

**Varna Capital Management LLC**

**February 2012**

---

**This brochure provides information about the qualifications and business practices of Varna Capital Management LLC (the “Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at 212-588-7100 and/or [jhester@varnacapital.com](mailto:jhester@varnacapital.com). This information has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about the Adviser also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Varna Capital Management LLC  
750 Lexington Avenue, 23<sup>rd</sup> Floor  
New York, New York 10022  
Tel.: 212-588-7100  
Fax: 212-588-7120

---

## TABLE OF CONTENTS

Item 4.	Advisory Business .....	3
Item 5.	Fees and Compensation .....	4
Item 6.	Performance-Based Fees and Side-by-Side Management.....	5
Item 7.	Types of Clients .....	6
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9.	Disciplinary Information .....	11
Item 10.	Other Financial Industry Activities and Affiliations.....	12
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	13
Item 12.	Brokerage Practices .....	14
Item 13.	Review of Accounts .....	16
Item 14.	Client Referrals and Other Compensation .....	17
Item 15.	Custody.....	18
Item 16.	Investment Discretion .....	19
Item 17.	Voting Client Securities .....	20
Item 18.	Financial Information .....	21
Item 19.	Requirements for State-Registered Advisers .....	22
Appendix:	Material Changes.....	23

#### **Item 4.      Advisory Business**

Varna Capital Management LLC (the “Adviser”), is an investment adviser with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser on June 23, 2010, and expects to register with the SEC as of March 31, 2012. The Adviser is solely owned and controlled by Ms. Svetlana Y. Lee.

The Adviser provides investment management services on a discretionary basis to its clients, non-U.S. private investment funds intended for sophisticated investors and institutional investors (collectively, the “Investment Vehicles” or the “Clients”).

The Adviser provides advice to the Investment Vehicles based on their specific investment objectives and strategies. The Adviser does not tailor advisory services to the individual needs of investors in the Investment Vehicles (“Investors”).

As of February 1, 2012, the Adviser had \$128,350,766 in client assets under management, all of which are managed on a discretionary basis.

## **Item 5. Fees and Compensation**

The Adviser deducts its investment management fee on a quarterly basis from client accounts by instructing the Investment Vehicles' custodian.

In addition to paying investment management fees and, if applicable, performance-based fees, clients will also be subject to other expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees (including investment advisory and other fees charged by investment advisers with, or funds in, which the Investment Vehicles invest) associated with products or services that may be necessary or incidental to such investments or accounts. Client assets are invested in a master-feeder structure. Investment Vehicles that are "feeder funds" bear a pro rata share of the expenses associated with the related master fund. Please refer to Item 12 of this Firm Brochure for a discussion of the Adviser's brokerage practices.

The Investment Vehicles are required to pay the Adviser's investment management fees quarterly in advance. The Adviser has agreed to refund to each Investment Vehicle a pre-paid investment management fee if the advisory contract is terminated before the end of a billing period. The Adviser will determine the amount of the relevant refund by pro-rating the fee charged by the number of days in the quarter and refunding the aggregate amount of fees charged for the period beginning on the date the advisory contract is terminated and ending on the last day of the quarter.

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

The Adviser and its investment personnel provide investment management services to multiple Investment Vehicles. The Adviser is entitled to be paid performance-based compensation by the Investment Vehicles. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. To the extent orders are aggregated, the client orders are price-averaged. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Compliance Officer.

#### **Item 7.      Types of Clients**

The Adviser's clients are the Investment Vehicles, whose investors consist primarily of institutional investors and high net worth individuals that meet the minimum suitability requirements disclosed in the Investment Vehicles' offering memoranda.

The Adviser does not require a minimum account size. The initial and additional subscription minimums required by the Investment Vehicles are disclosed in their offering memoranda.

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations including fundamental research.

The Adviser employs the following investment strategies:

### **Buy and Hold**

The Adviser engages in a buy and hold investment strategy wherein the Adviser buys securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.

### **Equity**

The Adviser's equity strategy focuses on a broad range of equity investment styles, including growth, core, and value.

The material risks associated with the Adviser's investment strategies are set forth below:

### **Equity-Related Instruments**

Certain options and other equity-related instruments may be subject to various types of including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, equity-related instruments can involve significant economic leverage and may, in some cases, involve significant risks of loss.

### **Non-U.S. Securities**

Considerations associated with investing in securities of non-U.S. governments and companies, and options thereon, include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

### **Debt Securities**

Unrated or low-grade debt securities are subject to greater risk of loss of principal and interest than higher-rated debt securities. In addition, evaluating credit risk for foreign debt securities involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult.

### **Options**

Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty credit and solvency risk.

## **Derivatives**

Derivative transactions involve exposure to credit risk, counterparty default and the risk of settlement default.

## **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. This risk will be greater for long-term securities than for short-term securities.

## **Small to Medium Capitalization Companies**

The stocks of companies with small to medium-sized market capitalizations, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

## **Foreign Exchange Markets**

Foreign exchange transactions involve a significant degree of risk and the markets in which foreign exchange transactions are effected are volatile, specialized and technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment or particular transactions in foreign currency.

## **Currency Exposure Risk**

Investments in foreign currency forwards, futures and options, as well as securities are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment, capital appreciation and political developments.

## **Commodity-Related Securities**

The production and marketing of commodities may be affected by actions and changes in governments. In addition, commodity-related securities may be cyclical in nature. During periods of economic or financial instability, commodity-related securities may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various commodities. Commodity-related securities may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such securities may rise at a faster rate, and conversely, in time of falling commodity prices, such securities may suffer a greater price decline.

## **Special Situations**

Special situation investments include companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. Special situation investments are subject to the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, investment may be sold at a loss. Because there is



substantial uncertainty concerning the outcome of transactions involving financially troubled companies there is a potential risk of loss associated with entire investment in such companies.

### **Bank Debt**

Investments in participations in loans ("Participations") and assignments of all or a portion of loans from third parties ("Assignments") involve the risk of nonpayment of principal and interest by the borrower, and the risk that any loan collateral may become impaired. Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks, including the costs and liabilities associated with owning and disposing of the underlying collateral, and liability as a co-lender. Interests in loans are also subject to additional liquidity risks, because no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, the Adviser may have difficulty disposing of Assignments or Participations in response to a specific economic event such as deterioration in the creditworthiness of the borrower, which can result in a loss. In such market situations, it may be more difficult for the Adviser to assign a value to Assignments or Participations.

### **Distressed Securities**

Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required, which can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

Investing in distressed sovereign debt obligations involves additional risks and considerations not present in private distressed securities, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy and other factors outside of the Adviser's control. The market for distressed securities and instruments is generally thinner and less active than other markets, which can adversely affect the prices at which distressed securities can be sold.

### **Real Estate Industry and REIT Risks**

Investing in companies in the real estate industry results in risks associated with the direct ownership of real estate, such as decreases in real estate values, overbuilding, increased competition and other risks related to local or general economic conditions, increases in operating costs and property taxes, changes in zoning laws, casualty or condemnation losses, possible environmental liabilities, regulatory limitations on rent and fluctuations in rental income. Equity REITs generally experience these risks directly through fee or leasehold interests, whereas mortgage REITs generally experience these risks indirectly through mortgage interests, unless the mortgage REIT forecloses on the underlying real estate.

REITs may be affected by changes in underlying real estate values, which may have an exaggerated effect to the extent that REITs may concentrate investments in particular geographic regions or property types. Additionally, rising interest rates may cause investors in REITs to demand a higher annual yield from future distributions, which may in turn decrease market prices for equity securities issued by REITs. Rising interest rates also generally increase the costs of obtaining financing, which could cause the value of REITs decline. During periods of declining interest rates, certain mortgage REITs may hold mortgages that the mortgagors elect to prepay, which prepayment may diminish the yield on securities issued by such mortgage REITs. In addition, mortgage REITs may be affected by the ability of borrowers to repay

when due the debt extended by the REIT and equity REITs may be affected by the ability of tenants to pay rent.

Certain REITs have relatively small market capitalizations, which may tend to increase the volatility of the market price of securities issued by such REITs. Furthermore, REITs are dependent upon specialized management skills, have limited diversification and are, therefore, subject to risks inherent in operating and financing a limited number of projects.

### **Convergence Risk**

The Adviser may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. Losses may be incurred if the perceived mis-pricings were to fail to converge toward, or were to diverge further from, the Adviser's expectations.

### **Short Sales**

Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a Client's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

### **Leverage**

Performance may be more volatile because a Client's account may trade on margin, engage in other forms of borrowing and use other forms of financial leverage.

### **Lack of Liquidity**

Portfolio assets may, at any given time, include securities and other financial instruments or obligations that are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

### **Lack of Diversification**

A Client's portfolio may not be widely diversified among sectors, industries, geographic areas, types of securities, or issuers. Accordingly, a Client's portfolio may be subject to more rapid change in value than would be the case if the Adviser were required to maintain a greater degree of diversification.

**Item 9.      Disciplinary Information**

The Adviser does not have any disciplinary issues.

**Item 10. Other Financial Industry Activities and Affiliations**

The Adviser does not have any other financial industry activities and affiliations.

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

The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its related persons to put the interests of the Adviser's clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser's personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Justin T. Hester (Chief Compliance Officer) by e-mail at [jhester@varnacapital.com](mailto:jhester@varnacapital.com), or by telephone at 212-588-7100. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by related persons.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

## **Item 12. Brokerage Practices**

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution, offering to the Adviser on-line access to computerized data regarding a client's accounts. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Financial Officer and Portfolio Manager meet periodically to evaluate the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

The Adviser receives research or other products or services other than execution from a broker-dealer in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's Chief Compliance Officer and portfolio manager meet periodically to review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion. The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

The Adviser may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for clients.

Research and brokerage services obtained by the use of commissions arising from an Investment Vehicle's portfolio transactions may be used by the Adviser in its other investment activities, including for the benefit of other Investment Vehicles. The Adviser seeks to allocate soft dollar benefits to the Investment Vehicles proportionately to the soft dollar credits generated by such Investment Vehicles.

During the Adviser's last fiscal year, as a result of client brokerage commissions (or markups or markdowns), the Adviser and/or its related persons acquired market data.

The Adviser has entered into "client commission arrangements" pursuant to which the Adviser may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to the Adviser. The Adviser excludes from use under these arrangements those products and services that are not eligible under Section 28(e) and applicable regulatory interpretations.

The Adviser does not permit Investors to direct brokerage.

The Adviser often purchases or sells the same security for its clients contemporaneously/at or near the same time and using the same executing broker. It is the Adviser's practice, where possible, to aggregate client orders for the purchase or sale of the same security submitted contemporaneously/at or near the same time for execution using the same executing broker. The Adviser will also aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating clients.

### **Item 13. Review of Accounts**

The Investment Vehicles' accounts are reviewed at least on a monthly basis by Svetlana Lee to assure conformity with investment objectives and guidelines and to determine whether to maintain positions in light of current market conditions.

Significant market events affecting the prices of one or more securities in the Investment Vehicles' portfolios may trigger reviews of client accounts on other than a periodic basis.

Investors receive reports from the Investment Vehicles pursuant to the terms of the relevant offering memorandum.



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

The Adviser receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Adviser to select or recommend broker-dealers based on the Adviser’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Adviser on behalf of its clients. Please see Item 12 for further information on the Adviser’s “soft-dollar” practices, including the Adviser’s procedures for addressing conflicts of interest that arise from such practices.

The Adviser currently does not compensate third parties for client referrals, but may do so in the future.

**Item 15. Custody**

The Adviser does not have custody of client assets.

## **Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to the Investment Vehicles.

Prior to assuming full discretion in managing assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion. The Adviser and Svetlana Lee possess portfolio management authority over the Investment Vehicles with respect to asset allocations and direct investments.

The Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The Adviser may consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a pari passu basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Allocations will be made among client accounts eligible to participate in initial public offerings ("IPOs") and secondary offerings on a pro rata basis, except when the Adviser determines in its discretion that a pro rata allocation is not appropriate, which may include a client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a client's status as a "restricted person" under applicable regulations.

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

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, the Adviser's error correction procedure is to ensure that the Investment Vehicles are treated fairly and, following error correction, are in the same position they would have been if the error had not occurred. The Adviser has discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of the Adviser's gross negligence, willful misconduct, or fraud, trade errors will be corrected by the Adviser as soon as practicable, in a manner such that the Investment Vehicle incurs no loss. Trade errors that results other than by breach of the standard of care above are borne by the Investment Vehicle.

#### **Item 17. Voting Client Securities**

If the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. In voting proxies, the Adviser typically votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors and increases in or reclassification in common stock. The Adviser typically will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, the Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

If a material conflict of interest between the Adviser and an Investment Vehicle exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the Investment Vehicle or take some other appropriate action.

Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted a client's proxies by contacting Justin T. Hester (Chief Compliance Officer) by email at [jhester@varnacapital.com](mailto:jhester@varnacapital.com) or by telephone at 212-588-7100.

**Item 18. Financial Information**

The Adviser has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.

**Item 19. Requirements for State-Registered Advisers**

This Item 19 is not applicable.

**Appendix: Item 2. Material Changes**

This Item 2 is not applicable, as this is the Adviser's initial narrative brochure.

Brochure Supplement

**Svetlana Y. Lee**

**February 2012**

Varna Capital Management LLC  
750 Lexington Avenue, 23<sup>rd</sup> Floor  
New York, New York 10022  
212-588-7100

**This brochure supplement provides information about Svetlana Y. Lee that supplements the Varna Capital Management LLC brochure. You should have received a copy of that brochure. Please contact Justin T. Hester, Varna's Chief Compliance Officer at (212) 588-7100 or [jhester@varnacapital.com](mailto:jhester@varnacapital.com) if you did not receive Varna's brochure or if you have any questions about the contents of this supplement.**

**Additional information about Varna Capital is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**



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

Ms. Lee, born in 1974 launched Varna Capital in June 2010. From July 2008 to March 2010, Ms. Lee pursued an investment strategy substantially similar to that pursued by the Adviser as a portfolio manager on the PioneerPath incubation platform, a unit within Citadel Alternative Asset Management LP (CAAM) that provides emerging managers with an infrastructure and access to a managed pool of investment capital. Prior to that, Ms. Lee was an analyst on the investment team at Greenlight Capital from October, 2005 until February, 2008. She was an investment analyst at the Baupost Group from March, 2003 until June, 2005 and an investment analyst at Perry Capital from July, 1998 until February, 2003. Svetlana began her career as an investment banking analyst in the Media and Telecommunications Group at Lehman Brothers from August 1996 to June 1998. She has invested globally in equity and debt instruments in a variety of industries including financials, industrials, business services, oil services, media and telecommunications. Svetlana graduated, summa cum laude, from Dartmouth College in 1996, with a Bachelors of Arts in Physics and Engineering.

**Item 3. Disciplinary Information**

Ms. Lee has not been the subject of any material legal or disciplinary events required to be disclosed in this Item.

**Item 4. Other Business Activities**

Ms. Lee has no information applicable to this Item.

**Item 5. Additional Compensation**

Ms. Lee has no information applicable to this Item.

**Item 6. Supervision**

Ms. Lee has no information applicable to this Item.