerage arrangements with clients.

### **Trade Aggregation**

Castle Hill, through its investment management agreement with each client, makes recommendations for its advisory client accounts or buys and sells investment securities (for discretionary accounts) conforming to the objectives and constraints of the client, and determines the appropriate size and amount of each security to be held.

Castle Hill allocates investment opportunities among the accounts of its clients in a manner which is fair and equitable. Castle Hill may place orders for more than one client account simultaneously. The

proposed allocation of any order placed on behalf of more than one client account is determined prior to placing the order. If all such orders are not filled at the same price, then Castle Hill may cause each account to pay or receive the average of the prices at which the orders were filled for all accounts. If all orders placed for client accounts cannot be fully executed under prevailing market conditions, then the securities traded may be allocated among client accounts on a pro rata basis or in some other equitable manner, taking into account the size of the order placed for each account and any other relevant factors. Such aggregation of orders may not always be to the benefit of a client with regard to the price or quantity executed.

### ITEM 13 • REVIEW OF ACCOUNTS

**Frequency and Nature of Review** - Castle Hill U.K. will periodically monitor portfolio investments on behalf of each client. All accounts are reviewed at least daily by one or more of the following supervised persons for overall weightings of positions, performance and adherence to investment policies:

<u>Supervised Person</u>	<u>Title</u>
Brian Bassett	Chief Executive Officer
Jaime Vieser	Chief Investment Officer

**Content and Frequency of Regular Account Reports** - Each client that is a managed account will receive reports as specified in their individual investment management agreement. Generally, clients will receive a monthly written summary of their account's performance, and key highlights of trading activity.

Each Castle Hill Fund distributes a monthly investment report from the investment manager and annual audited financial statements to their respective investors. Investors in Castle Hill Total Return Fund LLC also receive annual tax information in the form of a Schedule K-1.

Investors are requested to refer to the Governing Documents of each Castle Hill Fund for further information on the reports provided by a particular Castle Hill Fund to its investors.

### ITEM 14 • CLIENT REFERRALS AND OTHER COMPENSATION

#### **Economic Benefits Received from Non-Clients for Providing Services to Clients**

As discussed in **Item 12 • Brokerage Practices**, Castle Hill may receive certain research or other products or services from broker-dealers through "soft-dollar" arrangements. These "soft-dollar" arrangements create an incentive for Castle Hill to select or recommend broker-dealers based on

Castle Hill's interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by Castle Hill on behalf of its clients. Please see **Item 12 • Brokerage Practices** for further information on Castle Hill's "soft-dollar" practices, including Castle Hill's procedures for addressing potential conflicts of interest that arise from such practices.

Castle Hill does not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to Castle Hill's clients, other than from broker-dealers in the form of research services as described above.

### **Third Party Compensation for Client Referrals**

Castle Hill or its affiliates may enter into arrangements with third parties whereby Castle Hill or its affiliates will pay to third parties who introduce clients to Castle Hill or its affiliates a portion of the advisory fee received by Castle Hill or its affiliate from such clients. Such arrangements will be disclosed to Castle Hill's clients in accordance with, and otherwise comply with, Rule 206(4)-3 under the Advisers Act. Such third parties may include affiliates of Castle Hill.

Castle Hill and its affiliates may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to a Castle Hill Fund. Any sales charge associated therewith will ultimately be payable by Castle Hill or its related persons, either directly or through an offset of the management fee payable by the relevant Castle Hill Fund to Castle Hill. An investor will not be charged any additional amount or bear any additional charges as a result of an introduction through a placement agent or other unaffiliated third party. Moreover, as described above, Castle Hill may consider referrals of investors to the Castle Hill Funds in determining its selection of broker-dealers for securities transactions.

As referred to above under **Item 10 • Other Financial Industry Activities and Affiliations**, pursuant to a Distribution Agreement between Castle Hill and Ignis in relation to the Castle Hill Funds, Ignis may receive fees for the sale of interests in the Castle Hill Funds to investors introduced by Ignis.

Castle Hill endeavors at all times to put the interests of the Castle Hill Funds first as part of Castle Hill's fiduciary duty. Nevertheless, the receipt of compensation by the placement agents and the potential receipt of brokerage commissions by broker-dealers creates a potential conflict of interest, and may affect the judgment of placement agents and broker-dealers when making referrals to Castle Hill and the Castle Hill Funds. Moreover, a potential conflict of interest may arise between the interests of the Castle Hill Fund investors in obtaining best price and execution and Castle Hill's interest in receiving future referrals to the Castle Hill Funds. Castle Hill will address this potential conflict of interest by seeking to obtain best execution by considering factors including, but not limited to, execution quality, price, the level of service offered, reliability, experience in liquidating privately placed securities and such other factors as Castle Hill deems relevant and beneficial to the Castle Hill Funds as referred above under **Item 12 • Brokerage Practices**.

#### ITEM 15 • CUSTODY

Castle Hill will not have physical custody of any client assets. Castle Hill may be deemed to have custody of the assets of the Castle Hill Funds as a result of its authority over the Castle Hill Funds.

It is Castle Hill's policy to cause each Castle Hill Fund with assets over which Castle Hill is deemed to have "custody" to be audited annually and distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Castle Hill Fund, Castle Hill will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Castle Hill Fund to all investors promptly after completion of the audit.

#### ITEM 16 • INVESTMENT DISCRETION

Subject to the investment objectives, policies and restrictions of each Castle Hill Fund as set forth in the Governing Documents of such Castle Hill Fund, or any other restrictions agreed with any specific client, Castle Hill has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Castle Hill Fund and client account, including the selection of, and commissions paid to, broker-dealers.

Castle Hill also manages investment accounts for which it does not have ongoing discretionary authority to execute transactions on behalf of the client. A disparity may exist in the share price at which securities are sold for discretionary and non-discretionary accounts. In addition, a disparity may exist between the commissions charged to non-discretionary clients and the commissions charged to clients that have given Castle Hill full discretion. Therefore, non-discretionary clients should be aware that Castle Hill may not be able to maximize the transaction price and/or obtain volume discounts for non-discretionary clients.

Castle Hill maintains policies in respect of trading errors which require that, to the extent that trading errors occurs, they are corrected as soon as practicable. As soon as a trading error is suspected, the CCO should be alerted immediately, who will review the facts and determine an appropriate course of action. The CCO has discretion to resolve a particular error in a manner other than specified in Castle Hill's procedures. Unless otherwise agreed to between Castle Hill and the client, Castle Hill is not responsible for its own errors other than for gross negligence, willful misconduct, reckless disregard of its duties or fraud. Castle Hill is not responsible for the errors of other persons, including third party brokers and custodians, unless otherwise expressly agreed to by Castle Hill. Broker-dealers are not permitted to assume responsibility for trading error losses caused by Castle Hill.

## ITEM 17 • VOTING CLIENT SECURITIES

To the extent Castle Hill has been delegated proxy voting authority on behalf of its clients, Castle Hill complies with its Proxy Voting Policies and Procedures (the “Proxy Voting Procedures”) that are designed to ensure that Castle Hill meets the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act, and reflect Castle Hill’s commitment to vote all client securities for which it exercises voting authority in a manner consistent with the best interest of the client.

When exercising its voting authority over client securities, Castle Hill considers all relevant information, evaluates other issues that could have an impact on the value of the security and votes with a view toward maximizing overall value. Castle Hill votes all proxies in a prudent manner, considering the prevailing circumstances at such time, and in a manner consistent with the Proxy Voting Procedures and Castle Hill’s fiduciary duties to its clients.

Castle Hill reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the client. As a result, depending on the client’s particular circumstances, Castle Hill may vote one client’s securities differently than it votes those of another client, or may vote differently on various proposals, even though the securities or proposals are similar (or identical). In some instances, Castle Hill may determine that it is in the client’s best interest for Castle Hill to “abstain” from voting or not to vote at all, and will do so accordingly.

The Proxy Voting Procedures require that Castle Hill identify any conflicts of interest between Castle Hill and its clients. Prior to exercising its voting authority, Castle Hill reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Castle Hill, its owners, its employees or its related persons, with persons having an interest in the outcome of the vote. If a material conflict exists, Castle Hill will determine whether voting in accordance with the voting guidelines and factors described in the Proxy Voting Procedures is in the best interests of the client or take some other appropriate action.

Clients may obtain a copy of Castle Hill’s Proxy Voting Procedures and information about how it voted a client’s proxies by contacting Lance Larsen, Chief Compliance Officer, by telephone on + 1 (434) 284 4791 or by email at [lance.larsen@c-hill.com](mailto:lance.larsen@c-hill.com).

## ITEM 18 • FINANCIAL INFORMATION

This Item is not applicable.