

# Red Mountain Capital Partners LLC

## Item 1 – Cover Page

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This brochure provides information about the qualifications and business practices of Red Mountain Capital Partners LLC ("Red Mountain", the "Firm", "we" or "us"). If you have any questions about the contents of this brochure, please contact us at (310) 432-0200.

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority. Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Red Mountain also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and our website at [www.redmtncap.com](http://www.redmtncap.com).

## **Item 2 - Material Changes**

This brochure is the initial brochure prepared by Red Mountain to comply with the requirements of Part 2 of Form ADV. Accordingly, this brochure is new, and there is no prior brochure.

In the future, this Item 2 will discuss material changes that have been made to the brochure since its last annual update and provide the date of the last annual update of the brochure.

### **Item 3 - Table of Contents**

Item 1 – Cover Page.....	1
Item 2 - Material Changes .....	2
Item 3 - Table of Contents .....	3
Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation .....	6
Item 6 - Performance-Based Fees and Side-By-Side Management .....	8
Item 7 - Types of Clients .....	10
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9 - Disciplinary Information.....	17
Item 10 - Other Financial Industry Activities and Affiliations.....	18
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	20
Item 12 - Brokerage Practices.....	23
Item 13 - Review of Accounts .....	24
Item 14 - Client Referrals and Other Compensation .....	25
Item 15 – Custody .....	26
Item 16 - Investment Discretion.....	27
Item 17 - Voting Client Securities .....	28
Item 18 - Financial Information .....	30
Item 19 - Requirements for State-Registered Investment Advisors .....	31

#### **Item 4 - Advisory Business**

A. Red Mountain is a Delaware limited liability company founded in 2005. Its managing member is Red Mountain Capital Management, Inc., a Delaware corporation owned 100% by Willem Mesdag. The other members of the Firm are the Mesdag Family Limited Partnership (controlled by Willem Mesdag), Chris Teets and Mark Genender. Mr. Mesdag serves as Managing Partner and Chief Investment Officer (the “Managing Partner”); Mr. Teets serves as Partner and Portfolio Manager; and Mr. Genender serves as Partner and Portfolio Manager (Mr. Mesdag, Mr. Teets and Mr. Genender are referred to in this brochure as the “Partners of the Firm”). Red Mountain comprises an investment team consisting of the Partners of the Firm and three Investment Associates and an operations team consisting of a Chief Operating, Financial and Compliance Officer (the “Compliance Officer”), a Controller, a Senior Fund Accountant, a Compliance Associate and two Operations Associates responsible for investor relations and office management, all under the supervision of the Managing Partner.

Red Mountain Partners, L.P. (the “Fund”) is a Delaware limited partnership. Its general partner is RMCP GP LLC (the “General Partner”), a Delaware limited liability company. Red Mountain is the managing member of the General Partner. The other members of the General Partner are the members of the Firm, certain of their affiliates and a small number of individuals with whom we have personal and professional relationships. Outside investors in the Fund are admitted as limited partners of the Fund (“Limited Partners”). Currently, the Fund is the only client of Red Mountain. Limited Partners are not clients of the Firm, and we do not provide any individualized advisory services to any Limited Partner.

B. As the managing member of the General Partner, Red Mountain provides investment management services to the Fund. We manage the Fund’s investments in accordance with its stated investment objectives, as set forth in the limited partnership agreement of the Fund (as may be amended, modified or supplemented from time to time, the “Limited Partnership Agreement”). The issuers of the securities in which the Fund invests are small cap public and private companies in the United States and Canada, and the securities in which it invests can include common and preferred stocks, warrants, rights, options and debt securities that are senior or subordinated and secured or unsecured. The Fund’s trading strategy may involve various investment techniques, including borrowing on margin and short selling.

C. The primary investment objective of the Fund is to generate excess net returns by making concentrated investments in undervalued companies with a substantial margin of safety and by engaging with the management teams and boards of such companies in order to enhance their value.

Although the Fund is expected to invest in the equity and debt securities of U.S. and Canadian public companies with market capitalizations of \$100 million to \$1 billion, the Limited Partnership Agreement permits the Fund to engage in a wide range of investment activities.

**D.** We do not participate in wrap fee programs.

**E.** Client Assets under Management. (*rounded to the nearest \$100,000*)

**(i)** Discretionary: \$315.1 million as of January 31, 2012.

**(ii)** Non-discretionary: \$0 as of January 31, 2012.

## **Item 5 - Fees and Compensation**

**A.** We are compensated for our advisory services through management fees and performance-based fees (discussed in Item 6) paid by the Fund to the General Partner (which the General Partner, in turn, distributes or allocates to us as its managing member). Please refer to Item 6 for a detailed description of our performance-based fees and the related conflicts of interest such performance-based fees may raise. For the purpose of this Item 5 and Item 6, we treat fees paid by the Fund to the General Partner and distributed or allocated to us as fees payable to us.

Our management fee schedule is as follows:

The Fund will generally pay us an asset-based quarterly management fee equal to 0.25%, 0.3125% or 0.375% (1.0%, 1.25% or 1.5% per annum), depending on the Limited Partner's withdrawal conditions, of the beginning net asset value of each Limited Partner's interest in the Fund, payable in advance at the beginning of each fiscal quarter. In the event capital contributions are made by new or existing Limited Partners in the Fund other than at the beginning of a fiscal quarter, a pro-rata portion of the management fee will be charged for the remainder of such fiscal quarter. In addition, an asset-based quarterly management fee equal to 0.3125% (1.25% per annum) is currently charged to the non-managing members of the General Partner with respect to their indirect interests in the Fund.

We may, in our sole discretion, at any time and from time to time, waive, reduce, defer, assign or otherwise share all or any portion of the management fee.

Additionally, the Partners of the Firm receive compensation, including annual retainers, options and restricted stock units, in connection with their service on the boards of directors of certain of the Fund's portfolio company investments which they assign to the Firm.

**B.** The management fees payable by the Fund to us are deducted (or accrued for deduction) from the Fund's account quarterly in advance in accordance with the Limited Partnership Agreement. Each Limited Partner bears, through reductions in its capital account, the economic burden of the portion of such management fees that is attributable to its interests in the Fund.

**C.** In addition to management fees described above and the performance-based fees described in Item 6 below, the Fund bears all reasonable out-of-pocket costs and expenses (other than the Firm's general overhead expenses described below) incurred in connection with the operation or business of the Fund, including all brokerage costs, custodial fees, fund administration fees, transaction costs, professional fees (including legal and consulting fees) in connection with the activities of the Fund, all external

accounting, audit and tax preparation expenses, all regulatory compliance and filing expenses, all interest expenses, all premiums and other costs and expenses relating to insurance (including directors' and officers' liability insurance and errors and omissions insurance), all costs and expenses relating to the offer and sale of interests in the Fund, all expenses incurred in connection with the Fund's investment activities, including research services, software, travel, correspondence and other expenses incurred in connection with the acquisition, monitoring or disposition of any portfolio investments of the Fund, all expenses relating to communications by the Fund or the General Partner and its affiliates with the Limited Partners, and all costs and expenses of dissolving the Fund, winding up its affairs and terminating its legal existence.

All expenses are deducted from the Fund as incurred. To the extent that we pay any Fund expense, the Fund will reimburse us, unless we expressly waive the right to such reimbursement. We are responsible for our own general operating and overhead costs, including office rent and utilities, payroll or other similar costs, including employee bonuses and benefit plans, telephone, general office supplies and third-party referral fees.

**D.** We do not permit the Fund to pay any fees payable to us before the time such fees are due.

**E.** Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

Red Mountain will be entitled to receive from the Fund, with respect to each Limited Partner, an incentive allocation at the end of each fiscal year of the Fund, unless a Limited Partner makes a withdrawal from the Fund, in which case, the incentive allocation with respect to the withdrawn portion of the Limited Partner's interest will be calculated as of the withdrawal date.

Each Limited Partner is required to elect at the time of investment whether to subject the incentive allocation to an annual hurdle.

If a Limited Partner does not elect to subject the incentive allocation to an annual hurdle, then we will be allocated either 12.5% or 15%, depending on the Limited Partner's withdrawal conditions, of the net profits attributable to the Limited Partner's interest in the Fund after recovery of all amounts reflected in the Limited Partner's loss carry forward account.

If a Limited Partner elects to subject the incentive allocation to an annual hurdle, then, we will be allocated 25% of the net profits attributable to the Limited Partner's interest in the Fund after achieving the hurdle of either 6.5% or 8%, depending on the Limited Partner's withdrawal conditions, and recovery of all amounts reflected in the Limited Partner's loss carry forward account. The hurdle for any allocation period applies only to that period, and no portion of such hurdle for any other allocation period will carry over or be added to the hurdle for any other allocation period.

Incentive allocation allocable to us that are attributable to a side pocket investment that has not yet been disposed (by conversion to cash or marketable securities or otherwise cease to be designated as such during the allocation period) shall accrue (but be tentatively allocated to the Limited Partners instead of to us, subject to reversal and later reallocation to us) until the end of the allocation period in which such disposition occurs.

While incentive allocations are intended to align our interests with those of the Fund and the Limited Partners, performance-based fees may create potential conflicts of interest between us, on the one hand, and the Fund and the Limited Partners, on the other hand. For example, a performance-based fee arrangement may create an incentive for us to make investments on behalf of the Fund that are riskier, more speculative or exhibit more volatility than would be the case in the absence of a performance-based fee. Furthermore, because the incentive allocation charged with respect to the Fund may be based in part on unrealized gains, we may also have an incentive to seek a higher valuation of the Fund's investments, especially of securities with no readily ascertainable market values.



We seek to mitigate these potential conflicts of interests in a number of ways. First, the Partners of the Firm and their affiliates have invested a significant percentage of their net worth in the Fund and, therefore, any gains or losses to the Fund will affect them directly and materially. Second, at least 50% of cumulative incentive allocations are reinvested by the Firm in the Fund, subject to the provisions of the Limited Partnership Agreement. Third, we have established valuation policies and procedures to help ensure that the Fund's investments are valued fairly and accurately. These policies and procedures require the Fund's investments in publicly traded securities to be valued in accordance with publicly available market values and the Fund's private investments at fair value. Finally, in the case of a side pocket investment, the incentive allocation is accrued until the end of any allocation period in which the side pocket investment is disposed or ceases to be designated as such.

Although non-managing members of the General Partner have indirect interests in the Fund and pay a management fee, they are not charged an incentive allocation.

We do not represent that the incentive allocation or the manner of calculating it is consistent with the performance-based fees charged by other investment advisers under the same or similar circumstances. The incentive allocation charged by us may be higher or lower than the performance-based fees charged by other investment advisers for the same or similar services.

We do not currently provide advisory services on a side-by-side management basis.

## **Item 7 - Types of Clients**

The Fund currently is Red Mountain's sole client. We do not, but may in the future, provide investment management services to other clients through separately managed accounts. In the event we do provide such services, each separately managed account will have a negotiated investment advisory agreement based upon the objectives and needs of the client, and each account will be managed in accordance with the terms and conditions of such agreement.

The minimum subscription by a Limited Partner for interests in the Fund is \$5,000,000, unless otherwise permitted by us in our sole discretion. Each Limited Partner is required to be an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act of 1933 (the "Securities Act") and a "qualified purchaser" within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended, or a "knowledgeable employee" within the meaning of Rule 3c-5 under the Investment Company Act of 1940, as amended.

The Limited Partners are primarily institutional investors, including one or more endowment funds, insurance companies, pension funds and family offices.

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

**Small Cap Public Companies.** The Fund invests in small cap public companies in the United States and Canada with market capitalizations between \$100 million and \$1 billion. Small cap public companies typically have relatively simple business models, under-developed financial and strategic opportunities, limited investment research, substandard investment banking coverage, limited institutional investor interest and occasional market dislocations due to lack of information and constrained trading liquidity. These characteristics present opportunities to invest at a discount to intrinsic value and to work with management teams and boards of directors to enhance value. In addition, small cap public companies may have more flexibility to pursue merger, sale or recapitalization transactions than large cap companies, and often have better growth profiles over longer time horizons.

**Value Investments.** Our investment strategy is grounded in classic value investing principles with an emphasis on asset values and earnings power value and an acceptable margin of safety. We look for companies that are trading at a discount to their intrinsic values and have a demonstrated ability to generate returns on capital in excess of their cost of capital. We are also prepared to invest in companies that are in distress or subject to litigation or regulatory pressures that may mask the company's earnings power value.

**Downside Protection.** We seek to invest in securities at a discount to their intrinsic value, *i.e.*, with a margin of safety. In assessing intrinsic value, we focus on tangible aspects of a company's balance sheet and its earnings capacity, and do not rely on forecast driven models such as discounted cash flow analyses. We can enhance downside protection through engagement with management teams to reduce costs, refinance credit facilities, reallocate capital, rationalize businesses or seek strategic alternatives.

**Active Ownership.** We engage with management teams and boards of directors on a collaborative basis. We believe that a constructive approach is the most effective way to influence a company to preserve and create shareholder value, and is consistent with the implementation of long-term value enhancement and realization strategies. However, we are prepared to exercise the Fund's full range of shareholder rights through regular corporate governance channels if circumstances warrant such action.

We engage with companies by: (i) maintaining an active dialogue and developing a value-added relationship with management; (ii) acting as an informal adviser with access to non-public information under a non-disclosure agreement; and (iii) serving on the board of directors and exerting direct influence on the company's operations, strategy and governance. In pursuing our investment strategy, there are trade-offs

between our insider status and the Fund's trading liquidity which we carefully assess and monitor.

We focus on strategic, operational, financial and governance improvements, and have helped certain of the Fund's portfolio companies to:

- develop corporate growth strategies,
- establish performance metrics and objectives,
- improve operating margins,
- understand business segment profitability/contribution,
- implement cost reduction initiatives,
- divest underperforming businesses,
- optimize capital structures,
- establish return on capital discipline,
- raise new capital,
- renegotiate debt facilities,
- identify and analyze acquisition opportunities,
- upgrade management teams and boards,
- develop and improve management incentive arrangements,
- improve corporate governance, and
- improve investor communications.

**Concentrated Portfolio.** The Fund's investments are highly concentrated, and typically consist of stakes in 10 to 15 companies. We believe that portfolio concentration will contribute to excess net returns because the Fund is exposed to those companies in which we have conviction, better information and potential influence. However, a concentrated portfolio of small cap public companies is susceptible to significant market price volatility. We manage this volatility with a deep understanding of each portfolio company's intrinsic value and a balanced mix of companies at different phases in the investment cycle, ranging from toehold early stage investments to mature later stage investments that are poised for realization.

**Market Exposure.** The Fund is long-biased. However, in order to hedge industry exposure, reduce company exposure or take advantage of relative value discrepancies, we will opportunistically initiate paired short sales based upon our insights into the industries and competitive environments in which the Fund's portfolio companies operate.

**Exit Discipline.** We are prepared to exit an investment when its valuation no longer meets our investment criteria, the expected value has been realized, the investment thesis no longer applies, or we are unable to establish or maintain an effective dialogue with management. We regularly evaluate the Fund's investments on the same basis as we evaluate new investment opportunities. Subject to liquidity and legal constraints,

the Fund's investments can be divested through secondary sales in the public market, registered public offerings and strategic sales. We have explicit realization objectives and exit strategies for each of the Fund's investments.

**Idea Generation; Quantitative and Qualitative Screening.** We generate our investment ideas initially through rigorous quantitative screening, focusing on industries and business models we understand. We screen for companies based upon a proprietary scoring model and a number of metrics, including:

- market capitalizations of up to \$1 billion;
- positive historic spreads between ROIC and WACC;
- low price/tangible net worth ratios;
- high free cash flow yields;
- high, sustainable returns on equity;
- robust EBITDA margins;
- consistent/steady revenue, EBITDA and free cash flow growth rates;
- low levels of net debt;
- a history of market share gains;
- acceptable trading liquidity levels; and
- management/insider ownership.

We also seek to evaluate qualitative aspects of each potential investment, such as:

- industry trends and/or growth prospects;
- quality of management team;
- products and/or services that offer a clear and compelling value proposition;
- competitive position and barriers to entry;
- corporate governance structures; and
- value enhancement or realization opportunities.

**Company Research and Due Diligence.** In connection with any potential investment, we conduct our research and due diligence as though the Fund were buying the whole company, including, where practicable and appropriate, in-depth meetings with senior management, on-site facility visits, discussions with industry experts, competitors, suppliers and customers, and reviewing independent research reports. We develop comprehensive financial models to assist in the evaluation of specific value enhancing strategies and refine such models with input from management. We seek to understand the drivers of free cash flow (such as unit economics, product line profitability, switching costs, pricing power and capital expenditure requirements), any special risk factors such as leverage, customer concentrations and unfunded liabilities, and industry dynamics, competitive profile and opportunities for growth and/or consolidation. We consider a company's governance structure and how it could potentially affect our path to influence. We also examine any litigation or regulatory issues, insider trading

activity, and the potential for any fraudulent or aggressive accounting practices. Finally, we use our extensive network of relationships to obtain independent assessments of management, directors and a company's prospects.

**Management Assessment.** We meet with a company's management team to assess its competence, integrity, vision, ability to allocate capital efficiently and to execute its business plan, and receptivity to potential value enhancing or realization strategies. In evaluating a company's management, we carefully consider its interest, willingness and ability to partner with us in the implementation of value enhancing strategies. Such strategies include (i) organic growth strategies, (ii) financial optimization strategies, (iii) corporate restructuring initiatives, and (iv) strategic initiatives, as outlined below:

#### Organic Growth Strategies

- develop multi-year strategic growth plan;
- establish disciplined internal hurdles for returns on capital;
- rationalize business line initiatives to enhance returns on capital;
- reduction of corporate overhead and operational improvements;
- upgrade key management personnel;
- augment board with additional experienced directors;
- restructure management incentive programs;
- establish or improve communication/credibility with institutional investors and research groups; and
- re-invest in new lines of business, marketing or distribution strategies to drive top line revenues.

#### Financial Optimization Strategies

- raise capital to support accretive organic and strategic initiatives;
- restructure balance sheet to optimize cost of capital;
- renegotiate/refinance debt facilities;
- restructure leases;
- execute sale/leasebacks;
- implement a share repurchase program or issue a special dividend; and
- address underfunded liabilities such as pensions.

#### Corporate Restructuring Initiatives

- sale or spin-off of a division or subsidiary;
- close business units or eliminate products with poor returns on capital; and
- asset sales/divestitures.

#### Strategic Initiatives

- acquisitions;

- mergers or industry consolidation strategies; and
- going private transactions.

**Implementation of Investment Strategy; Board Participation.** Our investment strategy is premised upon our ability to work with and influence management teams and boards of directors. There can be no assurance that the management or board of directors of any company in which the Fund invests will agree to our proposed initiatives or that the strategy or strategies that we propose and help to implement will be effective. The success of our investment strategy will require, among other things, that (i) we are able to identify companies the market value of which can be improved through active ownership; (ii) the Fund is able to acquire sufficient ownership of such companies at our target price; (iii) we are able to engage with and influence the management teams or boards of directors of such companies; and (iv) there is a positive market response to any actions taken by such companies following our interaction with them. None of the foregoing elements can be guaranteed to succeed and, in addition, the management or boards of such companies may take defensive or other measures that may erode, rather than increase, shareholder value.

Moreover, successful implementation of our strategy will depend in large part on our ability to establish effective working relationships with the management teams and boards of directors of the Fund's portfolio companies and their ability to implement strategies that enhance value. There is no guarantee that we or the companies in which the Fund invests will be able to achieve these goals. In addition, the Partners of the Firm may seek to serve on the boards of directors of the Fund's portfolio companies, or we may seek to designate one or more directors to serve on such boards. Although such board representation may enhance our ability to influence the governance and management of the Fund's portfolio companies, it may also have the effect of impairing the Fund's ability to sell the related securities or give rise to liability claims against the directors and the Fund. Although portfolio companies typically have insurance to protect directors and officers from such liability, not all portfolio companies are guaranteed to obtain such insurance, and such insurance may be insufficient even if obtained.

**Minority Investments; Limited Control over Portfolio Companies.** The Fund's investments are likely to consist of minority positions in its portfolio companies. Although we may seek board representation, such a role may not be obtained and, even if obtained, we may not be in a position to exert significant influence on the governance or management of a portfolio company. The board of directors of a portfolio company (including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. Each portfolio company's day-to-day operations are the responsibility of such company's management team, and not the responsibility of the board of directors (including any director affiliated with us).

**Risks.** The material risks associated with the Fund's investment strategy include:

- general investment and trading risks, including the risk of loss of capital;
- risks associated with investing in publicly traded securities, including securities law restrictions, suspension of trading on securities exchanges and other circumstances that can limit the Fund's ability to trade in such securities;
- concentration risks, including risks arising from disproportionate exposure of the Fund to any particular issuer, security, industry sector or geographic region;
- volatility risks;
- risks associated with small cap public equities, which often involve higher risks than investment in larger, more stable companies;
- risks associated with fraudulent conduct by the Fund's portfolio companies;
- risks associated with investments in undervalued securities or troubled assets;
- risks associated with large ownership positions in the securities of a public company;
- risks associated with investments in illiquid investments or thinly traded investments;
- risks associated with private investments in public entities;
- risks associated with our possession of material nonpublic information, including restrictions on the ability of the Fund to trade in the securities of an issuer with respect to which we have such information;
- risks associated with any use of leverage by the Fund, including the magnification of losses as a result of such use of leverage;
- risks associated with the use of leverage by the Fund's portfolio companies, including any inability by a portfolio company to generate adequate cash flow to meet debt service;
- risks associated with short sales by the Fund;
- risks associated with any investment made by the Fund in junior securities, debt securities and options;
- risks associated with any hedging activities by the Fund;
- risks associated with changes in interest rates; and
- currency and sovereign risks associated with any investment made by the Fund in Canadian securities.

The Confidential Offering Memorandum for the Fund contains a more detailed discussion of the material risks involved with an investment in the Fund. Each Limited Partner or potential Limited Partner should review the Confidential Offering Memorandum of the Fund thoroughly to understand such risks.

**Investing in securities involves a risk of loss that the Fund and the Limited Partners should be prepared to bear.**



### **Item 9 - Disciplinary Information**

Neither Red Mountain nor any supervised person has been involved in any legal or disciplinary event that is material to a client's or prospective client's evaluation of the Firm's advisory business or the integrity of its management.

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

A. Jack Watkinson, Red Mountain's Chief Financial, Compliance and Operations Officer, is registered as a Financial and Operations Principal (Series 27 Exam) with Bel Air Securities LLC ("BAS"), an SEC registered broker-dealer. Mr. Watkinson has served as the Financial and Operations Principal for BAS since September 2005. Red Mountain has no affiliation with BAS.

Neither Red Mountain nor any of its other employees are registered, or have an application pending to register, as a broker-dealer, principal or a registered representative of a broker-dealer. Mr. Mesdag was previously registered as a General Securities Representative (Series 7 Exam) with Goldman, Sachs & Co. from 1987 to 2002 and as a General Securities Principal (Series 24 Exam) with Goldman, Sachs & Co. from 1991 to 2002. Mr. Teets was previously registered as a General Securities Representative (Series 7 Exam) with Goldman, Sachs & Co. from 2001 to 2005.

B. Neither Red Mountain nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

C. The General Partner is the general partner of the Fund. Red Mountain is the managing member of the General Partner and all members of the Firm are also members of the General Partner. As of January 31, 2012, the General Partner owned approximately 24% of the Fund's net assets.

As previously discussed in further detail in Item 6 above, conflicts of interest between Red Mountain and the Fund may arise due to the receipt of incentive allocations by us based upon the performance of the Fund. The manner in which we address these potential conflicts is discussed in further detail in Item 6 above.

Additionally, because representatives of Red Mountain may serve on the board of directors of a portfolio company in which the Fund invests, conflicts of interest may arise with respect to portfolio company proxy voting. The board of directors of a portfolio company (including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. We will identify any conflicts that may exist between the duties of a Red Mountain director and the interests of the Fund. This examination will also include a review of our affiliation with the portfolio company and any of such company's affiliates to determine if the portfolio company or its affiliates have a conflicting relationship with the Fund or any of its Limited Partners. We will generally vote in accordance with the voting guidelines described in Item 17; however, in each case, we will determine whether voting in accordance with those voting guidelines is in the best interests of the Fund and will act consistent with such best interests.

**D.** We do not recommend or select other investment advisers for our clients or receive compensation from those advisers that creates a material conflict of interest or have other business relationships with those advisers that create a material conflict of interest.

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

**A.** Red Mountain has adopted a formal Code of Ethics which contains provisions designed to prevent and detect improper personal trading and insider trading on behalf of the Fund, identify conflicts of interest and provide a means to resolve any actual or potential conflicts of interest in favor of the Fund.

We do not permit a Covered Person (as defined below) to engage in a transaction in his or her Personal Account (as defined below) involving securities issued by a company in which the Fund has a long or short position, (ii) in which the Fund has previously invested, (iii) of which we are in the process of researching, analyzing or considering buying or selling securities for the Fund, (iv) about which we possess material nonpublic information, (v) the securities of which we have otherwise decided from time to time to prohibit trading, or (vi) for which a Covered Person serves as an officer or director. In addition, with respect to securities that are not covered by the immediately preceding sentence, a Covered Person who is a Red Mountain investment professional may not engage in any transaction in his or her Personal Account involving securities issued by a company with a market capitalization of less than \$1 billion. A Covered Person who is not a Red Mountain investment professional must seek preclearance from the Compliance Officer to engage in a transaction in his or her Personal Account involving securities issued by a company that has a market capitalization of less than \$1 billion. All of Red Mountain and its affiliates, employees, partners, officers, directors, advisers and consultants are considered "Covered Persons." "Personal Account" means any account in which a Covered Person has any beneficial ownership.

Covered Persons are also required to preclear transactions in various types of limited offerings and IPOs and may serve as directors on boards of for-profit companies only after the Compliance Officer has determined that such service would not be inconsistent with the interests of the Fund. Additionally, Covered Persons may not manage accounts for third parties other than the Fund or serve as trustees for third parties unless the Compliance Officer preclears the arrangement and finds that the arrangement will not harm the Fund.

Transactions in securities not requiring preclearance by the Compliance Officer include those in securities that are not on the Restricted List, purchases and sales that are non-volitional on the part of the Covered Person or made pursuant to an automatic investment plan, transactions effected in an account over which a Covered Person has no direct or indirect influence or control, and transactions in securities issued by open-end mutual funds, money market funds, U.S. Treasury Bonds, commercial paper and certificates of deposit.

Red Mountain forbids any Partner of the Firm, officer, director, employee, consultant or affiliate from trading, either personally or on behalf of others, including the Fund, on the basis of material nonpublic information or communicating material nonpublic information to others in violation of the law. We have adopted policies and procedures on insider trading to prevent the misuse of material nonpublic information. For example, prior to the execution of any trade made by Red Mountain for the Fund, a Partner of the Firm must authorize the purchase or sale of a maximum number of securities on or before a specified date. Such trading will be authorized only if the Partner of the Firm believes that the Firm will not be in possession of material nonpublic information on or before the trading termination date. The Compliance Officer will review the documentation of such authorization to ensure that the decision complies with our policies. If any individual becomes aware that the Firm possesses material nonpublic information regarding the prospective investment, then he or she is required to report such awareness and stop trading, even if the trading termination date has not yet occurred.

Upon commencement of employment and annually thereafter, each Covered Person is required to submit to the Compliance Office a summary of holdings in which the Covered Person has a direct or indirect beneficial ownership, the names of any brokerage firms or banks where the Covered Person has an account in which any securities are held, and a description of any business activities in which the Covered Person has a significant role or financial interest. In addition, each Covered Person must submit to the Compliance Officer a quarterly securities transaction report containing information about all transactions in securities in which the Covered Person had any beneficial interest.

Although we do not currently advise a governmental entity, in order to prevent the Firm from becoming accidentally disqualified from accepting investments from public pension funds and other government-affiliated investors, we require Covered Persons to obtain the consent of the Compliance Officer prior to making any political contribution. In addition, Covered Persons are required, upon employment and annually, to report all political contributions to the Compliance Officer.

All Covered Persons are also required to comply with the Firm's gift and entertainment policy.

Covered Persons are required to certify their compliance with the Code of Ethics upon joining the Firm and, thereafter, on an annual basis.

Investors in the Fund or prospective investors may request a copy of our Code of Ethics by contacting us at the address or phone number listed on the cover page of this brochure.

**B.** Neither the Firm nor any related person recommends to the Fund, or buys or sells for the Fund's account, securities in which the Firm or any related person has a material financial interest.

**C.** As described above, the Firm generally restricts Covered Persons from investing in the securities issued by a company in which the Fund has a position.

In connection with their service on the boards of directors of the Fund's portfolio companies, Covered Persons are sometimes granted restricted stock units, stock options or other interests in a portfolio company pursuant to the portfolio company's board compensation practices. The terms and conditions of such grants often include restrictions on the ability of the Covered Person to dispose of the securities while he or she remains on the portfolio company's board of directors. Accordingly, there may be situations where we make trading decisions on behalf of the Fund with respect to a portfolio company when the Firm or one or more Covered Persons owns securities in the portfolio company. We do not believe that the holdings of the Firm or any Covered Person from such grants will materially influence our investment decisions on behalf of the Fund. In addition, we prohibit a Covered Person from disposing of the securities granted to him in connection with any board service or any investment held by the Firm unless the Compliance Officer has determined that the disposition would not disadvantage the Fund.

**D.** As described above, the Firm generally restricts Covered Persons from trading in securities issued by a company in which the Fund has a position or that the Firm is considering buying or selling for the Fund.

## **Item 12 - Brokerage Practices**

A. Red Mountain selects broker-dealers to execute the Fund's security transactions on the basis of best execution in such a manner that the overall benefit to the Fund in each transaction is the most favorable under the circumstances. In deciding what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best overall execution, taking into consideration a number of factors. In seeking best execution, we consider the full range of the broker's services, including but not limited to, commission rate or discount, ability to locate liquidity and minimize market impact, confidentiality considerations and the broker's financial strength and responsiveness. We also take into account research, statistical and other information services provided by the broker. While valued, these services are considered supplemental to our own efforts in the performance of our duties towards the Fund.

1. We currently do not have any formal arrangements with broker-dealers to receive research and other services outside of transaction execution in exchange for commissions from client transactions ("soft dollar" arrangements). However, our executing and prime brokers often provide proprietary and/or third-party research as a benefit to clients utilizing their services. Research services may include information on market trends, the economy, industries, sectors and individual companies; such research may also relate to accounting and tax law interpretations, political analyses, technical market movements and statistical investment risk management. These research services are received primarily in the form of written reports and meetings with security analysts.

2. We do not consider investor referrals from broker-dealers as a factor in selecting prime brokers to execute client transactions.

3. Our only client is the Fund and, in this capacity, we direct the Fund to execute transactions through specified broker-dealers, as outlined above. We do not request or permit the Fund to direct brokerage assets.

B. We currently do not manage other funds or accounts beyond the Fund.

### **Item 13 - Review of Accounts**

A. Red Mountain's operations team reviews the Fund on a monthly basis (consisting of investment valuation, income and expenses, capital activity and performance review), under the supervision of the Chief Operating, Financial and Compliance Officer, to confirm that it is being managed in a manner that is consistent with the Limited Partnership Agreement and all other applicable requirements, guidelines and restrictions. The Fund's investments are reviewed on a continuous basis by members of the investment team including the Partners of the Firm.

B. In addition to the periodic reviews described above, reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings, emerging trends and developments as well as market volatility.

C. As required by the Limited Partnership Agreement, a written report showing the overall performance of the Fund (including a description of the Fund's investment portfolio by industry, market capitalization and market value) is provided to Limited Partners on a monthly basis. In addition, we send to each Limited Partner: (i) quarterly individual investor statements, unaudited balance sheet, profit/(loss) statement and changes in the net asset value, (ii) a quarterly letter discussing the performance of the Fund and other significant developments, (iii) annual financial statements of the Fund, audited by an independent certified public accounting firm, (iv) a Schedule K-1 and other tax information, and (v) such other reports as are determined by us in our sole discretion.

Also, due to the legal or regulatory requirements of some Limited Partners and/or their specific needs and requests, we may, at our discretion, agree to provide such Limited Partners with certain reports in addition to those described above.



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

A. Red Mountain does not receive any economic benefit from anyone who is not an investor in the Fund for providing investment advice or other advisory services to the Fund.

B. From time to time, we use independent third parties to refer investors to the Fund and will pay a portion of our management fees and incentive allocations to such third parties, in accordance with the applicable requirements of the Investment Advisers Act of 1940 (the “Advisers Act”).

### **Item 15 – Custody**

The assets of the Fund are held in accounts at Goldman, Sachs & Co., a qualified custodian who provides account statements to the Fund on a regular basis. However, Red Mountain has the authority to dispose of funds and securities in the Fund and, therefore, is deemed to have custody of client assets under Rule 206(4)-2 under the Advisers Act. We have procedures in place to maintain all assets of the Fund that are not exempt under Rule 206(4)-2 at Goldman, Sachs & Co. Additionally, the Fund is audited annually by an independent public accountant and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all Limited Partners within 120 days after the end of the Fund's fiscal year.

## **Item 16 - Investment Discretion**

Red Mountain, as the managing member of the General Partner, has full discretionary trading authority over the Fund. Our investment discretion is exercised in a manner consistent with the Fund's stated investment objectives in the Limited Partnership Agreement. Limited Partners generally may not place any limits on our authority beyond the limitations set forth in the Limited Partnership Agreement. We do not currently perform advisory services for individual managed accounts.

## Item 17 - Voting Client Securities

Red Mountain has adopted and implemented written policies and procedures that are reasonably designed to ensure that we vote the Fund's securities in a manner consistent with the best interests of the Fund.

We believe that voting proxies in accordance with the following guidelines is in the best interests of the Fund:

- generally, we will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock; and
- generally, we will vote against proposals that make it more difficult to replace members of the company's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, we determine whether they are in the best interests of the Fund and may take into account the following factors, among others:

- whether the proposal was recommended by management and our opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

Additionally, because affiliates of the Firm may serve on the board of directors of a portfolio company in which the Fund invests, conflicts of interest may arise with respect to portfolio company proxy voting. The board of directors of a portfolio company (including any director affiliated with us) has a fiduciary duty to all shareholders as well as other stakeholders in the company. We will identify any conflicts that may exist between the duties of a Red Mountain director to the shareholders and other stakeholders in the portfolio company and the interests of the Fund. This examination will also include a review of Red Mountain's affiliation with the portfolio company and any of such company's affiliates to determine if the portfolio company or its affiliates have a conflicting relationship with the Fund or any of its Limited Partners. We will determine whether voting in accordance with the voting guidelines are in the best interests of the Fund, and will act consistent with such best interests.

Investors in the Fund may contact the Compliance Officer at the address or phone number listed on the cover page of this brochure to request a copy of our proxy voting policies and procedures and information regarding how we voted a particular security.

When deciding to participate in a class action or not, we will make a determination of the costs involved, the potential gains involved, our relative voting power and other circumstances in making the decision. We will weigh the potential gains to the Fund against the respective costs involved.

## **Item 18 - Financial Information**

- A.** We do not require or solicit prepayment of fees six months or more in advance.
- B.** There is no financial condition that is reasonably likely to impair the Firm's ability to meet contractual commitments to clients.
- C.** The Firm has not been the subject of any bankruptcy petition at any time during the past ten years.

## **Item 19 - Requirements for State-Registered Investment Advisors**

This Item is not applicable.