



Alterna Capital Partners LLC

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FORM ADV PART 2

February 2012

This brochure provides information about the qualifications and business practices of Alterna Capital Partners LLC. If you have any questions about the contents of this brochure, please contact Richard Bertkau, the CCO at 203-210-7333 and/or richard.bertkau@alternacapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Item 2. Material Changes

Not applicable, as this is the Firm's initial Form ADV Part 2.

Table of Contents

	<u>Page</u>
Item 1. Cover Page.....	-
Item 2. Material Changes	i
Table of Contents	ii
Item 4. Advisory Business	1
Structure; History and Ownership.....	1
Types of Advisory Services	1
Item 5. Fees and Compensation	1
Fees	1
Expenses	2
Item 6. Performance-Based Fees and Side-by-Side Management	3
Item 7. Types of Clients.....	3
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	3
Methods of Analysis and Investment Strategies	3
Risks Associated with Alterna’s Investment Strategy	4
Item 9. Disciplinary Information	12
Item 10. Other Financial Industry Activities and Affiliations	12
Material Financial Industry Affiliations of the Firm.....	12
Not applicable	12
Conflicts of Interest.....	12
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	14
Code of Ethics.....	14
Item 12. Brokerage Practices	15
Item 13. Review of Accounts.....	15
Item 14. Client Referrals and Other Compensation.....	15
Item 15. Custody	15
Item 16. Investment Discretion.....	15
Item 17. Voting Client Securities.....	16
Item 18. Financial Information	16

Item 4. Advisory Business

Structure; History and Ownership

Alterna Capital Partners LLC is a private equity firm with its principal place of business in Wilton, CT. Alterna Capital Partners LLC will be referred to in this brochure as “Alterna” or “the Firm.”

The Firm is organized as a Delaware limited liability company. The Firm commenced business in 2007 and is now registering with the Securities and Exchange Commission for the first time. The Firm is owned equally by four members: Harry Toll, James Furnivall, Eric Press and Roger Miller (the “Managing Partners”) and in addition to the Managing Partners, Alterna has seven full time employees. Nine persons are located in CT, one is based in IL, and one in CA.

Types of Advisory Services

Alterna is the advisor to Alterna Core Capital Assets Fund, L.P. (the “Fund”), which was launched in December 2007. The Fund is closed to additional investment. At present the Firm provides no other advisory services.

The Firm advises the Fund with respect to investments in Core Capital Assets (sometimes referred to in this brochure as “CCAs”) and in companies with significant CCA ownership, primarily in North America, Europe and countries in other Organisation for Economic Co-operation and Development (“OECD”) regions. CCAs are the long-lived, physical assets or resources that are essential to logistics, operations and production in the following sectors:

- *Transportation*—rail, shipping and aviation assets and transportation facilities;
- *Industrial*—facilities and major equipment for manufacturing, processing, handling and storage; and
- *Energy*—power generation and transmission, conventional and alternative fuel sources and facilities.

A more in-depth description of the Fund’s investment strategy and objectives and related risk factors may be found in the Fund’s Private Placement Memorandum.

Assets Under Management

As of December 31, 2011 Alterna managed \$445,084,280 of committed client assets on a discretionary basis. Alterna does not manage any client assets on a non-discretionary basis.

Item 5. Fees and Compensation

Fees

Detailed information regarding fees is included in the Fund’s Private Placement Memorandum. Because this brochure will only be delivered to qualified purchasers as defined in section 2(a)(51) of the

Investment Company Act of 1940, a complete description of Alterna's compensation arrangements is not required to be included in this brochure.

Expenses

The Fund pays, or reimburses the Firm for its own fees and expenses, including but, not limited to:

- organizational expenses;
- accounting and auditing fees and expenses;
- legal fees and expenses;
- custodial;
- administrative, including fund administration;
- reporting and tax return preparation;
- the Fund's Advisory Committee;
- Fund annual meetings;
- evaluating, making, holding or disposing of portfolio investments, including costs and expenses incurred in connection with the formation of any alternative investment vehicle;
- third party expenses incurred in connection with any prospective portfolio investment that is not consummated (subject to certain limitations that are described in the Fund's Private Placement Memorandum);
- interest on, and fees and expenses relating to or arising from, indebtedness;
- other extraordinary, nonrecurring expenses of the Fund;
- any action, proceeding or investigation with respect to the Fund or investment vehicle in which the Fund becomes involved by reason of its investment program or by reason of the ownership of interests in the Fund by any partner, and the amount of any judgment, arbitration or similar award, settlement, fine or penalty paid in connection with any such action, proceeding or investigation;
- insurance and bonding costs;
- fees (including legal fees) or assessments in connection with any regulatory registrations, qualifications or approvals of the fund or the Firm that Alterna deems appropriate in connection with the activities of the fund;
- the cost of preparation and distribution of reports and statements to investors;
- all transaction costs, including but not limited to legal fees, advisory fees, and costs associated with asset inspection and appraisal;
- such research and portfolio management expenses as the Firm deems appropriate, which may include, but are not limited to, costs of software programs related to investment modeling and screening, expenses incurred in traveling to and attending research conferences and otherwise conducting research activities, costs of research reports, data feeds and databases, news wires and quotation services, periodical subscription fees, and fees of outside consultants and experts; and

- the management fee payable to the Firm.

Item 6. Performance-Based Fees and Side-by-Side Management

The Fund's General Partner may be entitled to be paid a carried interest out of the proceeds of realized investments of the Fund, depending on Fund performance. Alterna does not advise any clients that do not pay performance-based compensation.

Item 7. Types of Clients

Alterna provides investment advice to the Fund and not individually to the Fund's limited partners. The Fund's limited partners are: three US public pension funds, one US state investment fund, one UK public pension scheme and one private fund of funds (which invests through four different legal entities). The Fund is now closed and no further investments will be accepted.

The fund had a minimum limited partner initial investment amount of \$10,000,000.

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

Methods of Analysis and Investment Strategies

The Firm advises the Fund with respect to investments in CCAs and in companies with significant CCA ownership, primarily in North America, Europe and OECD countries in other regions. CCAs are the long-lived, physical assets or resources that are essential to logistics, operations and production in the following sectors:

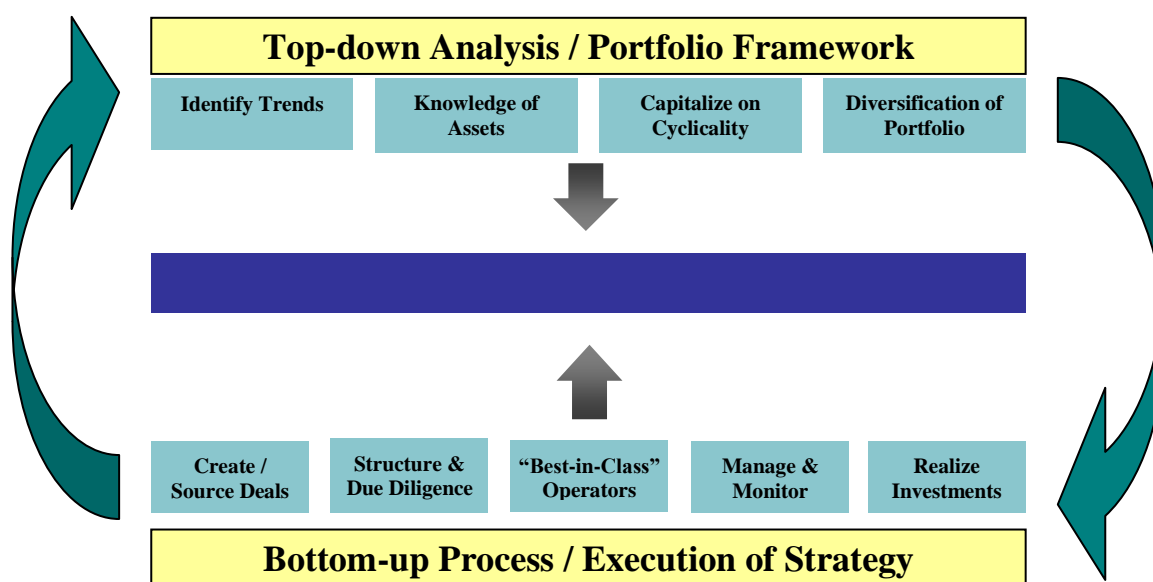
- **Transportation**—rail, shipping and aviation assets and transportation facilities;
- **Industrial**—facilities and major equipment for manufacturing, processing, handling and storage; and
- **Energy**—power generation and transmission, conventional and alternative fuel sources and facilities.

Alterna targets CCA investment opportunities where the Managing Partners have a proven investment track record, and seeks to leverage the Managing Partners' industry experience and relationships, specialized asset knowledge and financial skills to build a diversified portfolio of approximately 8 to 12 high-quality CCA investments. The Fund will generally seek to acquire a controlling equity or equity-equivalent position in each of its investments, either on a stand-alone basis or as part of a group with other investors. Alterna believes that the Fund's portfolio of CCA investments will afford investors attractive risk-adjusted returns from: (a) current cash yield; (b) capital preservation through ownership of strategically targeted long-lived assets; (c) active portfolio and asset management; (d) cash flows with enhanced credit characteristics; (e) financial performance characteristics which are differentiated from the broad equity and debt markets; and (f) multiple exit opportunities.

Alterna anticipates that the Fund's investment returns will be generated by three phases of value creation:

- **Phase One–Acquisition and Structuring.** Upon closing an investment, the Fund will seek to create value by acquiring investments at attractive valuations, and employing structures that lock in cash flows, mitigate risks and monetize some components of value (for example, various types of tax credits or operating rights).
- **Phase Two–Investment Management and Optimization.** Transaction and portfolio returns may be further improved through a variety of management and optimization activities. These may include restructuring of usage agreements, enhancing asset operating efficiencies, upgrading/rebuilding assets, identifying revenue enhancement opportunities (e.g., extending current use agreements and/or placing assets with new users) and restructuring financings.
- **Phase Three–Exit.** Sales of investments to strategic or financial buyers, and initial public offerings of portfolio investments, represent some of the mechanisms for maximizing exit value. In addition, the ability to disaggregate and separately sell the elements of value inherent in CCAs provides flexibility in control over the timing and structure of realizations.

Altera’s investment approach combines both a “*top-down*” analysis, which consists of identifying trends, categorizing assets, capitalizing on cyclicity and portfolio diversification, and a “*bottom-up*” process, which consists of proactively sourcing and creating deal flow, creating value through financial structuring, partnering with “best-in-class” operators, active portfolio monitoring and management, and optimizing realizations. This approach is illustrated below:



Risks Associated with Alterna’s Investment Strategy

Alterna’s investment strategy involves significant risks and is suitable only for investors who are able to independently evaluate the risks and merits of an investment. There can be no assurance that any of the Fund’s objectives will be achieved, or that an investor will receive a return of capital.

GENERAL INVESTMENT CONSIDERATIONS

Risk of Loss. An investment in the Fund entails a high degree of risk with no certainty as to the magnitude or timing of the returns, if any, on a limited partner’s investment. Accordingly, an investment in the Fund is suitable only for investors who are able to bear the risk of loss of all capital invested. No

guarantee or representation is made that the Fund will be able to implement its investment strategy or achieve its targeted returns, or that the overall investment program of the Fund will be successful.

Long-term Nature of Investment; Illiquidity of the Fund's Investments. An investment in the Fund requires a long-term commitment of capital. There may be a significant period of time before the Fund has completed its investment program. The process of searching for and selecting investments and their management and disposition is likely to take several years from the date of the Fund's initial closing. The return of capital and the realization of gains, if any, from investments may not occur until a number of years after such investments are made, if at all. In addition, investments made by the Fund are likely to be illiquid. Illiquidity may result from the absence of an established market for such investments or the underlying CCAs, as well as from legal, contractual or other restrictions on their resale by the Fund. This illiquidity may interfere with the Fund's ability to dispose of its investments or the underlying CCAs in a timely manner or adversely affect the terms of such dispositions. Moreover, distributions to the partners may be made in kind, including in illiquid securities, and losses on unsuccessful investments may be realized before any gains on successful investments are realized.

Risks Upon Disposition of Investments. In connection with the disposition of a portfolio investment, the Fund may be required to make representations about the business and financial condition of such portfolio investment, or may be responsible for the contents of disclosure documents under applicable securities laws. The Fund may also be required to indemnify the purchasers of such portfolio investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which may ultimately have to be funded by the limited partners.

Risks Arising from Exercise of Control Rights. The Fund will generally seek to acquire a controlling interest in each of its investments, either on a stand-alone basis or as part of a group with other investors. Any measures contemplated by the Fund in connection with an exercise of its control rights could expose the assets of the Fund to claims by portfolio companies, their owners (if any) and creditors. These measures also could result in certain liabilities being attributed to the Fund in the event of the bankruptcy or reorganization of a portfolio company. While the General Partner intends to manage the Fund in a way that will minimize the Fund's exposure to such risks, the possibility of successful claims cannot be precluded.

RISKS RELATED TO AN INVESTMENT IN THE FUND

Limited Operating History. The Fund, the General Partner and Alterna are recently formed entities and commenced operations in 2009. Accordingly, there is only limited operating history upon which investors can evaluate the possible performance of the Fund. Additionally, the Firm's Managing Partners have not previously operated a private equity fund together.

Dependence on Key Personnel. The success of the Fund depends in substantial part upon the skill and expertise of the Managing Partners and the other individuals employed by Alterna to assist them. However, there can be no assurance that the Managing Partners will continue to be associated with the General Partner and/or Alterna throughout the life of the Fund, and the loss of one or more Managing Partners or other key personnel could have a material adverse effect upon the Fund.

Competitive Nature of the Fund's Business. The business of the Fund is highly competitive. The Fund will be competing for investment opportunities against other investors, including other private equity funds and hedge funds, large and well-capitalized industrial companies and commercial, investment and merchant banks. Some of these competitors could have financial and strategic resources significantly in excess of those of the Fund, may be willing to provide financing and operational assistance on more favorable terms than the Fund and may make competing offers for investment opportunities that are targeted by the Fund. It is possible that competition for investment opportunities may increase, thus reducing the number of opportunities available to the Fund and adversely affecting the

terms upon which investments can be made. Consequently, there is no assurance that the Fund will be able to consummate investments which will enable it to invest all of its committed capital, to diversify its investments to the extent anticipated or satisfy its return objectives.

General Economic Conditions

The Fund's activities and results may be affected by a number of general economic factors which are outside the control of the Fund or Alterna. These factors include, but are not limited to, interest rates, inflation, general levels of economic activity, the price of securities and participation by other investors in the financial markets. There is no assurance that the financial markets will continue to provide current valuation levels to Core Capital Assets. Instability in the securities, currency, commodity and other markets may also increase the risks inherent in the Fund's investments.

Economic Cycles. Core Capital Assets are vulnerable to local, national and worldwide economic cycles. These cycles could affect the cash flow from investments, as well as the prices at which the Fund purchases or sells its investments or the underlying CCAs.

Interest Rates. Investments in Core Capital Assets may be highly leveraged. As such, movements in the level of interest rates may affect the returns from CCA investments more significantly than investments in other types of assets. A material increase in interest rates and/or risk margins during the term of the Fund could materially and adversely affect the Fund's ability to dispose of its investments on favorable terms.

Price Levels. Inflation may adversely affect the Fund's investments. During periods of rising inflation interest and dividend rates of any instruments issued by the Fund's portfolio companies could increase, which would likely reduce returns to the Fund's limited partners. In addition, certain CCA investments made by the Fund may have fixed income streams, and, accordingly, the value of such investments may decline in periods of rising inflation. Conversely, during periods of deflation, the market value of Core Capital Assets may decline, reducing the Fund's ability to achieve targeted returns upon realization of its investments.

Follow-on Investments. The Fund may be called upon to provide follow-on funding for its existing portfolio companies or have the opportunity to increase its investment in such portfolio companies. There can be no assurance that the Fund will make such follow-on investments or that it will have sufficient funds to do so. Any decision by the Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on portfolio companies in need of such an investment or may diminish the Fund's ability to influence the portfolio company's future development.

Distributions in Kind. Although, under normal circumstances, the Fund intends to make distributions in cash or in marketable securities, it is possible that under certain circumstances (including the liquidation of the Fund), in-kind distributions could consist of securities for which there is not a readily available public market.

Consequences of Limited Partner Default. In the event that a limited partner fails to fund any portion of its capital commitment when due, or otherwise fails to comply with certain provisions of the Fund's limited partnership agreement, such limited partner may be subject to various remedies as provided in the Fund's limited partnership agreement, including forfeiture of a portion of its interest in the Fund. Furthermore, if a limited partner fails to pay any portion of its capital commitment to the Fund when due, and the contributions made by non-defaulting limited partners and borrowings by the Fund are inadequate to cover the defaulted capital commitment, the Fund may be unable to pay its obligations when due, and its ability to execute its investment strategy or to otherwise continue operations may be impaired. As a result, the Fund may be subjected to significant penalties that could materially and adversely affect the returns to the limited partners (including non-defaulting limited partners). A default by a substantial number of limited partners would limit opportunities for investment diversification and would be likely to have a material adverse effect on the Fund's economic results.

Indemnification. The Fund will be required to indemnify the Firm, the General Partner, and their personnel for certain claims, liabilities, costs and expenses incurred in connection with the Fund. Members of the Fund's advisory committee will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the Fund's limited partnership agreement. Some of the liabilities in respect of which the Fund is required to provide indemnification may be material. For example, in their capacity as directors of portfolio companies, employees of the General Partner or the Firm may be subject to certain claims. The indemnification obligations of the Fund would be payable from assets of the Fund, including the unused capital commitments of the limited partners. In addition, if the assets of the Fund are insufficient, the General Partner may recall distributions previously made to the Fund's partners, subject to certain limitations under the Fund's limited partnership agreement.

Credit Support. The Fund may be required to make contingent funding commitments to its portfolio companies and provide credit support for such obligations. Such credit support may take the form of a guarantee, a letter of credit or other forms of promise to provide funding. Such credit support may result in fees, expenses and interest costs to the Fund, which could adversely impact the results of the Fund.

Bridge Financings. From time to time, the Fund may lend to portfolio companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing. However, for reasons not always in the Fund's control, such an issuance of long-term securities or other refinancing may not occur, and such Bridge Financing may remain outstanding. In that event, the interest rate and other terms of such Bridge Financing may not adequately reflect the risk associated with the unsecured position taken by the Fund.

Certain Effects of Default and Bankruptcy. Each of the Fund's portfolio companies or its assets may be pledged to third parties, including senior lenders, and could be foreclosed upon or otherwise acquired by such parties under certain circumstances, including an incipient and/or unremedied default. In the event of the bankruptcy of a portfolio company, prior distributions to the Fund may be reclaimed if such prior payments are determined to have been a "preference" payment under applicable bankruptcy and related laws and regulations.

Investments in Troubled Entities. The Fund may invest in assets or entities that are experiencing operational, managerial, financial or other difficulties which may never be resolved. Investments in these assets or entities will require more extensive time and effort on the part of the Fund and are likely to involve a heightened risk of bankruptcy or liquidation. In such an event, the Fund may be exposed to the risk of legal proceedings of uncertain duration, legal costs of an uncertain magnitude and to the possibility of little or no return on its investment.

Unspecified Use of Proceeds. As of the date of this brochure, the Fund has not consummated all the specific investments that it intends to make. Accordingly, limited partners will not have the opportunity to evaluate for themselves the relevant economic, financial and other information regarding the future investments to be made by the Fund and, accordingly, will be dependent upon the judgment and ability of the General Partner and Alterna in investing and managing the capital of the Fund. No assurance can be given that the Fund will be successful in obtaining suitable investments, or that if such investments are made, that the return or other objectives of the Fund will be achieved.

Broken Deal Expenses. Certain CCA investments may require extensive due diligence activities and regulatory approvals prior to acquisition. Due diligence may include feasibility and technical studies, preliminary engineering and marketing studies, and legal and environmental review, any or all of which may entail significant third-party expenses. In the event that a prospective investment is not consummated, up to \$100,000 of all third party expenses incurred in connection with such prospective Portfolio Investment may be reimbursed by the Fund to Alterna, provided that the aggregate amount of such third party expenses shall not exceed \$2,000,000 in the aggregate.

Lack of Diversification. The Fund will participate in a limited number of investments and, as a consequence, the aggregate return of the Fund may be materially affected by the performance of a single investment.

Lack of Control. A portion of the Fund's investments may represent minority positions in portfolio companies, with limited ability to influence or control such portfolio companies' management. Although the Fund will generally seek appropriate shareholder or similar rights to protect its interests in situations where it holds a minority position, there can be no assurance that such rights will be available or that such rights will always provide sufficient protection of the Fund's interests.

Risks Associated with Cross-border Investments

Investments may be adversely affected by changing political environments, regulatory restrictions, or changes in government institutions and policies in the countries in which the Fund invests or in countries where suppliers and customers of products and services critical to the Fund's investments are located. For example, a sovereign government could choose to expropriate or nationalize Core Capital Assets in an industry. Such action could have a materially adverse impact on the Fund's returns.

Certain of the risks that may be associated with the Fund's cross-border investments are described below. The Fund does not intend to obtain political risk insurance in connection with its investments.

Economic Risks. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments.

The economies of the countries in which the Fund invests may differ favorably or unfavorably from the U.S. economy with regard to the rate of growth of gross domestic product, the rate of inflation, interest rates, capital reinvestment, resource self-sufficiency and balance of payments.

In order to hedge against adverse market fluctuations, the Fund may purchase or write put and call options, and enter into futures contracts or other types of derivative contracts. There can be no guarantee that instruments suitable for hedging market shifts will be available at a time when the Fund wishes to use them or that they will be cost effective.

Legal Risks. Laws and regulations in certain jurisdictions, including those relating to investment and taxation of foreign entities, may be subject to change or evolving interpretation. The Fund's operations and financial performance could be harmed because some countries in which the Fund makes investments may not provide adequate protection for the legal rights of the Fund, including remedies for breach of contract. Further, situations may arise where legal action is pursued in multiple jurisdictions.

Foreign Currency and Exchange Risks. To the extent that the Fund directly or indirectly holds assets in local currencies in countries outside the United States, the Fund will be exposed to a degree of currency risk that may adversely affect its performance. Changes in foreign currency exchange rates may adversely affect the U.S. dollar value of such assets.

In addition, the Fund will incur costs in connection with conversions between various currencies. The Fund may or may not hedge its foreign exchange risk exposure and the cost and effectiveness of such hedging arrangements are unpredictable. The failure to hedge effectively against foreign exchange risk exposure may adversely affect the performance of the Fund.

Accounting Standards. Investments may be made in countries where generally accepted accounting standards and practices differ significantly from those practiced in the United States. The financial information appearing on the financial statements of a company operating in one or more countries outside the United States may not reflect its financial position or results of operations in the way that they would be reflected if the financial statements had been prepared in accordance with U.S. generally accepted accounting principles. These differences may negatively impact the Fund's ability to evaluate potential investments and perform due diligence.

Tax Risks. Changes to tax treaties (or their interpretation) between the United States and the countries in which the Fund invests may adversely affect the Fund's ability to efficiently realize income or capital gains. Moreover, the Fund, its portfolio companies and/or the limited partners could become subject to additional or unforeseen taxation or tax return filing obligations in jurisdictions in which the Fund operates and invests. To the extent possible, the Fund will structure its investments and activities to minimize foreign tax liabilities and reporting obligations. However, there can be no assurance that the Fund will be able to eliminate such tax liabilities or reporting obligations or reduce such tax liabilities to a specified level.

Local Intermediary Risks. Certain of the Fund's transactions may be undertaken through local brokers, banks or other organizations outside the United States, and the Fund may be subject to the risk of default, insolvency or fraud of such organizations. There can be no assurance that any money advanced to such organizations will be repaid or that the Fund would have any recourse in the event of default. The collection, transfer and deposit of bearer instruments and cash may expose the Fund and its portfolio companies to a variety of risks, including theft, loss and destruction. The Fund will also be dependent upon the general soundness of the banking systems of the countries in which it invests.

Restrictions on Repatriation of Capital and Profits. The countries in which the Fund invests may control, in varying degrees, the repatriation of capital and profits that result from foreign investment. There can be no assurance that the Fund will be permitted to repatriate capital or profits, if any, over the life of its activities.

Derivatives. The Fund may invest some of its assets in, or otherwise make use of, derivative instruments such as swaps. Derivatives involve significant transaction costs and are subject to a number of risks, such as interest rate risk, market risk and credit risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate with the underlying asset, rate, or index. Derivatives may also be highly illiquid. Due to these and other risks associated with derivatives, the Fund could lose more than the principal amount invested in any derivative transaction and, thereby, suffer a material adverse effect.

Commodity Risks. The Fund's investments may involve varying degrees of exposure to commodity markets and related risks of price, supply and quality. Commodities such as oil and natural gas are also subject to political risks, such as embargoes, price controls, supply disruptions and taxation, which could adversely affect the performance of the Fund.

Co-investment Risks. The Fund may invest alongside strategic, financial or other third party co-investors. The Fund's ability to achieve its investment objectives in a co-investment situation assumes that the Fund will be able to negotiate and execute mutually acceptable terms and conditions in respect thereof. Such investments will involve additional risks which may not be present in investments which do not involve a co-investor, including the possibility that a co-investor may at any time have economic or business interests or goals that are not consistent with those of the Fund, may be in a position to take action contrary to the Fund's investment objectives or may default on its obligations. While the Fund intends to mitigate these risks contractually through co-investment agreements, there can be no assurance that the Fund will be successful in doing so. Also, such co-investment may or may not be on substantially the same terms and conditions as the Fund, and such co-investments may or may not be disposed of at the same time or on the same terms as dispositions by the Fund. In addition, under certain circumstances the Fund may be liable for actions of its co-investors. To reduce the possibility of liability, the Fund will seek to hold its assets through limited liability entities and, where appropriate, obtain indemnities from its co-investors.

INVESTMENT RISKS ASSOCIATED WITH CORE CAPITAL ASSETS

Illiquid Assets. Most Core Capital Assets have unique geographic and market characteristics, which has the potential to make them highly illiquid or appealing only to a narrow group of investors. Political and regulatory considerations could also affect the ability of the Fund to buy or sell investments on favorable terms.

Customer Base; Counterparty Credit Risk. Core Capital Assets can have a narrow customer base. Should any of the customers or counterparties become insolvent or otherwise fail to pay their contractual obligations, significant revenues could cease and become irreplaceable. This would affect the profitability of the relevant Core Capital Assets and the value of any securities or other instruments issued in connection with such Core Capital Assets.

Availability of Qualified Operators. The success of certain CCA investments may depend heavily upon the operator of the underlying Core Capital Assets. In those cases, there may be a limited number of operators with the expertise necessary to successfully maintain and operate such Core Capital Assets. The loss of an operator in those circumstances could significantly impair the financial viability of the relevant portfolio investment and adversely affect the Fund's returns.

Leverage Risks. The Fund intends to utilize leverage in connection with its portfolio investments. There can be no assurance that the Fund's leverage strategies will be successful or cost-effective. Leverage involves risks and special considerations for limited partners, including:

- the likelihood of greater volatility in the value of the Fund's portfolio investments than a comparable portfolio without leverage;
- the risk that fluctuations in interest rates or dividend rates on leverage instruments issued by the Fund's portfolio companies will reduce the returns to the Fund's limited partners or will result in fluctuations in the amount of current income available for distribution by the Fund;
- the risk that the issuer of a leverage instrument could breach a covenant in the operative agreements governing such leverage instrument, which could give the holder of such instrument the right to prohibit the issuer from paying dividends to its equity holders;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the value of the Fund's portfolio's investments than if the Fund were not leveraged; and
- the likelihood that the use of leverage will also increase expenses borne by the Fund (and indirectly by the Fund's limited partners), including costs and expenses relating to the issuance and maintenance of such leverage and debt service costs (including breakage payable in the event leverage instruments are retired prior to their scheduled maturity date).

Development/Construction Risks. The Fund may invest in early development stage Core Capital Asset projects, which may involve risks of failure to obtain or substantial delays in obtaining: (i) regulatory, environmental or other approvals or permits; (ii) financing; and (iii) suitable equipment supply, operating and offtake contracts. These investments may also involve significant construction-related risks, including the risk of substantial delay or increase in cost due to the factors described in the preceding sentence and other factors, such as: political opposition; delays in procuring sites, labor and materials; strikes and other labor disputes or work interruptions; environmental issues; *force majeure*; and failure by one or more of the project participants to perform in a timely manner their contractual, financial or other commitments. Accordingly, there can be no assurance that these projects will prove to be profitable or generate cash flow sufficient to service their debt or provide a return on or recovery of amounts invested by the Fund therein.

Regulatory Risks. The Core Capital Assets in which the Fund invests may be subject to statutory and regulatory requirements, including those imposed by zoning, environmental, safety, labor, energy and

other governmental authorities. Failure to obtain, or a delay in the receipt of, relevant governmental permits or approvals, including regulatory approvals, and ongoing compliance with regulatory requirements, could hinder the operation of such assets and result in fines or additional costs. Obtaining permits and approvals, and complying with ongoing regulatory requirements, may be costly and/or time-consuming. The adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, could have a material adverse effect on portfolio investments and thus on the Fund's ability to meet its investment objectives. For example, such changes could necessitate the creation of new business models or the restructuring of investments in order to meet regulatory requirements.

Operating and Technical Risks. Investments in Core Capital Assets may be subject to operating and technical risks associated with such assets, including the risk of mechanical breakdown, spare parts shortages, failure to perform according to design specifications, labor strikes, labor disputes, work stoppages and other work interruptions, and other unanticipated events which adversely affect operations. While the Fund will seek investments in which creditworthy and appropriately bonded and insured third parties bear much of these risks, there can be no assurance that any or all such risks can be mitigated or that such parties, if present, will perform their obligations. An operating failure may lead to loss of a license, concession or contract on which a portfolio investment is dependent.

Environmental Risks. An owner of Core Capital Assets may be liable for past and future damages caused by environmental pollutants located on or emitted from or otherwise attributable to the asset, as well as for the costs of remediation and, in some circumstances, fines or other penalties. These liabilities may exceed the value of the owner's investment in such asset, and may result in claims against the owner and certain of its parent entities that would result in the loss of other assets of the owner or such parent entities. While the General Partner will exercise reasonable care to acquire portfolio investments that do not present a material risk of such liabilities, environmental liabilities may arise as a result of a large number of factors, including changes in laws or regulations and the existence of conditions that were unknown at the time of acquisition.

Catastrophic and *Force Majeure* Events; Adequacy and Availability of Insurance. The Core Capital Assets in which the Fund invests may be subject to catastrophic events and other *force majeure* events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, war, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of a portfolio investment or significant down time resulting in lost revenues, among other potentially detrimental effects. While the Fund will seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from such events and other risks customarily covered by insurance, this may not always be practicable or feasible. Moreover, it will not be possible to insure against all such events and risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation. In addition, certain catastrophic loss events may be either uninsurable or insurable at such high rates as to adversely impact the Fund's profitability. For example, in general, losses related to terrorism are becoming harder and more expensive to insure against, and most insurers are excluding terrorism coverage from their all-risk policies. In some cases, insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total cost of casualty insurance. As a result, it is unlikely that any of the Fund's investments will be insured against damages attributable to acts of terrorism. If a major uninsured loss were to occur with respect to a portfolio investment, the Fund could lose both its capital invested in and anticipated profits related to such portfolio investment.

Liability Arising out of Control of Assets. Operation of Core Capital Assets can involve various hazards to operating personnel and other persons and property. Ownership of Core Capital Assets may expose the Fund or its portfolio companies to claims and liabilities arising from these hazards. The costs associated with satisfying any such claims or liabilities may decrease the Fund's returns.

Documentation Risks. Core Capital Asset investments are often governed by a complex series of legal documents and contracts. As a result, the risks of a dispute over interpretation or enforceability of the documentation and consequent costs and delays may be higher than for other investments.

Item 9. Disciplinary Information

None

Item 10. Other Financial Industry Activities and Affiliations

Material Financial Industry Affiliations of the Firm

Not applicable

Conflicts of Interest

General. There may be situations where Alterna, the Managing Partners and their respective affiliates may encounter actual or potential conflicts of interest in connection with the Fund. On any issue involving conflicts of interest, the General Partner of the Fund and the Firm will be guided by their good faith judgment in determining what courses of action are in the Fund's best interests. In the event that any matter arises that the General Partner determines in its good faith judgment constitutes an actual conflict of interest, the General Partner may take such actions as may be necessary or appropriate to ameliorate such conflict of interest, and upon taking such actions the General Partner will be relieved of any and all responsibilities or liabilities for such conflict of interest.

Diverse Membership. The Fund's limited partners include U.S. taxable and tax exempt entities, and institutions from jurisdictions outside of the United States. Such limited partners may have conflicting investment, tax and other interests with respect to their investments in the Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by the Fund, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner, including with respect to the nature, structuring or timing of investments and dispositions, that may be more beneficial for certain limited partners than for other limited partners, especially with respect to limited partners' individual tax situations. In selecting and structuring investments for the Fund, the General Partner will consider the investment and tax objectives of the Fund and its partners as a whole, rather than the investment, tax or other objectives of any limited partner individually.

Management Fee Payable Regardless of Fund Performance. The management fee is required to be paid to Alterna even if the Fund experiences net losses in a particular year or over the term of the Fund.

Carried Interest. The fact that General Partner's carried interest is based on the performance of the Fund may create an incentive for the General Partner to make investments on behalf of the Fund that are more speculative than would be the case in the absence of performance-based compensation.

Fees Earned by Alterna and Affiliates. Alterna and its affiliates may be entitled to receive investment banking, break-up, monitoring, consulting, directors' and other similar fees in connection with portfolio investments or from unconsummated transactions. Limited partners will receive only a portion of the total benefit of such fees.

Other Investment Activities of Alterna and Alterna Personnel. Subject to the limitations contained in the Fund's limited partnership agreement, Alterna and its affiliates may continue to engage actively in other activities, including investment-related activities. In that regard, the Alterna personnel responsible for day-to-day operations of the Fund will devote such time as is reasonably required to conduct the business affairs of the Fund in an appropriate manner. However, these same personnel may also work on other projects; consequently, conflicts may arise in the allocation of management resources.

In addition to the Fund, Alterna may in the future sponsor one or more follow on funds following the same or similar investment strategies as the current Fund. Alterna may also provide Fund investors with the opportunity to co-invest in or provide debt financing for Fund investments. The existence of such present and potential future multiple investment vehicles may create the material conflicts of interest described below.

Time Commitments. Alterna's Managing Partners and employees are not required to commit their full time professional efforts to the Firm. At this time, however, three of the four Managing Partners and all of the other full time employees do devote all of their professional efforts to Alterna. The fourth Managing Partner, Roger Miller, is primarily engaged in Alterna activities, but he also has a limited time commitment as a director of a small, private natural resources company.

New Investment Strategies and Related Products. From time to time, Alterna may determine to develop new investment strategies, with a view toward offering new investment fund products to investors. Such new investment strategies may be similar in certain or many respects to the investment strategies the Firm employs for existing clients, and may involve the purchase and sale of some or all of the securities and investments which comprise the portfolio of the Fund.

Allocation Issues. The existence of multiple funds that generally all invest in the same investments and/or securities can create a material conflict of interest with respect to the allocation of investment opportunities among funds. To the extent that the Firm established additional funds, it would allocate investment opportunities among the funds by applying such considerations as it deems appropriate, including relative size of such investment vehicles, amount of available capital, size of existing positions in the same or similar securities, impact of leverage, investment objective and strategy considerations, including, without limitation, concentration parameters and tax considerations and other factors. As a result of such considerations, allocations among the funds would not necessarily be pro rata. In cases where a limited amount of a security or other instrument is available for investment, the allocation of such instrument among the funds may necessarily reduce the amount thereof available for purchase by the other funds.

Because of differences in timing and the availability of investment opportunities, the net performance of one fund may vary materially from that of other funds for the reasons described above, as well as differing expenses, tax considerations, the impact of leverage and other factors.

Conflicts Regarding Valuations and Other Matters. The Firm determines the fair value of the investments held by the Fund. Currently all of Alterna's investments are Level 3 investments, as pricing inputs are unobservable for the investments, meaning they reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity. As such Alterna is responsible for valuing Fund investments quarterly using its discretion in determining the appropriate means of valuation. The Fund's fair value methodology for its Level 3 investments includes the examination and consideration of many factors. Valuation of investments in Core Capital Assets may take into account 1) any underlying financing contract employed for the Core Capital Asset (including an analysis of the creditworthiness of the underlying obligor), 2) market analysis, including current and projected market conditions and secondary market transactions for similar equipment, 3) the operating

condition of the equipment, including replacement value, 4) financial analysis, including multiples of EBITDA (earnings before interest, taxes, depreciation and amortization), EBITDA with certain adjustments and/or revenue for comparable public companies, and 5) discounted cash flow projections. If there is a subsequent financing or other material shareholder event (including a merger, joint venture or other valuation event) involving a third party investor at a different valuation, the value of the Fund's investment may be marked up or marked down in the quarter in which the transaction is completed. Further modifications may be made for the financial condition of any portfolio company investment, and specific market or company events that impact valuation. Furthermore, in the event Alterna is provided with, or otherwise comes into possession of, information which leads the Firm to determine that one or more valuations of account assets for a prior period are inaccurate, where the Firm is responsible for valuation, Alterna may adjust or amend such prior valuations as it deems appropriate, and adjust or amend any reports or statements of the account (whether or not previously issued) with respect to such prior periods.

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

Code of Ethics

Alterna has established a Code of Ethics ("Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The purpose of the Code is to identify the ethical and legal framework in which Alterna and its personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding Alterna's standard of business conduct. The Code is designed to ensure that all applicable personnel are aware of and adhere to Alterna's policies and procedures. The description below is summary only. A complete copy of the Code will be provided to clients and prospective clients upon request.

Standard of Business Conduct. As a fiduciary, Alterna owes its clients the highest duty of loyalty and relies on its personnel to avoid conduct that is or may be inconsistent with that duty.

Basic Principles. The Code is based on a few basic principles: (i) the interests of Alterna's clients come before its interests and those of its personnel; (ii) the professional activities and personal investment activities of its personnel must be consistent with the Code and avoid any actual or potential conflict between the interests of clients and those of the Firm or its personnel; (iii) the activities of Alterna's personnel must be conducted in a way that avoids any abuse of any such person's position of trust with and responsibility to Alterna and its clients; and (iv) personnel may not engage in any act, practice or course of conduct that would violate the provisions of Rule 204A-1.

Conflicts of Interest. As a fiduciary, Alterna has an affirmative duty of care, loyalty, honesty and good faith to act in the best interests of Alterna's clients. The Firm makes every effort to avoid conflicts of interest and fully disclose all material facts concerning any conflict of interest that may arise with respect to any client. Alterna takes a conservative approach and impose a high standard on the Firm's personnel by stressing that individuals subject to this Code must try to avoid situations that have even the appearance of conflict or impropriety.

Insider Trading. Alterna's personnel may not trade, either personally or on behalf of another, on material non-public information or communicate material non-public information to another person in violation of the law. This policy applies to all of the Firm's personnel and extends to their activities both within and outside their duties at the firm. The Firm has also implemented policies and procedures designed to detect and prevent insider trading.

Personal Securities Transactions. All personnel must comply with Alterna's Personal Account Trading Policy, which provides that investments in initial public offerings or private placements must be pre-approved by Alterna's Chief Compliance Officer ("CCO").

Service as a Director. None of the Firm's personnel may serve as a director of a publicly-held company without prior approval by the CCO based upon a determination that service as a director would not be adverse to the interest of any of the Firm's clients. The Firm may not trade in any securities issued by any company of which any of the Firm's covered persons is a director.

Reporting of Violations. The Firm's personnel are required to report any violation, apparent violation or potential violation of the Code to the CCO.

Review and Enforcement. The CCO is responsible for ensuring adequate supervision over the activities of all persons who act on the Firm's behalf in order to prevent and detect violations of the Code by such persons.

Item 12. Brokerage Practices

Because of the nature of the Fund's investment program, the Firm does not use or recommend broker-dealers.

Item 13. Review of Accounts

Alterna's Managing Partners, Chief Financial Officer, Portfolio Risk Manager and Director of Quantitative Analytics review the status of the Fund investments on a continuous basis. The Fund's audited financial statements are prepared annually and distributed to all investors. In addition, each limited partner receives their audited statement of partner's capital. Unaudited financial statements and statement of partner's capital are prepared quarterly and also distributed to the investors.

Item 14. Client Referrals and Other Compensation

Not applicable.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Alterna has broad investment discretion over the Fund's assets within the strategy described in Item 8. However, Alterna requires approval from a limited partner Advisory Committee (AC) in connection with investments in certain types of securities, investments that involve a conflict of interest and/or investments that exceed certain parameters established in the Fund's limited partnership agreement.

Item 17. Voting Client Securities

The Firm has adopted a Proxy Voting Policy designed to ensure that the Firm complies with the requirements of Rule 206(4)-6 and Rule 204-2 promulgated pursuant to the Investment Advisers Act of 1940, as amended, and fulfills its obligation thereunder with respect to proxy voting, disclosure and recordkeeping. Because of the nature of the Firm's investment advisory activities, it is unlikely that the Firm will be in a position to vote proxies on behalf of any of its clients. In the event that the Firm is in a position to do so, the Firm's objective is to ensure that its proxy voting activities on behalf of its clients are conducted in a manner consistent, under all circumstances, with the best interest of the clients. If the Firm determines that the firm has, or may be perceived to have, a conflict of interest when voting a proxy, the Firm will address matters involving such conflicts of interest on a case-by-case basis.

Investors may obtain a copy of the Firm's Proxy Voting Policies and Procedures, and information regarding how we voted particular proxies on behalf of the accounts, on request.

At present the Fund holds no public securities.

Item 18. Financial Information

Alterna does not require or solicit prepayment of more than \$1,200 in fees from the funds, six months or more in advance, and therefore are not required to include a balance sheet for the Firm's most recent fiscal year.