

# Disclosure Brochure

February 13, 2012



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This brochure provides information about the qualifications and business practices of Varadero Capital, L.P. If you have any questions about the contents of this brochure, please contact Varadero Capital, L.P. at (212) 715-6800. 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 Varadero Capital, L.P. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Varadero Capital, L.P. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since the last annual update of Varadero Capital, L.P. (“Varadero Capital” or the “Firm”). Since this is Varadero Capital’s initial Disclosure Brochure, there are no material changes to report.

## Item 3. Table of Contents

### Firm Disclosure Brochure

|   |     |
|---|-----|
| Item 1. Cover Page .....  | i   |
| Item 2. Material Changes .....  | ii  |
| Item 3. Table of Contents.....  | iii |
| Item 4. Advisory Business.....  | 4   |
| Item 5. Fees and Compensation .....                                       | 7   |
| Item 6. Performance-Based Fees and Side-by-Side Management .....          | 9   |
| Item 7. Types of Clients .....  | 10  |
| Item 8. Methods of Analysis, Investment Strategies and Risk of Loss ..... | 11  |
| Item 9. Disciplinary Information.....                                     | 13  |
| Item 10. Other Financial Industry Activities and Affiliations .....       | 14  |
| Item 11. Code of Ethics .....   | 15  |
| Item 12. Brokerage Practices.....   | 16  |
| Item 13. Review of Accounts.....  | 18  |
| Item 14. Client Referrals and Other Compensation .....                    | 19  |
| Item 15. Custody .....  | 20  |
| Item 16. Investment Discretion.....                                       | 21  |
| Item 17. Voting Client Securities .....                                   | 22  |
| Item 18. Financial Information.....                                       | 23  |

## Item 4. Advisory Business

Varadero Capital was formed in July 2009. The Firm is owned 65% by Fernando Guerrero and 35% by VME Blocker, Inc. a wholly-owned subsidiary of NIBC Holding N.V. Mr. Guerrero is Varadero Capital's Managing Partner and Chief Investment Officer. VME Blocker, Inc. does not perform a role within the firm. As of December 31, 2011, Varadero Capital had approximately \$301,792,488 million of assets under management. Of that total, \$282,869,481 has been managed on a discretionary basis and \$18,923,007 has been managed on a non-discretionary basis.

Varadero Capital offers clients a variety of investment management, due diligence and valuation services. Prior to engaging the Firm to provide investment advisory services, the client is required to enter into one or more written agreements with Varadero Capital setting forth the terms and conditions under which Varadero Capital renders its services (collectively the "*Agreement*").

This Disclosure Brochure describes the business of Varadero Capital. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Varadero Capital's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Varadero Capital's behalf and is subject to the Firm's supervision or control.

### Investment Management Services

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Clients may engage Varadero Capital to manage their assets on a discretionary or non-discretionary basis. Varadero Capital primarily allocates clients' investment management assets among the Firm's separate accounts and private investment funds, namely, Varadero Parallel Fund, L.P. (the "*Parallel Fund*") and Varadero Master Fund, L.P. (the "*Master Fund*").

Varadero Capital provides advice about all types of investments held in clients' portfolios. The Firm seeks investments that are appropriate for each client's investment needs, goals, objectives and risk tolerance. Clients are hereby advised to promptly notify Varadero Capital if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Varadero Capital's management services. Clients with investments in separate accounts may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in higher-rated securities).

### Management of Private Investment Funds

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Varadero Capital is the investment manager to a number of private investment funds, including the *Parallel Fund*, Varadero Partners, L.P. ("*Partners*"), Varadero International, Ltd. ("*International*") and the *Master Fund* (collectively, the "*Private Funds*"). *Partners* and *International* act as feeder funds to the *Master Fund*. The Firm acts as the investment adviser to the *Private Funds* and is responsible for evaluating and monitoring investments and providing day-to-day managerial services to the *Private*

*Funds.* An affiliate of Varadero Capital, Varadero General Partner, LLC (the “General Partner”), acts as the general partner to the *Private Funds*. Interests in the *Private Funds* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. The *Private Funds* currently rely on an exemption from registration under the Investment Company Act of 1940, as amended.

The *Private Funds* seek attractive risk-adjusted total returns for investors by acquiring, originating and actively managing a portfolio of debt securities. The *Private Funds* focus on investments that the General Partner and the Firm believe to be fundamentally undervalued with current market prices that are believed to be compelling relative to intrinsic value. In executing its investment program, the General Partner and Varadero Capital anticipate investing in a variety of financial instruments with a focus on various forms of asset-backed securities and loans, including, but not limited to: investment-grade commercial mortgage-backed securities (“CMBS”), residential mortgage-backed securities (“RMBS”), asset-backed securities (“ABS”), collateralized debt obligations (“CDO”), below investment-grade interests (equity-tranches and residuals) in CMBS, RMBS, ABS, and CDO, non-performing/performing mortgage loans, and asset-based investments typically secured by physical, financial and/or other assets. In addition, from time to time, the *Private Funds* may also invest in equity indices and other types of investments.

Participation as an investor in the *Private Funds* is generally restricted to investors that are “qualified clients” pursuant to the requirements under Rule 205-3 under the Investment Advisers Act of 1940, “accredited investors” as defined under Rule 501 of the Securities Act of 1933, as amended, and “qualified purchasers” as defined under the Investment Company Act of 1940, as amended.

To the extent certain of Varadero Capital’s individual advisory clients qualify, they will be eligible to participate as limited partners of the *Private Funds*. Investment in the *Private Funds* involves a significant degree of risk. All relevant information, terms and conditions relative to the *Private Funds*, including the compensation received by Varadero Capital or any affiliate, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Placement Memoranda (the “*Memoranda*”), Limited Partnership Agreements (the “*Partnership Agreements*”), Articles of Association and Subscription Agreements (together, the “*Offering Documents*”), which each investor is required to receive and/or execute prior to being accepted as an investor in the *Private Funds*.

While the *Private Funds* are generally Varadero Capital’s client, the term “client(s)” sometimes refers to the investors in the *Private Funds*. Varadero Capital will devote its professional efforts with respect to its management of both the *Private Funds* and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the *Private Funds*, Varadero Capital may give advice or take action with respect to the *Private Funds* that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the *Private Funds* and certain individual client accounts, such investments will be allocated between the *Private Funds* and the individual client accounts pro rata based on the uninvested assets under management or in some

other manner which Varadero Capital determines is fair and equitable under the circumstances to all of its clients.

The information contained within this Disclosure Brochure is not necessarily applicable to an investment in the *Private Funds*. Prospective investors of the *Private Funds* are urged to read the *Offering Documents* carefully before investing.

## **Separate Accounts**

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The separate accounts are managed in a manner substantially similar to the management of the *Private Funds*; however, in many cases, the assets underlying the separate accounts have shorter maturity horizons. Similar to the *Private Funds*, the separate accounts seek attractive risk-adjusted total returns for investors by acquiring, originating and actively managing a portfolio of debt securities. Furthermore, in executing its investment program, Varadero Capital anticipates allocating assets among investment-grade CMBS, RMBS, ABS, CDO as well as below investment-grade interests (equity-tranches and residuals) in CMBS, RMBS, ABS, and CDO, non-performing/performing mortgage loans, and asset-based investments typically secured by physical, financial and/or other assets. In addition, from time to time, the separate accounts may also invest in other types of investments.

## **Due Diligence and Valuation Services**

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Varadero Capital may provide clients with due diligence and valuation services. The Firm's due diligence and valuation engagements sometimes involve de-risking activities aimed at helping clients divest assets no longer deemed necessary or acquisition activities aimed at helping clients attain assets. In providing its due diligence and valuation services, the Firm conducts comprehensive research to assist clients to value assets and make purchasing or selling decisions. In performing these services, the Firm assists in the initial evaluation and analysis of certain assets including fixed income securities or whole loans held by the client or a potential seller of such assets. Upon doing so, Varadero Capital may provide the client with a written report containing its analysis. Since 2007, the Firm has provided due diligence and valuation services to clients globally on more than \$1 trillion in assets.

In performing its services, Varadero Capital is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information.

## Item 5. Fees and Compensation

Varadero Capital offers its services on a fee basis, which includes fees based upon assets under management and, in certain circumstances, the performance of the client's portfolio. In addition, in cases where the Firm provides due diligence and valuation services, a report fee and/or bonus cash fee may be charged.

### Investment Management

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The Firm provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Varadero Capital. The annual fee is exclusive of, and in addition to brokerage prices, transaction fees, and other related costs and expenses which are incurred by the client. Varadero Capital does not, however, receive any portion of these prices, fees, and costs.

In general, the Firm's annual fee for separate accounts is prorated and charged monthly, in advance, based upon the market value of the assets being managed by Varadero Capital on the last day of the previous month. The annual fee will be negotiated and will vary depending upon a number of factors, including the market value of the assets under management, the type of investment management services to be rendered, account composition, anticipated amount of resources utilized in the relationship and the existence of related accounts. For information about the fees charged in the *Private Funds*, please see the *Offering Documents*.

### Due Diligence and Valuation Services

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In general, Varadero Capital charges a fee for a report it furnishes to clients when performing its due diligence and valuation services (the "Report Fee"). The Report Fee generally is due no later than thirty (30) days after the Firm furnishes such report. In circumstances where the client or any of the client's managed funds or affiliates makes a direct or indirect cash infusion or other monetary investment, Varadero Capital may charge a bonus cash fee ("Bonus Cash Fee"), payable no later than thirty (30) days after such infusion or other investment is made by such client. These fees are negotiated and vary depending upon the level and scope of the services. Prior to engaging Varadero Capital to provide due diligence and valuation services, the client is required to enter into a written agreement with Varadero Capital setting forth the terms and conditions of the engagement.

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Varadero Capital has sole discretion to choose the prime broker for the *Private Funds*. The Firm utilizes the prime brokerage and clearing services of J.P. Morgan Clearing Corp., J.P. Morgan Securities Inc. and certain affiliates thereof (*collectively "J.P. Morgan"*).

Varadero Capital may only implement its investment management recommendations after the client has arranged for and furnished Varadero Capital with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *J.P. Morgan*, any broker chosen by Varadero Capital, broker-dealers directed by the client, trust companies, banks etc. (collectively referred to herein as the “*Financial Institutions*”).

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage and transaction fees. Such charges, fees and taxes are exclusive of and in addition to Varadero Capital's fee.

Varadero Capital's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Varadero Capital to debit the client's account for the amount of Varadero Capital's fee and to directly remit that management fee to Varadero Capital. Any *Financial Institutions* recommended by Varadero Capital may agree to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Varadero Capital. Alternatively, in certain circumstances, clients may elect to have Varadero Capital send an invoice for payment.

## **Fees for Management During Partial Months of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

In general, the *Agreement* between Varadero Capital and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Varadero Capital's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Except for investments in the *Private Funds*, clients may generally make additions to and withdrawals from their account at any time, subject to Varadero Capital's right to terminate an account. Additions may be in cash. Clients may withdraw account assets on notice to Varadero Capital, subject to the usual and customary securities settlement procedures. However, Varadero Capital generally designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives.

Assets invested in the *Private Funds* are subject to lock-up periods and will not be readily available for withdrawals or redemptions. For additional information about investments in the *Private Funds*, please see the *Offering Documents*.



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

As discussed in response to Item 5, above, Varadero Capital or the General Partner receives a *performance fee* or *performance allocation*. This fee arrangement raises a conflict of interest. The *performance fee* or *performance allocation* may be an incentive for Varadero Capital to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Varadero Capital charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee.

Varadero Capital has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether clients are paying a performance-based fee or different type of fee.

## Item 7. Types of Clients

Varadero Capital provides its services to private investment funds or other collective vehicles, pension and profit sharing plans, insurance companies, banking and thrift institutions as well as corporations and business entities.

### Investment Size

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As a condition for starting and maintaining a relationship, Varadero Capital generally imposes a minimum investment size of \$1,000,000. The Firm, in its sole discretion, may accept clients with smaller investments based upon certain criteria including additional investments, related accounts, account composition, pre-existing client and account retention.

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

### Methods of Analysis and Investment Strategies

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Varadero Capital primarily allocates clients' investment management assets among the *Private Funds* and separate accounts.

Varadero Capital seeks attractive risk-adjusted total returns for investors by acquiring, originating and actively managing a portfolio of debt securities. The Firm focuses on investments that it believes are fundamentally undervalued with current market prices that are believed to be compelling relative to intrinsic value. In executing its investment program, the Firm invests in a variety of financial instruments with a focus on various forms of asset-backed securities and loans. In addition, from time to time, Varadero Capital may also invest in equity indices and other types of investments.

Varadero Capital may use long and/or short positions in various liquid indices, public equities and options, corporate and municipal debt (both cash and synthetic) and engage in the use of fixed income derivatives, such as credit default swaps, total return swaps, forward contracts, futures and other similar vehicles. Further, the Firm may from time to time originate certain investments, including, without limitation, participation in and/or assignments of sales of loans or interests therein.

For additional information about the investment strategies or methods of analysis of the *Private Funds*, please see the *Offering Documents*.

### Risks of Loss

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#### *Market Risks*

The profitability of a significant portion of Varadero Capital's recommendations may depend to a great extent upon correctly assessing the future revenue streams and price movements of investments held in the *Private Funds* and separate accounts. There can be no assurance that Varadero Capital will be able to predict those price movements accurately.

#### *Use of Private Investment Funds*

Varadero Capital may recommend the investment by certain clients in private investment funds (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the applicable vehicle(s). In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

## *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Varadero Capital in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Varadero Capital will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are hereby advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to Varadero Capital.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on the client's profitability.

## *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## *Private Funds*

For specific information related to the risks of investing in the *Private Funds*, please see the *Offering Documents*.

## Item 9. Disciplinary Information

Varadero Capital is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Varadero Capital does not have any required disclosures to this Item.

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

Varadero Capital is required to disclose any relationship or arrangement with certain related persons that is material to its advisory business or to its clients. Varadero Capital has described such relationships and arrangements below.

Varadero Capital is owned 35% by VME Blocker, Inc., a wholly-owned subsidiary of NIBC Holding N.V., a Dutch bank holding company. VME Blocker, Inc. does not perform a role within the Firm.

## Item 11. Code of Ethics

Varadero Capital has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Varadero Capital or any of its associated persons. The *Code of Ethics* also requires that certain of Varadero Capital’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Varadero Capital’s *Code of Ethics*, none of Varadero Capital’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Varadero Capital’s clients.

Varadero Capital and persons associated with Varadero Capital (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Varadero Capital’s policies and procedures.

When Varadero Capital is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Varadero Capital is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

As discussed above in response to Item 4, Varadero Capital is the investment adviser to the *Private Funds*. Varadero Capital may recommend, on a fully disclosed basis, that certain clients invest in the *Private Funds*, which may pose certain conflicts of interest. Varadero Capital has policies and procedures in place to ensure that all recommendations to its clients are fair and equitable under the circumstances.

Clients and prospective clients may contact Varadero Capital to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Varadero Capital has discretionary authority to choose broker-dealers utilized by the *Private Funds*. Varadero Capital currently utilizes the prime brokerage services of *J.P. Morgan*.

For separate account clients, as well as clients to which Varadero Capital provides due diligence and valuation services, the Firm does not generally recommend that clients utilize the brokerage and clearing services of a specific *Financial Institution*. In the event Varadero Capital does recommend a *Financial Institution*, factors which Varadero Capital may consider include the *Financial Institution's* respective financial strength, reputation, execution, pricing, research and service. The prices and/or transaction fees charged by such *Financial Institutions* may be higher or lower than those charged by other *Financial Institutions*.

Where Varadero Capital has recommended a broker-dealer, the prices paid by clients will comply with Varadero Capital's duty to obtain "best execution." Clients may pay prices that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Varadero Capital determines that the prices are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, prices, and responsiveness. Varadero Capital seeks competitive rates but may not necessarily obtain the lowest possible prices for client transactions.

Varadero Capital periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Varadero Capital in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Varadero Capital will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Varadero Capital (as described below). As a result, the client may pay higher prices or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Varadero Capital may decline a client's request to direct brokerage if, in Varadero Capital's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Varadero Capital decides to purchase or sell the same securities for several clients at approximately the same time. Varadero Capital may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable prices, or to allocate equitably among Varadero Capital's clients differences in prices and other



transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Varadero Capital's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Varadero Capital determines to aggregate client orders for the purchase or sale of securities, including securities in which Varadero Capital's *Supervised Persons* may invest, Varadero Capital generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Varadero Capital does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Varadero Capital determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Varadero Capital may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment products and/or services which assist Varadero Capital in its investment decision-making process. As such, *J.P. Morgan* may provide the Firm with access to white papers *J.P. Morgan* widely distributes. Such investment products generally will be used to service all of Varadero Capital's clients, but brokerage prices paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment products and/or services as well as the allocation of the benefit of such investment products and/or services poses a conflict of interest because Varadero Capital does not have to produce or pay for the products or services.

## Item 13. Review of Accounts

For those clients to whom Varadero Capital provides investment management services, Varadero Capital monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by Varadero Capital's investment committee, comprised of Fernando Guerrero, the Firm's Managing Partner and Chief Investment Officer, Erik Cornelissen, the Firm's Chief Risk Officer, and Jonah Lansky, the Firm's Portfolio Manager.

Varadero Capital contacts ongoing investment advisory clients with separate accounts at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients (other than investors in the *Private Funds*) are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Clients should compare the account statements they receive from their custodian with those they receive from Varadero Capital.

Investors in the *Private Funds* will also receive a monthly unaudited performance report from Varadero Capital, as well as audited financial statements after the end of the *Private Fund's* fiscal year. From time to time, the Firm will also send out newsletters covering market-related information.

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

Varadero Capital is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Varadero Capital is required to disclose any direct or indirect compensation that it provides for client referrals. Varadero Capital does not have any required disclosures to this Item.

## Item 15. Custody

Varadero Capital's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Varadero Capital through such *Financial Institution* to debit the client's account for the amount of Varadero Capital's fee and to directly remit that management fee to Varadero Capital in accordance with applicable custody rules.

For individual clients (not investors in the *Private Funds*), *Financial Institutions* will send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Varadero Capital. In addition, as discussed in Item 13, Varadero Capital also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Varadero Capital.

## Item 16. Investment Discretion

Varadero Capital is given the authority to exercise discretion on behalf of most of its clients. The Firm is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Varadero Capital is generally given this authority through a power-of-attorney included in the agreement between Varadero Capital and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). The Firm may take discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

## Item 17. Voting Client Securities

While the type of securities that Varadero Capital recommends rarely issue proxies, the Firm may be required to vote client securities (proxies) on behalf of the *Private Funds*. Varadero Capital does not vote proxies on behalf of clients with separate accounts. Varadero Capital has policies and procedures in place to ensure it casts proxy votes in a manner consistent with the best interest of the *Private Funds*.

## **Item 18. Financial Information**

Varadero Capital does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Varadero Capital is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Varadero Capital has no disclosures pursuant to this Item.



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