

***BAG SECURITIES, L.L.C.***

Form ADV Part 2 Brochure  
June 28, 2012

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**Item 1 – Cover Page**

This brochure provides information about the qualifications and business practices of BAG Securities, L.L.C. (“BAG,” “Adviser,” “BAG/Adviser” or “General Partner”).

If you have any questions about the contents of this brochure, please contact us at [Admin@BAGSecurities.com](mailto:Admin@BAGSecurities.com) or (512) 263-8800. The information in this brochure has not been approved or verified by the Texas State Securities Board, United States Securities and Exchange Commission (“SEC”) or by any other securities authorities, and BAG Securities, L.L.C., is not registered under the Investment Advisers Act of 1940.

BAG/Adviser is an investment adviser. Registration as an investment adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, serve as information for you to use to evaluate BAG/Adviser and should be considered in your decision whether to hire or retain BAG/Adviser.

## Item 2 - Material Changes

In the future, this Item 2 will discuss only specific material changes that are made to the brochure and will provide a summary of such changes. We will also reference the date of our last annual update of our brochure.

Adviser will ensure that clients receive a full copy or summary of any material changes to this and subsequent brochures within one hundred and twenty (120) calendar days of the close of Adviser's fiscal year. Adviser may further provide clients with other ongoing disclosure information about material changes as deemed necessary, or provide clients with a new brochure as necessary based on material changes, without charge. Adviser may, at any time, update this brochure and send a copy, or offer to send a copy, by either electronic means (email) or by mail, in its sole discretion.

Adviser's current brochure may be requested by contacting Mr. J. Bolton Walters, the Adviser's Chief Compliance Officer (CCO), at [Admin@BAGSecurities.com](mailto:Admin@BAGSecurities.com) or (512) 263-8800.

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## Item 4 - Advisory Business

Adviser provides discretionary portfolio management services. Adviser's place of business is located in Austin, Texas. The firm was founded in 2011 by its principal direct owners, Robert "Bob" L. Walters, as Managing Director, and J. Bolton Walters, as CCO and a Manager.

As of the date of this brochure, Adviser solely provides portfolio management with respect to Adviser's private pooled investment vehicles ("Fund(s)" or "Client(s)"). Adviser will typically

provide investment management services to each Fund in accordance with the investment guidelines detailed in each Fund's applicable Confidential Private Placement Memorandum (including supplements, if any).

Adviser does not participate in any wrap fee programs.

As of June 28, 2012, Adviser managed \$21,350,000 in discretionary assets (called and uncalled capital commitments). Adviser does not currently manage assets on a non-discretionary basis.

The Adviser is authorized, on behalf of the Funds, to enter into trading advisory agreements with one (1) or more trading advisers, by and among the Funds and/or the Adviser and each trading adviser, and to enter into agreements to directly invest the capital of the Funds into one (1) or more private investment funds controlled by trading advisers ("Trading Adviser Funds"). The Adviser may delegate full and complete day-to-day investing and trading authority to trading advisers; provided, however, that the Adviser may override any investing and trading instructions in accordance with the applicable Confidential Private Placement Memorandum, Partnership Agreement and Trading Adviser Agreements. The Adviser shall be responsible for all compensation paid to trading advisers, and the Adviser shall pay such compensation from the Adviser's capital; and, at no additional expense to the Funds or clients.

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

In general, all fees are subject to negotiation based on the circumstances of each investor and other factors including, but not limited to, the type and size of the account and the type of advisory and client-related services to be provided to the account.

Adviser's portfolio management fees generally range from 0.65% to 1.5% per annum of assets under (asset-based) management. In addition, from time to time, consistent with applicable laws and regulations, including Rule 205-3 promulgated under the Advisers Act, Adviser may negotiate incentive (performance-based) fee arrangements in addition to (or in lieu of) asset-based management fees.

Fees are generally payable either monthly (asset-based) or quarterly (performance-based) in arrears. The specific manner in which fees are charged by Adviser is established in the applicable Confidential Private Placement Memorandum and/or a client's written Subscription Agreement. Adviser does deduct fees from client accounts, and the Fund's independent administrator sends account statements to each client on a monthly basis. Alternatively, in certain cases a client may elect to send payments directly to Adviser based upon the fee calculations (which are audited annually by the Fund's independent certified public accounting firm) computed by the Fund's independent administrator.

Adviser's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the client. Please see Item 12 for further discussion of Adviser's brokerage practices. Clients may incur certain charges imposed by custodians, broker-dealers and other third-parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds also charge internal management and other fees, which are disclosed in a fund's prospectus.

The charges, commissions, fees and expenses described in the preceding paragraph are exclusive of (in addition to) Adviser's fees, and Adviser shall not receive any portion of these charges, commissions, fees and expenses. Adviser does not charge or collect hourly charges, subscription fees, fixed fees, commissions, nor any other compensation not specified in this Item 5.

Adviser does not generally permit or require clients to pay fees in advance. However, if a client and Adviser agree in the future to a fee arrangement that entitles Adviser to receive fees in advance, then upon termination of the applicable investment advisory contract (or partial redemption of an investment), fees will be rebated to the client (or underlying Fund investor, if applicable) as appropriate based on the period during which Adviser actually provided advisory services.

Neither Adviser, nor any of its supervised persons, accepts compensation for the sale of securities or other investment products, such as asset-based sales charges or service fees from the sale of mutual funds.

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

As discussed in Item 5 above, Adviser may negotiate incentive (performance-based) fee arrangements, or may charge a combination of performance-based and asset-based fees.

Performance-based fee arrangements may be viewed as creating an incentive for Adviser to recommend investments which may be riskier or more speculative (carry a higher degree of risk) than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

However, Adviser has adopted and implemented procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Please find below additional information regarding the allocation policy of Adviser.

The allocation policy applies whenever Adviser determines that two (2) or more clients should purchase or sell interests or shares of any security or other investment.

It is Adviser's general policy to allocate purchase or sale opportunities on a *pro rata* basis to all applicable clients, measured by reference to each client's relative net asset value as of the beginning of the month in which the purchase or sale is executed.

Adviser recognizes, however, that a *pro rata* allocation of purchase or sale opportunities will not always be in the best interests of Adviser's clients, or even feasible. Below is a non-exhaustive list of situations where a *pro rata* allocation may not be appropriate, including illustrative examples:

Investment objectives, investment strategy and asset mix of each client: A client may have per-strategy limitations or other investment objectives, strategies, investment policy guidelines, liquidity provisions or restrictions that may dictate a position that is larger or smaller than for other clients.

Varying growth projections: Clients' accounts may be of similar sizes as of a moment in time but may have dramatically different medium-term and long-term growth projections.

Amount of cash available for investment: Certain clients may have limited cash available for investment due to anticipated or unexpected redemptions or other factors. Conversely, certain clients may, for a variety of reasons, have excess cash available for investment.

Possible tax or regulatory ramifications: An investment in a security or other investment may lead to positive or negative tax consequences for certain clients (and/or their investors), which may necessitate a greater or lesser investment in that security or other investment, as appropriate. Similarly, an investment in a security or other investment may not be appropriate for a client for regulatory reasons (such as NASD Rule 2790 regarding "new issues").

Overall risk profile of the client: Variance from a *pro rata* allocation may mitigate certain portfolio risks to which a client may be subject, while not disadvantaging any other clients that seek to make the same investment.

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

Adviser currently provides investment advisory services on a discretionary basis to one (1) private pooled investment Fund: BAG Securities Fund, L.P., a Delaware series limited partnership. Currently, the series ("Series") of this limited partnership include: Series A BAG Diversified Premium, Series B BAG GovPlus, Series C BAG IndexPlus, Series D BAG EquityPlus, Series E BAG Diversified Premium AI and Series F BAG GovPlus AI.

The foregoing Fund and the Series may be referred to herein collectively as the "Fund(s)" or "client(s)." BAG Securities, L.L.C., a Texas limited liability company ("General Partner"), is the general partner of the Fund. The Fund, and each Series, is further described in the applicable Confidential Private Placement Memorandum.

Limited partners in the Fund are required to complete and submit a subscription agreement binding them to the terms of the Fund's governing documents. Except in limited circumstances and in the discretion of the Adviser, the Fund generally only admits "accredited investors," as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended, and "qualified clients," as defined in Rule 205-3 under the Advisers Act. Generally, the minimum commitment by a limited partner is \$1 million, although Adviser as the general partner may accept commitments of lesser amounts in its sole discretion.

Investors in Adviser's Fund are all based in the U.S. and may include:

- Community bank holding companies;
- Community bank trust departments (and their clients);
- Community bank benefit plans including 401(K) plans and KSOPs;
- Senior community bank officers and directors;
- High net worth individuals and families;
- Foundations and charitable organizations;
- Trusts and estates;
- Insurance companies; and/or

- Businesses and corporations, and investment partnerships and entities.

All investors are subject to applicable suitability requirements.

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

Adviser offers several principal investment strategies as described below. Any particular client account may utilize one (1) or more of the investment strategies described below. Investing in securities involves the risk of loss, including principal, which clients should be prepared to bear.

At the current time, the Adviser will focus on one (1) or more of the following strategies:

1. For Series A BAG Diversified Premium and Series E BAG Diversified Premium AI the Investment Strategy is designed to identify and exploit inefficiencies in securities and other instruments while minimizing downside exposure and market risk through investment in non-correlated, risk-mitigation techniques. Two principal strategies are involved:

a. Volatility arbitrage through the identification of mispriced securities including, but not limited to, stocks, bonds, options, futures and other derivative instruments (including both exchange-traded and over the counter). The techniques expected to be employed include both directional and non-directional long and short positions. Examples of derivatives utilized include, but are not limited to, derivatives on the S&P 500 Index, Russell 2000 Index, non-U.S. exchanges, U.S. Treasury Bond Index, currencies, commodity and individual stock derivatives.

Volatility arbitrage is quantitative, and trading advisers utilize proprietary mathematical models to value securities as well as manage risks. Trading advisers also use a rigorous fundamental analysis of the current macroeconomic environment.

b. The core investments in the fixed-income portion of the principal strategy includes a portfolio of short duration (5 years or less) direct obligations of the U.S. Treasury and obligations issued by U.S. government agencies and instrumentalities, including securities that are supported by the United States.

2. For Series B BAG GovPlus and Series F BAG GovPlus AI the Investment Strategy is designed to achieve consistent monthly incremental returns in excess of the Barclays 1-3 year government bond index. Two principal strategies are involved:

a. Volatility arbitrage through the identification of mispriced put and call options on the S&P 500 Index. Volatility arbitrage is quantitative, and trading advisers utilize proprietary mathematical models to value securities as well as manage risks. Trading advisers also use a rigorous fundamental analysis of the current macroeconomic environment.

b. The core investments in the fixed-income portion of the principal strategy includes a portfolio of short duration (5 years or less) direct obligations of the U.S. Treasury and obligations issued by U.S. government agencies and instrumentalities, including securities that are supported by the United States.

3. For Series C BAG IndexPlus the Investment Strategy is designed to achieve positive, long-term returns in excess of the S&P 500 Index. The core Investments will be futures contracts on the S&P 500 Index. It is also possible that the Series will invest in other S&P 500 Index-related Investments such as Exchange Traded Funds, including iShares and Standard and Poor's Depositary Receipts relating to the S&P 500 Index. Additionally, short-term European style options contracts on the S&P 500 Index may be sold (and which are not expected to be exercised).

4. For Series D BAG EquityPlus the Investment Strategy is designed to achieve positive, long-term returns in excess of the S&P 500 Index. Two principal strategies are involved:

a. Volatility arbitrage through the identification of mispriced put and call options on the S&P 500 Index. Volatility arbitrage is quantitative, and trading advisers utilize proprietary mathematical models to value securities as well as manage risks. Trading advisers also use a rigorous fundamental analysis of the current macroeconomic environment.

b. High-income/dividend paying securities such as Master Limited Partnerships, preferred stocks or other stocks with stable dividends, Exchange Traded Funds, equity options on individual securities and/or Indexes including, but not limited to, the S&P 500 Index, may be utilized. Fixed-income securities and/or other instruments may also be used as defensive measures.

## **Risk Factors**

Prospective investors should give careful consideration to the following risk factors (not exhaustive), and the risk factors contained in the applicable Confidential Private Placement Memorandum, in evaluating the merits and suitability of an investment in the Fund:

- Markets may move significantly and such moves may be detrimental to the Fund. A significant risk related to the Fund's enhancement strategy is that the value of a financial instrument on which an option is written could move significantly, and thereby causing the options written by the Fund to be "in-the-money" at expiration date. Although the Fund will generally seek to mitigate this risk by changing the strike prices of the option contracts, thereby reducing the probability of that instrument exceeding those respective strike prices, there can be no guarantee that the Fund will be successful in this strategy.
- The profitability of a significant portion of the Fund's investment programs depend to a great extent upon correctly assessing the future course of the price movements and volatility of the securities markets, bond markets and other investments. There can be no assurance that the Fund will be able to accurately predict these price movements. With respect to the investment strategies utilized by the Fund, there is always some, and occasionally a significant, degree of market risk.
- Many of the investments are expected to be dependent in some manner on the U.S. bond markets, including Treasury instruments. Deterioration of U.S. bond markets and other economic fundamentals could negatively impact the performance of the Fund.

- The Fund expects to invest in fixed-income and adjustable rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities.
- The values of equity securities held by the Fund are subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. The value of the Interests increase and decrease, reflecting fluctuations in the value of securities held by the Fund.
- The Fund will engage in short-selling, both as part of a general investment strategy and for hedging purposes. Short-selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short-selling may allow the Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. The Fund's obligations under its securities loans are marked to market daily and collateralized by the Fund's assets held at the broker-dealer, including its cash balance and its long securities positions. Because securities loans must be marked to market daily, there may be periods when the securities loan must be settled prematurely, and a substantial loss may occur.
- Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes the Fund to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.
- The Fund may invest in the securities of non-U.S. issuers (whether traded in the U.S. or overseas securities markets). Investment in non-U.S. issuers or securities principally traded outside the United States may involve certain special risks due to economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities. Furthermore, issuers of non-U.S. securities are subject to different, and often less comprehensive, accounting standards and disclosure requirements than domestic issuers. The securities of some foreign governments and companies, and foreign securities markets, are less liquid and at times more volatile than comparable U.S. securities and securities markets. The foregoing risks associated with non-U.S. investments are even greater in emerging markets.



- Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one (1) or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with writing derivative instruments. For example, because many derivatives provide significantly more market exposure than the premium received when the transaction is entered into, an adverse market movement can expose the Fund to the possibility of a loss exceeding the original premium received. Derivatives may also expose the Fund to liquidity risk, as there may not be a liquid market within which to close or cover outstanding derivatives contracts, and/or the cost of closing or covering an outstanding contract can exceed the original premium received.
- In entering into futures contracts and options on futures contracts there is a credit risk that a counterparty will not be able to meet its obligations to the Fund. The counterparty for futures contracts and options on futures contracts traded in the United States, and on most foreign futures exchanges, is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the nonperformance by one of its members and, as such, should significantly reduce or eliminate this credit risk.
- Gains and losses on futures contracts are marked-to-market daily for purposes of determining margin requirements. Option positions generally are not, although short option positions will require additional margin if the market moves against the position. Due to these differences in margin treatment between futures and options, there may be periods in which positions on both sides must be closed down prematurely due to short-term cash flow needs. Were this to occur during an adverse move in the spread or straddle relationships, a substantial loss may occur.
- Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract or an option on a futures contract can vary from the previous day’s settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, and thereby preventing the successful liquidation of unfavorable positions.
- Each exchange on which futures are traded typically has the right to suspend or limit trading in the contracts traded on the exchange. Such a suspension or limitation could render it impossible for the Fund to liquidate its positions, and thereby exposing the Fund to losses. In addition, there are no guarantees that exchange and other secondary markets will always remain liquid enough to close out existing futures positions. It is also possible that an exchange or the Commodity Futures Trading Commission could order the

immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

- Although the Fund will not borrow for investment purposes, the low margin deposits normally required in futures contract trading (typically between 2.0% and 25.0% of the value of the contract purchased or sold) and/or portfolio margin permit an extremely high degree of economic leverage. Accordingly, a relatively small price movement in a contract may result in immediate and substantial losses to the Fund. Like other leveraged investments, any trade may result in losses in excess of the amount invested.
- The markets in which the Fund intends to invest are extremely competitive. In pursuing its investing methods and strategies, the Fund will compete with large investment advisory and private investment firms, as well as institutional investors and, in certain circumstances, market-makers, banks and broker-dealers. In relative terms, the Fund has little capital and may have difficulty in competing in markets in which its competitors have substantially greater financial resources, larger research staffs and more investment professionals than the Adviser (or its trading advisers) has or expects to have in the future. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which an investment may be purchased by the Fund and the price it expects to receive upon consummation of the transaction. In addition, competition in the writing of options may decrease the premiums that can be generated on option sales.
- While the investments made by the Fund may typically be readily liquidated, the Fund may not be able to sell such investments at prices that reflect the Fund's assessment of their value or the amount paid for such investments by the Fund. The Partnership Agreement for the Fund authorizes the Fund to make distributions in kind in lieu of or in addition to cash.
- Institutions, such as a prime broker, broker-dealer or various banks, may hold certain Fund assets in "street name." Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Fund.
- Writing options can provide a greater potential for loss than an equivalent investment in the underlying asset. Where an option is written or granted (i.e., sold) uncovered (as will usually be the case), the seller may be liable for a risk of loss which is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. The Fund's options strategy depends on these factors combining to allow the options to expire unexercised.
- All decisions with respect to the overall management of the Fund will be made exclusively by the General Partner. Except as specifically provided in the Partnership

Agreement or applicable law, Limited Partners shall have no right or power to take part in the management of the Fund.

- The General Partner and/or trading advisers will make substantially all of the trading and investment decisions of the Fund. Limited Partners will have no right or power to take part in the trading and investment decisions of the Fund.
- The Fund's investment performance will be substantially dependent on the services of Robert "Bob" L. Walters, J. Bolton Walters and any trading advisers and/or consultants retained by or on behalf of the Fund. In the event of the death, disability or departure of Messrs. Walters or any trading advisers and/or consultants, the business of the Fund may be adversely affected.
- The Fund may enter into separate agreements with certain investors, such as those affiliated with the Adviser (or trading advisers) or those deemed to involve a significant or strategic relationship, and may waive certain terms, or allow such investors to invest on different terms than those specifically described in this brochure or applicable Confidential Private Placement Memorandum, including terms related to fees, liquidity or depth of information provided to such investors concerning the Fund. Under certain circumstances, these agreements could create preferences or priorities for such investors. In addition, the Adviser may, through a separate fund or otherwise, specifically allocate capacity with respect to some of the Fund's investments to clients or investors who desire increased exposure to such investments.
- The Fund may offer investors additional or different information and reporting than that offered to other investors. Such information may provide the recipient greater insights into the Fund's activities than is included in standard reports to investors, thereby enhancing the recipient's ability to make investment decisions with respect to the Fund.
- The Performance Allocation may create an incentive to make investments that are riskier or more speculative than would be the case in the absence of the Performance Allocation.
- There are restrictions on withdrawals from the Fund (which may be settled in securities rather than cash) and on transfers of Interests. The prior written consent of the Adviser will be required for a transfer of the Interest of any Limited Partner. Because of the restrictions on withdrawals and transfers, an investment in the Fund is a relatively illiquid investment and involves a high degree of risk. A subscription for Interests should be considered only by persons financially able to maintain their investment and who can accept a loss of all of their investment.
- The Fund and the Adviser have limited operating histories. The past investment performance of the Fund, the Adviser or the Adviser's principals (or trading advisers) may not be construed as an indication of the future results of an investment in the Fund.
- There may be periods where the Fund will be unable to fully implement its investment strategies. For example, although it is intended that the Series portfolios will be

constructed as described in the offering materials, there are no assurances that the Series portfolios will maintain this structure at all times (e.g., during periods of market instability). During any such periods, the Fund's ability to seek and achieve its investment objectives may be impaired.

- While the Fund may be considered similar to an investment company, the Fund is not required to register as an investment company and has not registered as such under the Investment Company Act or the laws of any other jurisdiction and, accordingly, the provisions of such statutes (which may provide certain regulatory safeguards to investors) are not applicable. For example, the Fund is not required to file reports and statements with the SEC as are registered investment companies. Another difference is that the Fund is not required to maintain custody of its own securities or to place its securities in the custody of a bank or a member of a U.S. securities exchange, as required of registered investment companies under SEC rules. A registered investment company which places its securities in the custody of a member of a U.S. securities exchange is required to have a written custodian agreement, which provides that securities held in custody will be at all times individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company. The Fund's assets will generally be maintained in accounts at brokerage firms that do not separately segregate such assets as would be required in the case of registered investment companies. Under the provisions of the U.S. Securities Investor Protection Act, the bankruptcy of any such brokerage firms might have a greater adverse effect on the Fund than would be the case if the Fund's assets were held in accounts meeting the requirements applicable to registered investment companies.

## Tax Risks

- The Fund should be classified as a partnership for federal tax purposes. Each Partner must take into account its allocable share of the partnership items of the Fund. The Fund, like all entities classified as partnerships for federal tax purposes, is subject to a risk of audit by the Internal Revenue Service ("Service"). Any adjustments made to the Fund's information return as a result of such an audit might result in adjustments to the Partners' tax returns, with respect not only to items related to the Fund but also to unrelated items. Furthermore, federal, state and local tax laws are subject to change, and Limited Partners could incur substantial tax liabilities as a result of changes thereto. Finally, various aspects of income taxation, including federal, state and local taxation, and the alternative minimum tax, produce tax effects that can vary based on each taxpayer's particular circumstances. **THEREFORE, INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS TO DETERMINE THE TAX EFFECTS OF AN INVESTMENT IN THE FUND, ESPECIALLY IN LIGHT OF THEIR PARTICULAR FINANCIAL CIRCUMSTANCES.**
- The Fund does not intend to make distributions with respect to Interests. Therefore, a Limited Partner should not rely on distributions from the Fund to cover the Limited Partner's tax liability associated therewith, if any. Instead, a Limited Partner will need to redeem its Interest's to realize the value of its investment.

- The Service could challenge the deductibility of expenses the Fund incurs, including the Management Fee, for several reasons, including that those expenses constitute capital expenditures that, among other things, should be added to the Fund's cost of acquiring its investments and amortized over a period of time or held in suspense until the Fund liquidates or dissolves. In addition, certain expenses the Fund incurs, including the Management Fee, may constitute "miscellaneous itemized deductions," the deductibility of which by individual taxpayers is subject to a separate limitation as well as an overall limitation on itemized deductions. In this regard, the Service also could attempt to challenge any allocation to the Adviser pursuant to the Performance Allocation and instead try to treat amounts distributed with respect thereto as a management fee. If the Service were to prevail in such position, the Limited Partners would be allocated the profits otherwise allocable to the Adviser and their ability to deduct the amounts recharacterized as a fee could be disallowed or limited as described above.
- The Fund does not intend to borrow for investment purposes, but the Fund's investment strategies may change and the Fund may do so in the future. Any such borrowing will cause the Fund to have "debt financed property" which may result in Unrelated Business Taxable Income (UBTI) to tax-exempt Limited Partners. Accordingly, an investment in the Fund may not be appropriate for tax-exempt organizations.

### **Potential Conflicts of Interest**

- The Adviser may manage other client accounts, including other collective investment vehicles which may be managed by the Adviser or any of its affiliates (if any) and in which the Adviser or any of its affiliates may have an equity interest. Any of these other client accounts may have objectives similar to that of the Fund.
- The Fund's Partnership Agreement requires that the Adviser act in a manner that it considers fair, reasonable and equitable in allocating investment opportunities, but does not otherwise impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunities or any restrictions on the nature or timing of investments for the account of the Fund and for the Adviser's own account or for other accounts which the Adviser may manage. The Adviser is not obligated to devote any specific amount of time to the affairs of the Fund and is not required to accord exclusivity or priority to the Fund in the event of limited investment opportunities arising from the application of speculative position limits or other factors.
- If a trading adviser determines that it would be appropriate for the Fund and one (1) or more other investment accounts sub-managed by the trading adviser to participate in an investment opportunity, the trading adviser will seek to execute orders for all of the participating investment accounts on an equitable basis. If the trading adviser has determined to invest at the same time for more than one of the investment accounts, the trading adviser will generally place combined orders for all such accounts simultaneously and if all such orders are not filled at the same price, the trading adviser will generally average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, the trading adviser will allocate the trade among the different accounts on a basis that it considers equitable. Situations may

occur where the Fund could be disadvantaged because of the investment activities conducted by the trading adviser for other investment accounts.

- The professionals of the Adviser and trading advisers, as well as employees, partners, directors and managers thereof and of organizations affiliated with either of them (if any), may buy and sell securities for their own account or the account of others, but may not buy or sell for their own account any security that has the same CUSIP as a security that is bought or sold for the Fund's account and may not buy securities from, or sell securities to, the Fund.

### **Special Risks of a Fund of Funds or Trading Adviser Structure**

- Certain risks exist due to the fact that the Fund may invest in one (1) or more private investment funds ("Trading Adviser Fund") controlled by trading advisers, as further described in the Confidential Private Placement Memorandum.

\* \* \* \*

In view of the foregoing considerations, an investment in the Fund is suitable only for investors who are capable of bearing the relevant investment risks and a complete loss of their investment.

Clients should refer to the investment management agreement and related investment guidelines and restrictions or, in the case of pooled investment vehicles, to the Fund's offering materials for a more detailed discussion of applicable risks. The risks contained herein, or in the applicable Confidential Private Placement Memorandum, are not exhaustive.

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

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Adviser or the integrity of Adviser's management.

Adviser does not have any legal, financial or other "disciplinary" item to report, and neither Adviser, nor its employees, are currently the subject of any litigation.

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

Adviser may select other investment advisers to serve as trading advisers to the Fund, and such trading advisers are to be compensated by the Adviser and not the Fund or the Limited Partners. Except for the foregoing, Adviser does not recommend or select investment advisers for its clients.

Currently, NorCap Investment Management, L.P. ("NorCap"), a Delaware limited partnership, serves as a trading adviser and investment manager to Adviser and its Fund and provides investment advisory services subject to a trading advisory agreement.

The Adviser may manage other client accounts, including other collective investment vehicles which may be managed by the Adviser or any of its affiliates (if any) and in which the Adviser

or any of its affiliates may have an equity interest. Any of these other client accounts may have objectives similar to that of the Fund.

Neither Adviser, nor its management persons, are registered (nor have an application pending to register) as a futures commission merchant, broker-dealer, registered representative of a broker-dealer, insurance company or agency, licensed agent of an insurance company or agency, commodity pool operator, a commodity trading adviser or an associated person of the foregoing entities.

Adviser filed with the National Futures Association (NFA ID 0442156), effective May 15, 2012, as an exempt commodity pool operator and exempt commodity trading adviser in accordance with U.S. Commodity Futures Trading Commission (CFTC) Rule 4.14(a)(8). A commodity pool exemption for Adviser's fund was also filed under CFTC Rule 4.13(a)(3).

Neither Adviser, nor its management persons, have any relationships or arrangements with any issuer of securities other than those (if any) which are disclosed in this Item 10.

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

As part of an overall internal compliance program, Adviser has adopted a Code of Ethics that imposes standards of business conduct, including requirements to put client interests first and not to take inappropriate advantage of employment-related information, seeks to minimize potential conflicts of interests between employees and investment advisory clients, and helps to ensure compliance with applicable laws and regulations.

The Code of Ethics also imposes restrictions on employee's personal securities transactions and accounts. Such restrictions include prohibitions on trading in securities while in possession of related material, nonpublic information and (with certain limited exceptions) reporting of personal securities accounts, transactions and/or holdings to the Chief Compliance Officer.

The Code of Ethics also generally requires Adviser partners, officers and employees to obtain preapproval of certain securities transactions from the Chief Compliance Officer. Existing and prospective Adviser clients may obtain copies of the Code of Ethics by mailing a written request to J. Bolton Walters at the physical address detailed on the first (1st) page of this brochure, or by e-mail to Admin@BAGSecurities.com.

Subject to the provisions of the Code of Ethics, Adviser's officers and employees may from time to time have acquired or sold, or may subsequently acquire or sell, for their personal accounts, securities which may also be purchased or sold for the accounts of Adviser's clients.

Adviser, its affiliates and partners, officers and employees may engage in transactions, or cause or advise a particular client to engage in transactions, which may differ from or be identical to the transactions engaged in by Adviser for other accounts. Adviser shall not have any obligation to engage in any transaction for a client's account, or to recommend any transaction to a client, in which any of Adviser's affiliates may engage either for their own accounts or the account of any other client, except as may otherwise be required by applicable law.

Adviser (or trading advisers) may exercise its discretion to execute cross trades between different clients (including mutual funds). Internal cross trades may benefit clients on both sides of the trade by eliminating the need to pay a spread, mark-up or commission to a counterparty. Efforts shall be made to ensure that internal cross trades are fair and in the best interests of all participating accounts. Only eligible clients may participate. No additional fees are incurred or charged for cross trades, and best execution shall be sought for each participating client. Cross trades involving mutual funds and clients subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) will be structured in accordance with the applicable requirements of the Investment Company Act of 1940 and ERISA, respectively.

## **Item 12 - Brokerage Practices**

Trading advisers generally have the authority to make all day-to-day trading decisions including determinations regarding securities to be purchased or sold, the amount of such securities to be purchased or sold, the use of broker-dealers and commissions paid.

In placing orders, trading advisers shall seek to obtain best execution taking into account factors such as (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable broker-dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the risk in positioning a block of securities; (v) the quality, comprehensiveness and frequency of available research services considered to be of value; and (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying selection criteria.

While trading advisers generally seek the best price in placing orders, an account may not necessarily be paying the lowest price available.

Adviser does not utilize research or other products or services other than execution from broker-dealers or third parties (“soft dollars benefits”) in connection with client securities transactions, and encourages trading advisers to adopt similar practices.

In selecting or recommending a broker-dealer, Adviser and trading advisers shall not consider whether Adviser, the trading advisers or any of their affiliates receive investor referrals from such broker-dealer. Additionally, Adviser is not affiliated nor a related person to any broker-dealer.

Adviser does not accept directed brokerage arrangements, and encourages trading advisers to adopt similar practices.

Trading advisers may periodically aggregate client trades. Clients participating in aggregated orders will generally receive the same average price. In certain instances, multiple trades in the same security may need to be executed through different broker-dealers because a particular broker-dealer may be unable or unwilling to trade in the quantity or at the price being sought. In such cases, the aggregation of such orders is not practically possible as most trade orders are executed or filled when they are placed and, as a result, each trade order placed with a different broker-dealer is considered a separate order and different accounts will not participate in an average price.



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

Adviser's clients generally receive annual and monthly or quarterly statements regarding their accounts that include details pertaining to the activity, yield and/or current market value of such accounts during the applicable reporting period.

Depending on the nature of services to be provided and the client's objective, however, Adviser may provide reports to a client on other than a monthly or quarterly and annual basis, and may vary the content of those written reports in consultation with that client.

Clients may also receive monthly statements and confirmations of transactions from the custodian for the client's account, if applicable. Finally, investors in any pooled investment vehicles advised by Adviser will receive various periodic and annual written reports as may be set forth in the Fund's offering materials.

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

Adviser does not currently have any referral or solicitation arrangements with non-affiliated persons or entities to which the Adviser pays fees for the referral of business or clients.

Adviser is authorized in the Confidential Private Placement Memorandum, Partnership Agreement and Subscription Agreement to do so in the future. Any such future arrangements would be pursuant to written arrangements consistent with Rule 206(4)-3 of the Advisers Act. Adviser and/or the solicitation agent would make appropriate disclosures of such arrangements to the client and in such circumstances the client shall not bear the cost of such referral or solicitation fees, nor would the applicable advisory fees be higher than the advisory fees to other clients because of such payments.

### **Item 15 - Custody**

Rule 206(4)-2 of the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them. Adviser does not accept or seek to maintain physical custody of assets or securities for any client. That said, with respect to the cash assets of the Fund, Adviser may be deemed to have custody of client funds or securities by virtue of its status as the general partner and investment manager of the Fund.

With the exception of the Fund (which is subject to audit by independent accountants), Adviser does not have custody of client funds or securities. Assets and securities of the Fund are held by qualified custodians within the meaning of the applicable rules under the Advisers Act. The qualified custodians do send account statements to the Fund but not directly to Fund investors.

Adviser shall not maintain custody in the case of any future advisory clients, if any.

### **Item 16 - Investment Discretion**

Adviser receives discretionary authority from the client at the outset of an advisory relationship to select, or have trading advisers select, the identity and amount of securities to be bought or sold. Such discretionary authority, including any restrictions or limitations (if any), are detailed in the applicable Confidential Private Placement Memorandum, Partnership Agreement and

Subscription Agreement. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account and applicable law.

When selecting securities and determining amounts, trading advisers shall observe the investment policies, investment guidelines, limitations and restrictions of the Adviser's clients for which they trade as detailed in writing in the applicable Confidential Private Placement Memorandum, Partnership Agreement and Subscription Agreement.

For U.S. registered investment companies, Adviser's (and trading advisers') authority to trade securities may also be limited by a Prospectus and Statement of Additional Information, if any, or other offering materials including applicable confidential private placement memorandums or partnership agreements.

Additionally, as detailed in the applicable Confidential Private Placement Memorandum, Partnership Agreement and Subscription Agreement, Adviser has discretionary authority to determine the broker-dealer to be used for a purchase or sale of securities for clients, as well as the commission rates to be paid to a broker-dealer for client securities transactions.

## **Item 17 - Voting Client Securities**

Proxies are an asset of a client account, which shall be treated by the Adviser with the same care, diligence and loyalty as any asset belonging to a client. Accordingly, proxy voting shall be conducted with the same degree of prudence and loyalty accorded any fiduciary or other obligation of the Adviser.

Each client of the Adviser should clearly specify in writing (in any applicable Subscription Agreement, or otherwise) whether the client has retained the power to vote proxies or whether this power has been delegated to the Adviser. A client may direct the Adviser to vote in a particular manner at any time upon written notice to the Adviser. In all circumstances, the Adviser will comply with specific, written client directions to vote proxies, whether or not such client directions specify voting proxies in a manner that is different from these policies and procedures. In instances where the Adviser does not have authority to vote client proxies, it is the responsibility of the client to instruct the relevant banks, custodian banks, broker-dealers or prime brokers to mail proxy material directly to the client. In every case in which a client has delegated the power to vote proxies to the Adviser, every reasonable effort shall be made to vote proxies. It is the Adviser's policy to review each proxy statement on an individual basis and to vote with the goal to best serve the financial interests of its clients.

If the Adviser exercises voting authority with respect to its clients, it shall make and retain the following: (a) a copy of each proxy statement that the Adviser receives regarding client securities, though Adviser may rely on obtaining a copy of a proxy statement from the SEC's Electronic Data Gathering Analysis, and Retrieval (EDGAR) system; (b) a record of each vote cast by the Adviser on behalf of a client; (c) a copy of any document created by the Adviser that was material to making a decision as to how to vote proxies on behalf of a client or that memorializes the basis for that decision; and (d) a copy of each written client (or investor) request, if any, for information on how the Adviser voted proxies on behalf of the client, and a copy of any written response by the Adviser to such a request.

The records required to be made and described above shall be maintained and preserved in an easily accessible place, in accordance with Rule 204-2 of the Advisers Act.

### **Item 18 - Financial Information**

Adviser does not charge in advance, or solicit or accept prepayment of, any fees from any clients.

As a registered investment adviser, Adviser is required in this Item 18 to provide certain disclosures about its financial condition. No financial commitments exist that are reasonably likely to impair our ability to meet contractual or fiduciary commitments to clients, and Adviser has not been the subject of a bankruptcy proceeding.

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

The information requested in this Item 19 has been provided elsewhere in this Form ADV Part 2 Brochure and in the following Brochure Supplements.

#### ***Brochure Supplement***

**Robert “Bob” L. Walters  
BAG Securities, L.L.C.  
15100 Gebron Drive  
Austin, Texas 78734  
(512) 263-8800  
www.bagsecurities.com**

**June 28, 2012**

This brochure supplement provides information about Robert “Bob” L. Walters that supplements the attached BAG Securities, L.L.C. (“Adviser”), brochure. Please contact J. Bolton Walters, Chief Compliance Officer, at (512) 263-8800 or Admin@BAGSecurities.com if you did not receive Adviser’s brochure, or if you have any questions about the contents of this supplement.

### **Item 2 - Educational Background and Business Experience**

Name/Title: Robert “Bob” L. Walters/Managing Director

Year of Birth: 1950

Education: BBA Texas A&M University (’72)

Business Background: Robert “Bob” L. Walters is the Managing Director of the General Partner and has served as Chairman and Founder of The Bank Advisory Group since 1989. For approximately ten (10) years prior to that, Mr. Walters headed the community bank merger and acquisitions and bank stock valuation advisory services of Sheshunoff & Company.

In the field of community bank mergers and acquisitions, Mr. Walters has represented hundreds (100s) of banks through brokering selling banks, and through developing negotiating strategies,

formulating pricing and transaction structure alternatives, and determining *pro forma* financial performance opportunities for bank buyers and bank merger partners.

Since 1980, Mr. Walters has participated in well over one thousand five hundred (1,500) client relationships involving the evaluation of both “control” and “minority” blocks of community bank stocks. In this regard, on many occasions Mr. Walters has provided expert witness testimony regarding the valuation of community bank stocks and the overall financial performance characteristics of the community banking industry. Specifically, he is a recognized expert in quantifying the financial determinants of community bank value for both “control” and “minority” ownership positions. Mr. Walters is also well-recognized as an expert in the field of bank performance analysis using data obtained from federal bank regulatory authorities and the U.S. Securities and Exchange Commission.

Prior to becoming an expert in the fields of bank mergers and acquisitions, bank financial performance analysis and bank stock valuation, Mr. Walters was a certified public accountant with Touche Ross & Co.

Professional Designations: Mr. Walters currently holds no professional designations.

### **Item 3 - Disciplinary Information**

Mr. Walters does not have any history of disciplinary events.

### **Item 4 - Other Business Activities**

Robert “Bob” L. Walters also currently serves as Chairman and Founder of The Bank Advisory Group (bank financial analysis, bank stock appraisal and bank mergers and acquisitions) and is a principal in The Bank CEO Network (an educational program which provides current information on the banking industry to community bank presidents and chief executive officers throughout the United States).

### **Item 5 - Additional Compensation**

Mr. Walters does not receive any additional compensation from third-parties for providing investment advice to its clients, does not actually provide investment advice to any parties, and does not compensate anyone for client referrals.

### **Item 6 - Supervision**

Mr. Bob Walters does not formulate investment advice for clients and does not exercise discretionary authority over clients’ assets.

Adviser is required to manage client accounts in accordance with the investment guidelines and limitations described in a client’s investment management agreement with Adviser (and, in the case of the Fund, in the Fund’s offering materials). Adviser monitors adherence to these guidelines utilizing various mechanisms, including monitoring the general trading activity of trading advisers, and periodic compliance review.

Adviser supervises Mr. Walters and monitors his adherence to the Adviser’s internal policies and procedures. The name and contact information for the person responsible for supervising Mr.

Bob Walters is Mr. J. Bolton Walters, Chief Compliance Officer and Manager of BAG Securities, L.L.C., (512) 263-8800 or [Admin@BAGSecurities.com](mailto:Admin@BAGSecurities.com). The Chief Compliance Officer reviews all employee personal securities transactions on a quarterly basis.

#### **Item 7 - Requirements for State-Registered Advisers**

A. Mr. Bob Walters has never been the subject of an award, or found liable, in any arbitration, civil, self-regulatory organization or administrative claim or proceeding.

B. Mr. Bob Walters has never been the subject of a bankruptcy petition.

#### ***Brochure Supplement***

**J. Bolton Walters  
BAG Securities, L.L.C.  
15100 Gebron Drive  
Austin, Texas 78734  
(512) 263-8800  
[www.bagsecurities.com](http://www.bagsecurities.com)**

**June 28, 2012**

This brochure supplement provides information about J. Bolton Walters that supplements the attached BAG Securities, L.L.C. ("Adviser"), brochure. Please contact Bolton Walters, Chief Compliance Officer, at (512) 263-8800 or [Admin@BAGSecurities.com](mailto:Admin@BAGSecurities.com) if you did not receive Adviser's brochure, or if you have any questions about the contents of this supplement.

#### **Item 2- Educational Background and Business Experience**

Name: J. Bolton Walters/Chief Compliance Officer and Manager

Year of Birth: 1973

Formal Education: BBA Texas A&M University ('95); JD Baylor University ('99); MBA Baylor University ('99)

Business Background: Bolton Walters has been involved in various private funds, businesses and entrepreneurial ventures in the most recent five (5) years. Previously, Bolton Walters served as Senior Adviser for Commercial and Business Affairs at the U.S. State Department. Bolton Walters also served as a member of the U.S. team responsible for organizing the 2004 G8 Summit hosted by the President of the United States; an annual forum for the heads of state of the most industrialized nations, and invited world leaders. Previously, he accepted an appointment working for a Commissioner at the U.S. Commodity Futures Trading Commission (CFTC), the federal agency responsible for overseeing U.S. financial futures, derivatives and options markets. Prior to the CFTC he worked for a U.S. Congressman.

Prior to his years of experience in Washington, D.C., Bolton Walters practiced law in Austin, Texas, advising clients on a range of matters including business and commercial-related real

estate transactions. He also served as Executive Director and General Counsel for two state-wide associations for technology and e-commerce companies.

Professional Designations: Mr. Walters is a licensed attorney and member of the State Bar of Texas.

### **Item 3 - Disciplinary Information**

Mr. Walters does not have any history of disciplinary events.

### **Item 4 - Other Business Activities**

N/A

### **Item 5 - Additional Compensation**

Mr. Walters does not receive any additional compensation from third-parties for providing investment advice to its clients and does not compensate anyone for client referrals.

### **Item 6 - Supervision**

Adviser is required to manage client accounts in accordance with the investment guidelines and limitations described in a client's investment management agreement with Adviser (and, in the case of the Fund, in the Fund's offering materials). Adviser monitors adherence to these guidelines utilizing various mechanisms, including monitoring the general trading activity of trading advisers, and periodic compliance review.

Mr. Bolton Walters serves as the sole officer of the Adviser responsible for formulating investment advice for clients and exercising discretionary authority over clients' assets, if any. Accordingly, no internal supervision is placed over him. He is, however, bound by the Fund's investment guidelines and Adviser's internal policies and procedures. He also works with third parties, including Adviser's independent administrator, auditors and legal representatives to, among other things, keep up to date with current Texas (and other relevant jurisdictions) rules and regulations.

As the Chief Compliance Officer, Mr. Bolton Walters reviews all employees', officers' and members' personal securities transactions on a quarterly basis.

### **Item 7 - Requirements for State-Registered Advisers**

A. Mr. Bolton Walters has never been the subject of an award, or found liable, in any arbitration, civil, self-regulatory organization or administrative claim or proceeding.

B. Mr. Bolton Walters has never been the subject of a bankruptcy petition.

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