

# Form ADV, Part 2A: Firm “*Brochure*”

## CommonWealth Opportunity Capital GP LLC

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This Form ADV, Part 2A (the “*Brochure*”) provides information about the qualifications and business practices of CommonWealth Opportunity Capital GP LLC (the “*Firm*” or “*CommonWealth*”). If you have any questions about the contents of the *Brochure*, please contact us at (310) 806-4180. 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 CommonWealth also is available on the SEC’s website at <http://www.adviserinfo.sec.gov>. Although CommonWealth may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

**FEBRUARY 14, 2012**

## **Item 2: Material Changes**

This Brochure, dated February 14, 2012, is a new document prepared by Commonwealth in accordance with the SEC's new requirements and rules pertaining to Form ADV as established on July 28, 2010.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide investors with a summary of such changes. It will also reference the date of most recent update of the Brochure.

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## Item 4: Advisory Business

CommonWealth is a Delaware Limited Liability Company formed in November 2008. CommonWealth's principal owners are Adam Fisher and Reagan Silber.

CommonWealth provides discretionary investment advisory services to pooled investment vehicles (the "*Funds*") that are offered only to investors who are both "accredited investors" and "qualified clients," as those terms are defined in the Securities Act of 1933, as amended (the "*Securities Act*") and the Investment Advisers Act of 1930, as amended (the "*Advisers Act*"). Generally, the Funds' investors are high net worth individuals or institutions. CommonWealth also provides investment advisory services to individual investors that establish separately managed accounts with CommonWealth (each, an "*SMA*," and collectively with the Funds, the "*Clients*").

CommonWealth's advisory services generally consist of the purchase and sale of securities and other instruments on behalf of its Clients. CommonWealth generally employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in various global markets. CommonWealth's investment process is predicated on a top down approach analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to, economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds.

CommonWealth may seek to achieve this goal by investing in any types of securities or other instruments, including without limitation equity, corporate debt, municipal or government securities, derivatives or any other type of security or other instrument.

CommonWealth tailors its advisory services to the individual needs of its Clients by negotiating the terms of its advisory contracts. CommonWealth may also tailor advisory services for Clients for legal, regulatory or tax reasons.

CommonWealth does not participate in wrap fee programs.

CommonWealth managed \$297,890,355 on a discretionary basis as of December 31, 2011.

## Item 5: Fees and Compensation

CommonWealth is compensated for advisory services by a fee based on assets under management. The Funds will pay a monthly management fee calculated at the rate of 0.1667% (*i.e.*, approximately 2.0% per year) of the net assets of the Fund (the “*Management Fee*”). Fees charged on SMAs will be negotiated separately at the time of the applicable accounts’ opening and may be significantly lower than the Management Fee. As described more fully under Item 6, CommonWealth is also compensated with performance-based fees from all Clients.

Fees are deducted from Clients’ assets monthly in arrears.

Clients will pay all other expenses deemed necessary and desirable by CommonWealth, including all investment, administrative and operating expenses incurred on behalf of such Clients. These expenses may include, but will not be limited to, brokerage commissions and other transaction charges; fees and expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance, administrative, accounting and audit fees and expenses; due diligence expenses, including travel, related to proposed investments or existing investments; taxes and other governmental charges; all expenses and fees of third-party valuation agents, if any; all other expenses and liabilities incurred in connection with or arising out of its business, including extraordinary or nonrecurring charges; fees and expenses of the administrator; and reimbursements due to CommonWealth for all such costs and expenses, if any, borne by the CommonWealth on behalf of the Client.

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

## Item 6: Performance-Based Fees

CommonWealth accepts performance-based fees at year-end based on a share of capital appreciation of the assets of its Clients. CommonWealth only receives performance-based fees if its Clients' assets under management meet or exceed a "high water mark," which is the highest value previously attained as of any previous year-end, after taking into account new capital commitments and redemptions.

CommonWealth does not provide advisory services to any Client which is not charged comparable performance-based fees. However, there may be variations in fee rate for different Clients. To date, CommonWealth's investments have not generally been subject to limits on availability of assets. Rather, the size of the position taken devoted to each investment theme in a Client account is determined based on different Clients' risk and investment suitability parameters, as set forth in the Client account's governing documents. Therefore, CommonWealth does not believe it faces a material conflict of interest between accounts charged different performance-based fees. If an investment theme leads CommonWealth to make an investment in an asset with a limited investment opportunity, CommonWealth shall allocate the investment based on criteria that result in a fair allocation for each Client, such as *pro rata* based on desired order size.

As disclosed more fully in each Client's governing documents, performance-based fees create an incentive for CommonWealth to make riskier or more speculative investments than CommonWealth might consider in the absence of such fees.

## **Item 7: Types of Clients**

CommonWealth provides advisory services to pooled investment vehicles that are offered only to Accredited Investors and Qualified Clients. The Funds generally operate as exempt investment companies under the Investment Company Act of 1940, as amended.

The minimum investment in each Fund is generally \$1 million, although CommonWealth maintains discretion to individually waive, increase or reduce the minimum investment required.

CommonWealth also provides advisory services to individual investors through SMAs. CommonWealth requires such individual investors to be Qualified Clients. Although CommonWealth does not have rigid criteria in place of maintaining or opening an SMA, it would generally require \$25 million to remain continuously under management.

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

CommonWealth utilizes an opportunistic global macro strategy. CommonWealth employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in any global market. CommonWealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to: economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds. CommonWealth may utilize leverage to increase its exposure to investments and therefore potential for profits and losses, both through traditional borrowing and through the use of derivatives and other financial instruments. CommonWealth seeks to maintain on behalf of its Clients diversified portfolios across a variety of industries, issuers, asset classes and obligations. *There can be no assurance that CommonWealth's investment objectives will be achieved or that investors will not lose some or all of their investment.*

### **Investment Process**

CommonWealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers including, but not limited to:

- Economic Activity Global Risk Premiums
- Monetary Policy Capital Account
- Current Account Balance Trade Weighted Currency Reserves
- Output Gap Political Landscape
- Flow of Funds GDP Growth & Inflation

This analysis informs the CommonWealth's views on the global economy and leads to investment themes. CommonWealth then determines the most efficient trading mechanisms to express these views and analyzes the impact of trading themes on the entire portfolio. CommonWealth can use any financial instrument to express these views including but not limited to equities, fixed income, currencies and derivatives. The size and structure of the investment is carefully considered. The risk/reward of CommonWealth's investments and portfolio themes are constantly monitored as they are constantly competing for capital against potential new ideas, themes, and vehicles.

### ***Certain Risk Factors***

#### **Leverage**

CommonWealth intends to utilize leverage as part of its investment strategy and process. Leveraging may arise by margin loans on our Clients' securities or through the use of derivatives. If the amount of leverage a Client has outstanding at any one time is large in relation to the value of its assets, fluctuations in the market value of the Client's portfolio will have a disproportionately large effect in relation to the value of its assets and the possibilities for profit



and the risk of loss will therefore be increased. Any investment gains (in excess of borrowing costs) made with the additional monies borrowed will generally cause the net asset value of such Client to rise more rapidly than would otherwise be the case. Conversely, any investment losses with respect to the additional monies borrowed (including the failure to cover their cost) will generally cause the net asset value of such Client to decline faster than would otherwise be the case. To the extent that the Client's assets are deposited as margin and therefore not fully paid for, a bankruptcy of any broker of the Client may expose the Client to loss in that it may only be able to share as an unsecured creditor in such broker's assets.

### **Derivative Transactions**

CommonWealth uses derivative financial instruments, which may include, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as material and prolonged deviations between the actual and the theoretical value of a derivative due to, by way of example, nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly for CommonWealth to close out positions in order either to realize gains or to limit losses. CommonWealth may use derivatives both as a hedge against other positions it holds or to establish "synthetic positions."

### **Short Selling**

CommonWealth may engage in short selling for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by its Clients.

### **General Market Risks**

#### **Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act**

In response to the recent financial crises, the Obama Administration and the U.S. Congress proposed sweeping reform of the U.S. financial regulatory system. After over a year of debate, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Reform Act*") became law in July 2010. The Reform Act seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of the Reform Act require rulemaking by the applicable regulators before becoming fully effective and the Reform Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the impact of the Reform Act on CommonWealth's Clients and the markets in which they trade and invest. The Reform Act could result in certain investment strategies in which CommonWealth engages or may have otherwise

engaged becoming non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to the Reform Act could have a material adverse impact on the profit potential of the Fund.

### **Volatility**

The prices of some of the instruments traded by Commonwealth have been subject to periods of excessive volatility in the past, and such periods may continue. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities for Commonwealth, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain of Commonwealth's positions that profit from price movements.

### **Possible Ineffectiveness of Risk Reduction Techniques**

Commonwealth may employ various risk reduction strategies designed to minimize the risk of Clients' trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If Commonwealth analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with Clients' investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction techniques may also increase the volatility of Commonwealth's investment program and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though Commonwealth may employ "stop loss" orders on individual positions, there is no assurance that any such order will be executed at or near the desired "stop loss" level.

### ***Investment Risks***

#### **No Investment Limitations**

There are no limits on the types of securities or other instruments in which the Fund may take positions, the choice of sector or sectors within which it seeks to identify securities, the choice of markets (domestic or foreign) within which Clients may invest, the type of positions it may take, the investment or trading strategies it may use, its ability to borrow or use other types of leverage, or the concentration of the Fund's investments. Further, Commonwealth may engage in transactions for which no specific "risk factors" are provided. Nevertheless, such transactions should be considered to be speculative, volatile and, in general, no less risky than others more fully described herein. The risk considerations summarized in this brochure only address a subset of the risks applicable to certain types of investments. Other risks applicable to such types of investments or other types of investments not described in this brochure may have an adverse impact on Clients.

### **Investments in Financial Instruments**

The Fund may invest in a broad array of financial instruments. These may include the financial instruments of foreign entities, both public and private. In addition to the risks associated with investments of this kind in general, such investments may also involve the risks associated with currency fluctuations and various political factors, as described below. The Fund may also invest in treasury securities and other cash equivalents when attractive opportunities for capital appreciation appear to be limited.

### **Investments in Undervalued Securities**

CommonWealth will make certain investments in securities which CommonWealth believes to be undervalued. However, there are no assurances that the securities purchased will in fact be undervalued. The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from CommonWealth's investments may not adequately compensate for the business and financial risks assumed. In addition, Clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the CommonWealth's capital would be committed to the securities purchased, thus possibly preventing the Fund from investing in other opportunities. CommonWealth may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

### **On-Investment Grade Investments**

CommonWealth may purchase financial instruments of, or make direct loans to, companies that are not of investment grade. CommonWealth may purchase loans that are in default or are from issuers in financial distress. CommonWealth may also purchase trade or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Loans or claims purchased by CommonWealth may not have any maturity and may be secured or unsecured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower, particularly if the borrowing is unsecured. In addition, trade claims may be subject to other defenses such as warranty claims or failure to provide the product or services. Such loans are also less liquid than are the debt instruments of publicly traded companies.

### **Loans**

CommonWealth may trade in the secondary markets for loans. Such loans may be privately negotiated transactions, each of which has individualized terms. These positions may be illiquid and difficult to value. In addition, in the case of such trading, CommonWealth may come into possession of material non-public information relating to the borrower, preventing

CommonWealth from trading in any securities of such issuer. Loans are subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the borrower and general market liquidity. CommonWealth may invest in loans to distressed borrowers, which are typically subject to greater market fluctuations and risks of loss of income and principal and are often influenced by many of the same unpredictable factors which affect equity prices. Loans involve a fundamental credit risk based on the borrower's ability to make principal and interest payments.

### **Corporate Debt Obligations and High-Yield Securities**

CommonWealth may invest in corporate debt obligations and high-yield securities. The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. "High yield" bonds and securities, which are rated in the lower rating categories by the various credit rating agencies, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities tend to fluctuate more than those for higher-rated instruments and the market for lower-rated securities is less liquid and less active.

### **Risk Arbitrage**

In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to "deal risk" – the risk of non-consummation of the transaction. A number of factors may lead to deal collapse or delay, such as either party's inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target's or the acquirer's willingness to consummate the transaction.

### **Short Sales**

CommonWealth may make short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions. Short sales that are not made "against the box" and are not part of a hedging transaction create opportunities to increase return but, at the same time, are speculative and involve special risk considerations. Since the seller in effect profits from decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, returns tend to increase more when the securities sold short decrease in value, and to decrease more when the securities sold short increase in value, than would otherwise be the case if the seller had not engaged in such short sales. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase, although CommonWealth may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, CommonWealth

might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

### **Currency and Foreign Risks**

The Fund may invest in non-dollar denominated debt instruments or in securities of companies domiciled or operating outside of the United States. Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, capital controls, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States (*e.g.*, the imposition of withholding taxes on interest and dividend payments, income taxes and excise taxes) or confiscatory taxation may also affect the Fund's investments. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by Commonwealth than is available concerning U.S. companies. Commonwealth may incur higher expenses with respect to investments made outside the United States compared to investing in U.S. securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Commonwealth's investments could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in developing countries may be recently developed and largely untested. As a result, Commonwealth may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, unknowing breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. This difficulty in protecting and enforcing rights may have an adverse effect on Commonwealth and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in court outside of the U.S. regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. For example, anti-fraud and anti-insider trading legislation, and the concept of fiduciary duty, may be less developed or limited compared to those in more developed markets.

### **Contrarian Investing**

Certain investments are made after a financial crisis or other major uncertainty depresses the price of company's securities and Commonwealth is of the opinion that such securities have

lower downside risk than other investors may perceive (*i.e.*, an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment). Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

### **Emerging Markets**

CommonWealth may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors that do not typically affect more developed economies. CommonWealth may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

### **Mortgage-Backed Securities**

Investing in commercial and residential mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations, including the risk of principal prepayment and defaults as well as the risk of investing in real estate. Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis, and there also exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time due, among other reasons, to prepayments on the underlying mortgage loans or other assets. As a result of prepayments, CommonWealth may reinvest assets at an inopportune time, which may result in a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Fund may invest.

### **Recent Developments in the Residential Mortgage Market**

Recently, the residential mortgage market in the United States, particularly in the subprime sector, has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of certain securities in which the Fund invests. During that period, delinquencies and losses with respect to residential mortgage loans

generally have increased and may continue to increase. In addition, the value of mortgaged properties in many states have declined or remained stable after extended periods of appreciation. Similarly, housing prices and appraisal values in many states have recently declined or stopped appreciating after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally.

Numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed recently by federal, state and local governmental authorities. If enacted, these laws, regulations and rules may result in delays in the foreclosure process, reduced payments by borrowers or increased reimbursable servicing expenses, which are likely to result in delays and reductions in the distributions to be made to an investor in residential mortgage-backed securities (“RMBS”) and/or collateralized debt obligations (“CDOs”) backed by RMBS. For example, to address the challenge of legacy assets, the Department of the Treasury, in conjunction with the Federal Deposit Insurance Corporation and the Federal Reserve, has announced the Public-Private Investment Program (“PPIP”). While PPIP is part of the government’s efforts to repair balance sheets throughout the financial system and is intended to improve overall liquidity, it is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the program or how effective the program will be. It is similarly unclear whether any non-U.S. regulatory agencies or authorities will issue rules and regulations that may have an adverse effect on the program. The Fund and other similarly-situated investors will bear the risk that this and other future regulatory developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value. In addition, numerous residential mortgage loan originators have recently experienced serious financial difficulties and, in some cases, bankruptcy.

### **Interest Rate Risk**

CommonWealth is subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. CommonWealth may attempt to minimize the exposure of its portfolio to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that CommonWealth will be successful in fully mitigating the impact of interest rate changes on the Fund’s portfolio.

### **No Limitations on Strategies**

There are no material limitations on the investment strategies which CommonWealth may use when investing assets on behalf of the Fund. CommonWealth will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best

suited to prevailing market conditions. Over time, the strategies implemented on behalf of Clients can be expected to expand, evolve and change, perhaps materially. Commonwealth will not be required to implement any particular strategies and may discontinue employing any particular strategy on behalf of Client in its sole discretion. There can be no assurance that the various investment strategies which Commonwealth expects from time to time to develop and implement for Clients will be successful or that strategies that have been successful will continue to be profitable.

### ***Derivatives Risks***

#### **Derivatives**

Commonwealth uses derivative financial instruments, which may include, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and uses derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as material and prolonged deviations between the actual and the theoretical value of a derivative, due to circumstances such as nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to Commonwealth to close out positions in order either to realize gains or to limit losses. Some of the derivatives that may be traded by Commonwealth will be principal-to-principal or “over-the-counter” contracts between Clients and third parties entered into privately, rather than on an established exchange. As a result, Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

#### **Swap Agreements**

Commonwealth from time to time enters into various swap agreements (“Swaps”) as part of its investment program. Swaps are individually negotiated and structured agreements through which Clients may obtain exposure to particular investment positions or market factors. Swaps may be subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. Commonwealth is not limited to any particular form of Swap if consistent with Clients’



investment objectives and policies, and Commonwealth anticipates that Clients will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps, and other types of swap agreements. Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. If Swap calls for payments by a Client, such Client must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses.

### **Credit Default Swap Agreements**

Commonwealth may invest in credit default swaps in all types of securities. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. Commonwealth may also sell credit default swaps either on a basket of reference entities as part of a synthetic collateralized debt obligation transaction or on individual names.

In circumstances in which Commonwealth does not own the debt securities that are deliverable under a credit default swap, Commonwealth will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. The creation of the new ISDA Credit Derivatives Determination Committee (the "Determination Committee") is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach resolution or do so in a timely manner. In either of these cases, Commonwealth would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, Commonwealth will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, Commonwealth will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to Commonwealth following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of Commonwealth.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). In the event that current interest rate spreads over LIBOR (or over the applicable U.S. Treasury Benchmark) widen or the prevailing credit premiums on credit default swaps increase, the amount of termination or assignment payment upon a termination or assignment of a transaction due from CommonWealth to the credit default swap counterparty could increase by a substantial amount. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact CommonWealth ability to otherwise productively deploy any capital that is committed with respect to such contracts. Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on CommonWealth, but it may be adverse (including making CommonWealth ineligible to be a “seller” of credit default swaps). The recently enacted Reform Act includes provisions that comprehensively regulate the over-the-counter derivatives markets for the first time. While the Reform Act is intended in part to reduce certain of the risks described above, its success in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years.

#### **Credit Default Swaps on Loans and LCDX Transactions**

The Fund may invest in all types of loan credit default swaps and all types of LCDX transactions, tradable index comprising 100 equally-weighted underlying single-name loan-only credit default swaps. Loan credit default swaps are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both trenched and entrenched. CommonWealth may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio (*i.e.*, the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans and is exposed to defaults similar to when a loan portfolio is bought. If the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the

outstanding loans are less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

### **Total Return Swaps**

The Fund from time to time may invest in total return swaps. As a buyer of total return swaps, the Fund will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. CommonWealth may be required to maintain collateral with the total return swap counterparty. If CommonWealth fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Fund may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

### **Over-the-Counter Transactions**

The Reform Act, enacted in July 2010, includes provisions that comprehensively regulate the over-the counter (“OTC”) derivatives markets for the first time. The Reform Act will require that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Reform Act includes limited exemptions from the clearing and margin requirements for so-called “end-users,” CommonWealth does not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which CommonWealth may execute the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Reform Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether CommonWealth is subject to such requirements. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations, as they currently are allowed to do. This will further increase the dealers’ costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks. The SEC and CFTC may also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for CommonWealth to enter into highly tailored or customized transactions. They may also render certain strategies in which CommonWealth might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or CFTC. Commonwealth may be required to register as major participants in the derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The overall impact of the Reform Act on the Fund is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime. Although the Reform Act will require many OTC derivative transactions previously entered into on principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by Commonwealth may remain principal-to-principal or OTC contracts between the Fund and third parties entered into privately. The risk of counterparty nonperformance can be significant in the case of these over-the-counter instruments, and “bid-ask” spreads may be unusually wide in these heretofore substantially unregulated markets. While the Reform Act is intended in part to reduce these risks, its success in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years. To the extent not mitigated by implementation of the Reform Act, if at all, the risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of Commonwealth’s assets, include: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty’s failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset or commodity); (3) legal risks (the characterization of a transaction or a party’s legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (4) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

### **Convertible Securities, Rights and Warrants**

Commonwealth may invest in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer’s common stock at the option of the holder during specified time period (such as convertible preferred stocks,

convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value. Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

### **Options Trading**

When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (*i.e.*, put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for CommonWealth’s position to become profitable, taking into account the premium and all transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Fund will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs. Selling (“writing” or “granting”) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is “covered” by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit

deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

## **Item 9: Disciplinary Information**

CommonWealth is not aware of any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of its advisory business or the integrity of its management.

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

Neither CommonWealth nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither CommonWealth nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of any of the foregoing entities.

CommonWealth does not have any related persons that are investment-related companies. CommonWealth only enters business arrangements with other investment-related companies (*e.g.*, broker-dealers) in the performance of its contractual obligations to Clients.



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

CommonWealth adopted a Code of Ethics (the “Code”) to ensure that it fulfills its role as a fiduciary to its Clients. The Code obligates CommonWealth and its related persons to put the interests of Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. CommonWealth’s personnel are also required to comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of such laws by CommonWealth or its employees.

The Code explains each person’s duty to maintain the confidentiality of CommonWealth’s proprietary information as well as a policy against insider trading and restrictions with respect to giving or receiving of gifts and entertainment or making political contributions. CommonWealth requires that all principals and employees attend an annual Code of Ethics training session.

The Code also contains CommonWealth’s personal trading policy. CommonWealth adopted a policy that limits the ability of its employees to trade in securities for their personal accounts. The Code requires all personnel to report their personal trading activity to the CCO. The policy applies to accounts of certain family members (including the spouse and minor children of a principal or employee, and immediate family members of a principal or employee who live in the same household). Under the Code, principals and employees must obtain approval prior to executing transactions in personal trading account, including transactions in private placements or initial public offerings, with certain limited exceptions for extremely liquid securities, such as Treasuries and open-end mutual funds. CommonWealth prohibits employees from executing any transaction that would have an adverse economic impact on clients. In addition, CommonWealth maintains a restricted list containing the names of securities which access persons are generally prohibited from trading.

All transactions made by employees are closely monitored on an ongoing basis by CCO to ensure pre-clearance has been sought and obtained when required, and to ensure the personal trading patterns of employees fall within the guidelines set forth in the Code. CommonWealth’s principals and employees may invest directly in one or more of the Funds managed by CommonWealth.

Investors and prospective investors may obtain a copy of the Code upon request by contacting CommonWealth at (310) 806-4180 or [gs@cwoc.com](mailto:gs@cwoc.com).

From time to time, CommonWealth may recommend to its clients, or buy or sell on behalf of its clients, a security that an employee holds in a personal trading account. As a result, an employee may benefit from market activity by a Fund. Employees are restricted from transacting in a security on the same day as CommonWealth’s clients. CommonWealth also prohibits employees from transacting in securities if employees have knowledge that the Firm is considering transacting in such security for Clients.

## **Item 12: Brokerage Practices**

CommonWealth is authorized to determine the brokers and dealers to be used for Client transactions and to negotiate the rates of compensation its Clients will pay. In selecting brokers and dealers to execute transactions, CommonWealth does not necessarily solicit competitive bids.

In selecting brokers and negotiating commission rates, CommonWealth will take into account additional factors, including without limitation reputation, financial strength and stability; quality of execution; overall costs of a trade; error correction capabilities; availability and costs of securities to borrow (with respect to short sales); block trading and block positioning capabilities; willingness to execute difficult transactions; and ongoing reliability.

CommonWealth does not enter into formal soft dollar arrangements. If CommonWealth determines to enter into such arrangements in the future, this Brochure will be amended to reflect this change.

### **Item 13: Review of Accounts**

CommonWealth's Chief Investment Officer (the "CIO") and other investment professionals review Client portfolios on a daily basis and monitor based on various risk metrics, exposures and hedges on a daily basis. In addition, each portfolio investment is reviewed at least weekly.

Audited year-end financial statements are provided to investors annually. In addition, monthly letters are generally provided to investors, which may include certain information relating to investment performance and investment themes going forward.

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

CommonWealth does not receive an economic benefit from a third party for providing investment advice or other advisory services to Clients.

At this time, CommonWealth does not directly or indirectly compensate any third party for Client or investor referrals. If CommonWealth determines to enter into such an arrangement in the future, this Item will be amended as appropriate.

## **Item 15: Custody**

While CommonWealth may be deemed to have custody of Client funds and securities, CommonWealth does not maintain physical custody of our Clients' assets. All Client assets and securities are held at accounts maintained in their name with qualified custodians within the meaning of the applicable rules under the Advisers Act.

Investors in the Funds receive audited annual account statements of the Funds, prepared by an independent public accountant in accordance with generally accepted accounting principles, within 120 days of the Funds' fiscal year end, as well as monthly account statements directly from the Funds' independent administrator.

## **Item 16: Investment Discretion**

CommonWealth has discretionary investment authority to manage securities accounts on behalf of the Funds. This discretionary authority is provided in the applicable Fund's governing documents, including (as applicable) its Limited Partnership Agreement and Offering Memorandum. CommonWealth will buy and sell securities and other instruments for the Funds on a discretionary basis in a manner consistent with each Fund's stated investment objectives and restrictions.

## **Item 17: Voting Client Securities**

CommonWealth has adopted a proxy voting policy as required by the Advisers Act. The policy provides that CommonWealth will act in the best interests of our Clients when determining if and how to vote proxies of Client securities. Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised.

CommonWealth's proxy voting policy includes guidelines to follow when CommonWealth receives proxies, how these proxies are documented and the determination for how such proxies shall be voted. When evaluating proxies, CommonWealth will typically evaluate the impact on the value of the securities, the anticipated costs and benefits associated with the proposal, the effect on liquidity and customary industry and business practices. After receiving proxies, the Chief Compliance Officer, in conjunction with the Firm's investment professionals, will determine whether the proposal is designed to maximize shareholder value and vote in the way determined to maximize value for Clients.

The proxy voting policy also includes guidelines for the Chief Compliance Officer to follow if a material conflict of interest between CommonWealth or its employees and its Clients to ensure that such conflict is resolved in the best interests of the Funds. In such cases, CommonWealth will always vote in the best interests of Clients, even if such vote conflicts with CommonWealth's own interests. CommonWealth may also take other steps, including designating an independent third party to vote the proxy.

CommonWealth's proxy voting policy and procedures are available for review. In addition, our proxy voting record is available to investors. Please contact us at (310) 806-4180 or [gs@cwoc.com](mailto:gs@cwoc.com) if you have any questions or if you would like to review either of these documents.

## **Item 18: Financial Information**

This Item is not applicable.