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# CARNE

Carne Capital, LLC

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August 22, 2012

This Brochure provides information about the qualifications and business practices of CARNE CAPITAL, LLC (“Carne”). If you have any questions about the contents of this Brochure, please contact us at 610-964-3317 or [info@carnecapital.com](mailto:info@carnecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

CARNE CAPITAL, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

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## **Item 2 – Material Changes**

Pursuant to the current SEC Rules, it is our responsibility that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year on December 31. Carne Capital, LLC has not previously been required to provide a Brochure to its Clients.

Currently, our Brochure may be requested by contacting Sean Bonner, Chief Investment Officer at 610-964-3317 or [info@carnecapital.com](mailto:info@carnecapital.com).

Additional information about CARNE CAPITAL, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 – Advisory Business**

Carne Capital, LLC (“Carne”) provides investment advisory services to the Carne Large Cap Value Fund, a series of Forum Funds, a registered, open-end management investment company (“mutual fund”) and a separately managed account. Carne was formed, and registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, in December 2011.

Carne is wholly-owned by its founder and Chief Investment Officer, Francis Sean Bonner.

Carne offers advisory services with respect to U.S. equity securities of large market capitalization companies and instruments that provide exposure to such securities.

Carne may tailor its advisory services to needs of individual clients. Our mutual fund client’s advisory services are described in the fund’s current Prospectus and Statement of Additional Information. The Separate account is managed using the same advisory services as the mutual fund client. Separate account clients may place restrictions on purchase of particular securities, strategies and investments. Further, separate account clients may permit or require trading of portfolio securities to be conducted at only their designated firms (i.e, directed brokerage). It is possible that some of these firms may not have the capabilities to purchase certain securities that we may normally purchase for our mutual fund client.

Carne does not participate in any wrap fee programs.

As of August 20, 2012 Carne’s assets under management were approximately \$52 million, all of which are managed on a discretionary basis.

#### **Item 5 – Fees and Compensation**

Advisory fees are earned based on a percentage of assets under management and may differ among our clients depending upon (i) the services rendered (e.g., mutual fund versus a separate account), or (ii) the size of the client’s account. All fees are subject to negotiation based on individual client circumstances, such as, but not limited to, type and size of the account and the type and amount of client related services we provide.

The advisory fees for our mutual fund client are 0.95% of such fund’s average daily net assets. Carne is contractually obligated to reduce its advisory fee and/or reimburse fund expenses with respect to the mutual fund client through March 1, 2013, in order to limit total fund operating expenses. Carne may be reimbursed by the mutual fund client for fees waived and expenses reimbursed by Carne under certain circumstances if such payment is made within three years of the fee waiver or expense reimbursement.

The advisory fee, if not waived, is accrued daily by the mutual fund and is assessed based on average daily net assets for the prior month. The advisory fee is paid monthly. In addition to receiving its advisory fee from the mutual fund, Carne may also act and be compensated as investment manager for its clients with respect to assets they invest in the mutual fund. If the separately managed account client invests its assets in the mutual fund, Carne will credit an amount equal to all or a portion of the fees it receives from the mutual fund against any advisory fee received from such other clients.

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For our separate account, our advisory fees are 0.80% of the account's average net asset value calculated as of the end of each month. Carne bills separate account clients for advisory fees incurred on a quarterly basis.

Carne may, as authorized by clients, direct each client's account custodian to debit from the client's account and to pay Carne the advisory fee due from the account. Carne may, alternatively, deliver a fee invoice to clients for any amount equal to the advisory fee due from the client for payment directly from the client.

Carne's fees are exclusive of brokerage commissions and other transaction costs which shall be incurred by the client, as well as mutual fund and separate account fees which clients pay. Mutual funds charge certain other fees, which include but are not limited to, fund administration, fund accounting, compliance, legal, custody, transfer agency, distribution (Rule 12b-1 fees), trustees fees and brokerage. Separate account clients may incur certain fees with respect to services provided by custodians, brokers, 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.

The mutual fund has adopted a Rule 12b-1 plan under which the fund is authorized to pay to the fund's distributor and any other entity authorized by the fund's Board, including Carne, compensation for distribution-related and/or shareholder services provided by such entities, an aggregate fee equal to 0.25% of the average daily net assets of the fund's Investor Shares. Carne may pay any or all amounts received under the Rule 12b-1 plan to other persons for any distribution or service activity conducted on behalf of the fund. The plan is a core component of the ongoing distribution of the Fund's Investor Shares. Pursuant to an agreement between the distributor and Carne, the distributor may reimburse certain distribution-related and/or shareholder servicing expenses incurred by Carne.

Receipt of such compensation for distribution-related or shareholder services with respect to the mutual fund presents a conflict of interest, and gives Carne an incentive to recommend the mutual fund as an investment for clients based on the compensation received, rather than based on client needs. Clients and prospects are always free to select their own investments and to ignore any recommendation from Carne to purchase a particular product. Clients and prospects are also free to purchase products recommended by Carne indirectly from a broker or agent of their choice rather than through us.

Item 12 further describes the factors that Carne considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

Carne does not currently charge any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client).

Carne does not participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

### Item 7 – Types of *Clients*

Carne provides advisory services to a series of a registered investment company and a separate account. Carne can provide advisory services to individuals or institutions.

Carne has sole discretion as to the size of separate accounts it accepts.

Minimum account size for the mutual fund that Carne advises is determined by the fund sponsor and not Carne. The Fund accepts investments in the following minimum amounts:

	<b>Institutional Shares</b>		<b>Investor Shares</b>	
	<b>Minimum Initial Investment</b>	<b>Minimum Additional Investment</b>	<b>Minimum Initial Investments</b>	<b>Minimum Additional Investment</b>
Standard Accounts	\$100,000	\$25,000	\$2,500	\$100
Retirement Accounts	\$100,000	\$25,000	\$1,000	\$100

**Small Account Balances.** If the value of your account falls below the minimum account balances in the following table, the mutual fund may ask you to increase your balance. If the account value is still below the minimum balance after 60 days, the fund may close your account and send you the proceeds. The Fund will not close your account if it falls below these amounts solely as a result of Fund performance.

<b>Minimum Account Balance</b>	<b>Institutional Shares</b>	<b>Investor Shares</b>
Standard Accounts	\$100,000	\$2,500
Retirement Accounts	\$100,000	\$1,000

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

Carne's investment strategy consists of recommendations for investment in equity securities of companies that meet our investment philosophy. Carne invests in companies with large market capitalizations and instruments that provide exposure to such securities. Large market capitalization companies are those U.S. listed companies with market capitalizations that are in the range, at the time of their purchase, of those of the companies in the S&P 500 Index.

Equity securities in which the mutual fund client and the separate account may invest include common and preferred stock, convertible securities, warrants, and rights. The mutual fund client may also invest in depositary receipts, including American Depositary Receipts (ADRs).

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With respect to the separate account client, Carne will manage their holdings in order to maximize net long-term returns by investing primarily in the equity securities of companies domiciled in the U.S. It is contemplated that the separate account will normally be fully invested, maintaining a 90-100% equity commitment level.

Equity holdings in any one company, except mutual funds, should not exceed 6% of the market value of the separate account's total portfolio.

Equity holdings in companies domiciled outside the U.S. should not exceed 10% of the market value of the separate account's total portfolio. No purchase shall be made, which would cause a holding to exceed 6% of the market value of the issue outstanding.

Carne will not engage in short selling, securities lending, use of financial futures or other specialized investment activity without specific prior authorization of the separate account.

Carne may invest up to 10% of the separate account's portfolio holdings in reserve and cash equivalent investments. However, these investments will be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall reasonably carry the equivalent of S&P A1 or Moody P-1. Short-term reserves may be held in U.S. dollar denominated securities or investment vehicles available through the custodian.

Carne's goal is to construct an actively managed portfolio of companies that are undervalued and exhibit the likelihood of exceeding market returns.

Carne seeks to achieve higher after tax returns by holding securities long enough to avoid taxes on short-term capital gains. In addition, Carne intends to maximize the amount of long-term capital gains that the fund recognizes, including with respect to Section 1256 contracts (the gain on which is treated as 60% long-term capital gain and 40% short-term capital gain).

**The Adviser's Process.** Carne uses a value approach to select investments. Using this investment style, we seek securities selling at discounts to their underlying values and then hold these securities until their market values reflect their intrinsic values.

Carne uses a combination of quantitative and qualitative analysis to select securities. We begin with the universe of companies and apply a quantitative screen to reduce the number of companies eligible for investment. We then use a qualitative analysis to further reduce the universe of companies to that which is suitable for our clients and fits our investment philosophy.

Carne uses traditional valuation measures such as price to earnings ratios, return on assets, price-to-book ratios and other quantitative. We will sell call options on the S&P 500 Index with respect to a substantial portion of our portfolio holdings to protect against a significant market decline over a short period of time. Generally, we intend to sell S&P 500 Index call options that are "out-of-the-money," meaning that the exercise price of the Index option is greater than the

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current cash value of the S&P 500 Index. We will sell options that are exchange-listed and that are "American Style" or "European Style." "American Style" options may be exercised at any time before the expiration date of the option. "European Style" options may only be exercised on the expiration date of the option.

As the seller of an Index call option, a client receives cash (the premium) from the purchaser. The purchaser of the Index call option has the right to any appreciation in the value of the Index over a fixed price (the exercise price) on a certain date in the future (the expiration date). The premium, the exercise price and the market value of the Index determine the gain or loss realized by the client as the seller of the Index call option. The client, in effect, sells the potential appreciation in the value of the S&P 500 Index in exchange for the premium. If, at the expiration of the option, the purchaser exercises an Index call option sold by the client, the client will pay the purchaser the difference between the cash value of the Index and the exercise price of the Index option.

We continually monitor the investments in a client's portfolio to determine if there have been any fundamental changes in the companies or issuers. We may sell a security if:

- The security subsequently fails to meet our initial investment criteria;
- A more attractively priced security is found or if funds are needed for other purposes; or
- We believe that the security has reached its appreciation potential.

### **Additional Information Regarding Principal Investment Risks**

**Investing in securities involves risk of loss that clients should be prepared to bear. Listed below are specific risks associated with our investment strategy.**

**Counterparty Risk.** We may enter into financial instruments or transactions with a counterparty. A counterparty may become bankrupt or otherwise fail to perform its obligations due to financial difficulties, jeopardizing the value of the Fund's investment. A client may experience significant delays in recovering an investment in a bankruptcy or other reorganization proceeding, and recover only a limited amount or none of its investment in such circumstances.

**Equity Risk.** Equity holdings we select for a client may decline in value because of changes in price of a particular holding or a broad stock market decline. These fluctuations could be a drastic movement or a sustained trend. The value of a security may decline for a number of reasons which directly relate to the issuer of a security, such as management performance, financial leverage and reduced demand for the issuer's goods or services. Common stocks in general are subject to the risk of an issuer liquidating or declaring bankruptcy, in which case the claims of owners of the issuer's debt securities and preferred stock take precedence over the claims of common stockholders. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuation in the market value of the underlying securities.

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**Focused Portfolio Risk.** A client's portfolio may be over-weighted in individual securities relative to other more diversified accounts. The increase or decrease of the value of a single stock held by a client may have a greater impact on its value and total return than if the portfolio were more broadly invested.

**Index Call Option Risk.** The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price on the expiration date. The exercise of index call options we sell will be settled in cash, and a client will not generally provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. Instead, we intend to mitigate the risks of written index call positions by holding a diversified portfolio of stocks similar to those on which the S&P 500 Index is based. However, we do not intend to hold exactly the same stocks as are in the S&P 500 Index and, as a result, bears a risk that the value of the securities held in a client will vary from the value of the S&P 500 Index. The premium received is the maximum profit a client can realize from written index options. The loss potential from writing an uncovered index option is generally unlimited. The value of written index options, which will be priced daily, will be affected by changes in the value of and dividend rates of the securities in the index, changes in the actual or perceived volatility of the stock market and the remaining time to the options. The value of index options may be adversely affected if the market for the index options becomes less liquid or smaller.

**Management Risk.** We actively manage our client portfolios, and their performance, therefore, will reflect our ability to make investment decisions that are suited to achieving a client's investment objective. Due to its active management, a client could underperform other funds or accounts with similar investment objectives. Further, performance of our client accounts may deviate from overall market returns to a greater degree than other funds or accounts that do not employ a similar strategy.

**Market Events Risk.** Turbulence in the financial markets and reduced liquidity in equity, credit and fixed-income markets may negatively affect issuers worldwide, which could have an adverse effect on the client's account.

**Sector Risk.** Our portfolio investments may be more heavily weighted in one or more sectors or industries. Negative developments affecting those sectors or industries, such as adverse economic, political or regulatory events, may result in greater market risk and potential losses than a fund that is not weighted in those sectors or industries.

**Value Investment Risk.** We may invest in securities believed by us to be undervalued. The determination that the stock is undervalued is subjective, the market may not agree and the stock's price may not rise to what we believe is its full value. The value of the fund or account may decline, even if stock prices generally are rising because value stocks may fall out of favor with the market or react differently to market, political and economic developments.

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## **Item 9 – Disciplinary Information**

As further described in the prospectus for the Carne Large Cap Value Fund (the “Fund”), a series of Forum Funds, Mr. Bonner is currently involved in litigation with respect to a business dispute with a former business associate regarding the rights and interests of a previous entity that had previously served as the adviser to the Fund. Mr. Bonner believes the plaintiff’s claims are without merit and has countersued on other causes of action.

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

Francis Sean Bonner, our Chief Investment Officer is licensed as a registered representative of Foreside Financial Services, LLC, an unaffiliated broker-dealer which is the distributor of our mutual fund client. Because Foreside is a private company independent of Carne, and does not execute trades or underwrite securities, we do not believe conflict of interest concerns are presented as a result of the relationship with Foreside.

Neither we nor any of our management persons are registered, or have an application pending, as a futures commission merchant, commodity pool operator, or commodity trading adviser.

Other than our mutual fund and separate account, we do not have any relationship or arrangement that is material to our advisory business or our clients that we or any of our management team has with a broker dealer, municipal securities dealer, government securities dealer or broker; any other investment company or other pooled investment vehicle; other investment adviser or financial planner; futures commission merchant, commodity pool operator, or commodity trading advisor; banking or thrift institution; accountant or accounting firm; lawyer or law firm; insurance company or agency; pension consultant; real estate broker or dealer; or sponsor or syndicator of limited partnerships.

We may recommend that clients purchase the redeemable shares of the Carne Large Cap Value Fund, for which we serve as investment adviser, and receive an advisory fee. Members of our firm frequently invest in the Carne Large Cap Value Fund.

Because Carne serves as investment adviser to a separate account, and because its employees and senior management may invest in the Carne Large Cap Value Fund, certain inherent potential conflicts of interest arise. Management of the separate account may involve different trading strategies and/or may be traded at different times than those employed for the mutual fund. We seek to address conflicts of interest relating to its trading of accounts through our trading policies, which are described in detail in the “Brokerage Practices” item of this Brochure below. Carne also seeks to address conflicts of interest relating to the personal trading activities of its employees and senior management through its Code of Ethics and personal trading policies, which are also described in detail in below.

We do not recommend or select other investment advisers for our clients.

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### **Item 11 – Code of Ethics**

Carne has adopted a code of ethics (the “Code of Ethics”) in compliance with Rule 204A-1 under the Investment Advisers Act of 1940 in order to specify the standard of conduct expected of its Associated Persons. The Firm will, upon request, furnish clients with a copy of the Code of Ethics.

All of our Associated Persons must comply with applicable federal securities laws. In particular, it is unlawful for us and any Associated Person, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly:

- To employ any device, scheme or artifice to defraud any client or prospective client;
- To engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon any client or prospective client; or
- To engage in any fraudulent, deceptive, or manipulative practice.

In adopting the Code of Ethics, Carne recognizes that it, and its affiliated persons owe a fiduciary duty to our client accounts and must (1) at all times place the interests of clients first; (2) conduct personal securities transactions in a manner consistent with this Code of Ethics and avoid any abuse of a position of trust and responsibility; and (3) adhere to the fundamental standard that Associated Persons should not take inappropriate advantage of their positions. In addition, Carne and its Associated Persons must comply with all applicable federal securities laws, which shall generally be explained in our Compliance Manual. Associated Persons must report any violations of the Code of Ethics to our Chief Compliance Officer. For purposes of our Code of Ethics, “Associated Persons” include all of Carne’s directors, officers and partners, and other supervised persons who have access to nonpublic information regarding any clients’ purchase or sale of securities, or who is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic. These Associated persons are also referred to here as our “Access Persons.” Associated Persons also include any of our employees, and any independent contractors who perform advisory functions on behalf of Carne.

Carne may recommend that clients invest in the Carne Large Cap Value Fund for which it serves as investment adviser. This may be a conflict of interest because Carne received advisory fees from the Fund based on its average daily net assets. Carne is responsible for determining whether the recommended investment is suitable for a particular client, based on information provided by the client. Clients may also invest through other unaffiliated advisers or brokers.

### **Timing of Personal Transactions**

Our directors, officers and employees may from time to time purchase or sell securities that we purchase for clients, which may be at or about the same time that such securities are bought or sold for client accounts. This may present a conflict of interests. Accordingly, these purchases or sales must be affected in accordance with our Code of Ethics, which includes a personal trading policy. Carne's personal trading policy states that no Access Person may purchase or sell, directly or indirectly, any security in which the Access Person or an affiliated account has, or by reason of the transaction acquires, any direct or indirect beneficial ownership if the Access Person knows or reasonably should know that the security, at the time of the purchase or sale (i)

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is being considered for purchase or sale on behalf of any client account; or (ii) is being actively purchased or sold on behalf any client account.

If Carne is purchasing/selling or considering for purchase/sale any security on behalf of a client account, no Access Person may effect a transaction in that security within seven (7) days prior to or after the client purchase/sale having been completed by Carne, or until a decision has been made not to purchase/sell the security on behalf of the client account.

### **Improper Use of Information**

No Access Person may use his or her knowledge about the securities transactions or holdings of a client account in trading for any account that is directly or indirectly beneficially owned by the Access Person or for any affiliated account. Any investment ideas developed by an Access Person must be made available to client accounts before the access person may engage in personal transactions or transactions for an affiliated account based on these ideas.

No Associated Person:

- while aware of material nonpublic information about a company, may purchase or sell securities of that company until the information becomes publicly disseminated and the market has had an opportunity to react;
- shall disclose material nonpublic information about a company to any person except for lawful purposes;
- may purchase any securities of companies that are clients, or whose senior management are clients, as for as long as the publicly traded company (or any member of its senior management) is a client of Carne, unless expressly approved in advance by our Chief Compliance Officer.

All securities transactions, including transactions in mutual funds where Carne serves as adviser, must be reported to Carne's Chief Compliance Officer on a quarterly basis. All of our employees must submit on an annual basis a complete listing of all personal securities holdings and must certify annually that they have received, read and understand the Code of Ethics, and that they have complied with our Code of Ethics.

Violations of our Code of Ethics can result in serious sanctions, which may include letter of censure, disgorgement of profits, fines, restrictions on personal trading, dismissal from employment or referral to civil or criminal authorities.

### **Item 12 – Brokerage Practices**

In selecting or recommending broker-dealers for client transactions, we take into consideration whether broker-dealers can provide best execution. Where Carne has been delegated with the discretion to choose, or where we recommend, a particular broker-dealer to execute securities transactions for a client, Carne shall obtain best execution by seeking a broker-dealer that will execute the trade so that the total cost, proceeds and/or other value of the transaction is the most favorable to the client under the circumstances. In seeking best execution a client may pay a

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commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine, in good faith, that the commission is 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 broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Carne will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

It is our policy, when placing aggregated client orders of securities simultaneously for more than one client (called “block trades”) or allocating limited investment opportunities among its clients, to allocate such orders and opportunities in a fair and equitable manner and in the best interests of all accounts affected.

Carne, in advance of placing a block trade will obtain client’s consent to aggregate their trades in the Client Agreement; ensure that each client will be treated fairly and will not favor any client over another; and ensure that the decision to aggregate a trade for a client is based on individual advice to that client. We may aggregate a block trade with an ERISA client and a “party in interest” provided certain conditions are met.

Once the foregoing prerequisites have been performed, Carne will either designate on the trade order memorandum, the number of shares of the block trade to be allocated to each specific account prior to placing the order; or make a *pro rata* allocation of the shares to each account based upon size of the client’s account.

Throughout the block trade, Carne shall continue to seek best execution on such trades; avoid holding cash and securities involved in an aggregated trade longer than necessary; and avoid receiving additional compensation as a result of the aggregation.

Client trades will be aggregated with affiliated accounts under the following conditions:

- Trades for clients are treated equally with those for affiliated accounts;
- Each participant in the trade will receive the average execution price and commissions; and
- Securities will be allocated in a fair and equitable manner pursuant to our policies and procedures.

In the event that the Chief Investment Officer 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:

- 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;
- Allocations may be given to one account when that 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;

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- With respect to sale allocations, allocations may be given to accounts relatively lower in cash;
  - In cases when a *pro rata* allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, the registrant may exclude the account(s) from the allocation and the transactions may be executed on a *pro rata* basis among the remaining accounts; or
  - In cases where a small portion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

If an aggregated order is executed in a series of transactions over the course of the day, each account will receive the average execution price.

Carne will use its best efforts to make allocations on the same day. However, under no circumstances will the Firm delay allocation so that it can allocate the more favorable prices received during the day to one account and the less favorable prices to another account.

Carne has developed policies and procedures concerning trade errors. Carne will ensure that the firm takes prompt and appropriate remedial action so that the error is resolved in the best interest of our clients.

Carne may accept research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions. Such research, products, or services can be classified as “soft dollar benefit” or “other economic benefit.”

Carne may enter into arrangements with one or more broker-dealers whereby it receives some economic benefit in exchange for directing client transactions to that broker-dealer. In effect, the commissions paid by our clients generate these soft dollars that are used by us to pay for these soft dollar benefits. When we use client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research created or developed by a third-party.

Soft dollar arrangements present an obvious conflict of interest for Carne. Carne has the incentive to direct client transactions to the broker-dealer that will provide it with the most soft dollar benefits, rather than on a client’s interest in receiving the most favorable execution. Nevertheless, Section 28(e) of the Exchange Act of 1934 (“1934 Act”) provides a safe harbor that expressly permits soft dollar arrangements provided certain conditions are met. These conditions include the requirement that soft dollars only be utilized to obtain brokerage and research services and provided that the commissions are reasonable in consideration of the economic benefit to be purchased with the soft dollars. Carne may cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying up). If we “pay up” for research but meet the requirements of Section 28(e) of the 1934 Act, we will not be deemed to breach our fiduciary duty to clients even if the client pays a commission higher than the lowest commission available to obtain the research. .

Carne uses the research for all of its client accounts, although a particular client may not benefit from all the research received on each occasion. Carne does not reduce the fees it charges a Client due to its receipt of research services. Since most of Carne’s brokerage commissions for research are for economic research on specific companies or industries, and since Carne follows a limited number

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of securities, most of the commission dollars spent for industry and stock research directly benefit a Client. With respect to ERISA clients, all soft dollar benefits will conform with Section 28(e).

In connection with trading securities for our mutual fund client, we utilized an unaffiliated broker to effect these transactions. During our last fiscal year, we obtained from this unaffiliated broker with client brokerage commissions subscriptions to Bloomberg and S&P which are used for research.

We may receive from a broker-dealer or other financial institution, without cost, computer software and related systems support, which allow the adviser to better monitor client accounts maintained at that financial institution ("other economic benefit"). We may receive the software and related support without cost because it renders investment management services to clients that, in the aggregate, maintain a certain level of assets at that financial institution. Carne does not currently have any such arrangements.

While these arrangements do not qualify as soft dollar arrangements, they also present a conflict of interest for Carne. We have the incentive to direct client transactions to the broker-dealer that will provide us with the most other economic benefits. If we utilize the services of a financial institution that provides Carne with economic benefits, we will not be deemed to breach our fiduciary duty to clients even if the clients pay a commission higher than the lowest commission available to obtain such economic benefits so long as certain conditions are met. These conditions include the requirement that such other economic benefit is in the best interest of the clients and that the benefit is disclosed to clients.

Carne does not consider, in selecting or recommending broker-dealers, receipt of client referrals from a broker-dealer or third party.

Carne routinely recommends that securities transactions be executed through an unaffiliated broker. This presents a conflict of interests for Carne because we receive soft dollar benefits from such unaffiliated broker. The quality of the execution from the unaffiliated broker has been determined to be more than adequate and consistent with Carne's Best Execution Policies. This conclusion was reached by evaluating the promptness of execution reports, responsiveness of the broker's representatives, speed of execution, the ability to trade via a secure fixed connection, the ability to trade equities and options on multiple platforms, the willingness of the broker to commit their capital to facilitate our trades, the broker's creditworthiness and the character of its representatives we deal with. Lower commission rates are available in the market place but because of the research service provided by the unaffiliated broker and the overall quality of execution, Carne is obtaining the best execution available. Note that not all advisers direct client brokerage.

A client may direct Carne in writing to use a particular broker-dealer to execute some or all transactions for the client ("Directed Brokerage"). In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and we will disclose to the client that the Carne will not seek best execution from other broker-dealers. As a result of the Directed Brokerage, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Using Directed Brokerage may cost clients more money, as we may be unable to achieve

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most favorable execution of client transactions. Any directed brokerage arrangement may result in the inability of Carne to include trades for a particular client in block orders if the aggregated transaction is executed through a broker or dealer other than the one that has been selected by the client. The benefits of a blocked transaction will not be extended to the client in that situation. Where the client has Directed Brokerage that would result in additional operational difficulties, Carne may choose to terminate the investment advisory relationship. With respect to an ERISA Client, the product or service acquired in the directed brokerage arrangement will be exclusively used for the plan's participants or other beneficiaries.

### **Item 13 – Review of Accounts**

Carne has an ongoing obligation to review and update the suitability determinations that it has made for clients. Carne's Chief Investment Officer, Francis Sean Bonner periodically conducts a review of our mutual fund account. For our separate account, Mr. Bonner will review the account on a regular basis for compliance with its investment guidelines (monthly or more frequently). Our review will require us to periodically contact clients regarding their investment parameters. However, the ultimate responsibility to provide us with current information regarding their investment parameters rests with the client. Current information about the client's investment parameters will be used in order Carne to make determinations whether current investments in the client's portfolio continue to remain suitable for that client.

Carne provides a written investment report to our mutual fund client's Board on a quarterly basis, and the Fund provides annual and semi-annual reports to shareholders. The Board report typically includes, detailed portfolio holdings, and a performance summary compared to the target benchmark. The Fund's annual and semi-annual reports to shareholders contain the information required by Securities and Exchange Commission rules.

For our separate account client, the account's custodian will provide a written monthly statement that includes the portfolio composition, position by individual securities, all principal and income cash transactions. Carne will provide a written quarterly report to the separate account which reviews any changes in our organizational structure, changes in assets/accounts, a summary of investment guidelines, a review of the investment process and evaluation of the portfolio management process, a performance review, certain information concerning derivative investments, if any, and portfolio holdings.

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

Carne pays out of its own resources an unaffiliated party for providing sales and marketing services in connection with the offering of our mutual fund client. Carne pays the unaffiliated party \$1000 per month and a bonus fee, which consists of a one-time payment of 5 basis points, payable each time the mutual fund client has new assets, attributable to the unaffiliated party's sales efforts, of \$8,000,000.

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## **Item 15 – Custody**

Carne does not have custody of any client account or any client funds or securities. Separate account clients will receive an account statement from the custodian. You should carefully review account statements sent by the separate account's custodian against statements you receive from us. Mutual fund clients receive statements from the fund administrator and annual and semi-annual reports from the fund.

## **Item 16 – Investment Discretion**

Carne has discretionary authority from our clients to select the identity and amount of securities to be bought or sold. However, such discretion is to be exercised in a manner consistent with the stated investment policies and objectives for the particular client account. When selecting securities and determining amounts, Carne observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Carne in writing.

## **Item 17 – Voting *Client* Securities**

Carne as a matter of policy does not accept responsibility for voting proxies for portfolio securities held within client accounts, with the exception of registered investment company accounts (“Fund Accounts”) and ERISA accounts. For Fund Accounts and ERISA accounts, Carne will delegate to a non-affiliated third party vendor (“Proxy Vendor”), the responsibility to review proxy proposals, make recommendations on those proposals and vote such proxies in the best interest of the client. Our policy and practice includes the responsibility to receive and vote client proxies where authorized and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Under ERISA, we are responsible to vote proxies for the client in the absence of specific written acknowledgement by the client that the authority has been retained or granted elsewhere.

Carne has adopted various procedures to implement the Proxy Voting policy and reviews to monitor and ensure that the firm's policy is observed, implemented properly and amended or updated, as appropriate. The procedures are as follows:

### **PROXY VOTING GUIDELINES**

The guiding principle by which we vote on all matters submitted to security holders is the maximization of the ultimate economic value of our clients' holdings. Furthermore, Carne is mindful that for ERISA and other benefit plans, the focus on the realization of economic value is solely for the benefit of plan participants and their beneficiaries. We do not permit voting decisions to be influenced in any manner that is contrary to, or dilutive of, the guiding principle set forth above. It is our policy to avoid situations where there is any conflict of interest or perceived conflict of interest affecting our voting decisions. Any conflicts of interest, regardless of whether actual or perceived, will be addressed in accordance with these policies and procedures.

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It is our general policy to vote on all matters presented to security holders in any Proxy, and these policies and procedures have been designed with that in mind. However, we reserve the right to abstain on any particular vote or otherwise withhold its vote on any matter if in our judgment, the costs associated with voting such Proxy outweigh the benefits to clients or if the circumstances make such an abstention or withholding otherwise advisable and in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration our contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent we believe appropriate). Carne may vote proxies related to the same security differently for each client.

For clients that have delegated to us the discretionary power to vote the securities held in their account, we do not generally accept any subsequent directions on specific matters presented to security holders or particular securities held in the account, regardless of whether such subsequent directions are from the client itself or a third party. Carne views the delegation of discretionary voting authority as an absolute choice for its clients. Our clients shall be responsible for notifying their custodians of the name and address of the person or entity with voting authority.

In the event that Carne acts as investment adviser to a closed-end and/or open-end registered investment company and is responsible for voting their proxies, such proxies will be voted in accordance with any applicable investment restrictions of the fund and, to the extent applicable, any proxy voting procedures or resolutions or other instructions approved by an authorized person of the Fund.

Absent any legal or regulatory requirement to the contrary, it is generally our policy to maintain the confidentiality of the particular votes that it casts on behalf of our clients. Registered investment companies disclose the votes cast on their behalf in accordance with all legal and regulatory requirements.

#### **CONFLICTS OF INTEREST IN CONNECTION WITH PROXY VOTING**

Carne has responsibility to monitor proxy voting decisions for any conflicts of interests, regardless of whether they are actual or perceived. In addition, all employees are expected to perform their tasks relating to the voting of Proxies in accordance with the principles set forth above, according the first priority to the economic interests of our clients. If at any time any employee becomes aware of any potential or actual conflict of interest or perceived conflict of interest regarding the voting policies and procedures described herein or any particular vote on behalf of any client, he or she should contact the CCO. If any employee is pressured or lobbied either from within or outside of the firm with respect to any particular voting decision, he or she should contact the CCO. Carne will use its best judgment to address any such conflict of interest and ensure that it is resolved in the best interest of the clients. Carne may cause any of the following actions to be taken in that regard:

- vote the relevant Proxy in accordance with the vote indicated by the Guidelines;

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- vote the relevant Proxy as an Exception (as defined below), provided that the reasons behind the voting decision are in the best interest of the client, are reasonably documented and are approved by the CCO; or
  - direct the third party Proxy Voter to vote in accordance with its independent assessment of the matter.

### **PROXY COMMITTEE**

The administration of these Proxy Voting policies and procedures is governed by a Proxy Committee (the “Proxy Committee”) currently comprised of the following members: the President and the CCO.

The CCO serves as Chair of the Proxy Committee. Senior Management may change the structure or composition of the Proxy Committee from time to time. The Proxy Committee has regular meetings annually, and may meet other times as deemed necessary by the Chair or any member of the Proxy Committee. The Proxy Committee will review the existing Proxy Voting Guidelines and recommend any changes to those guidelines. In addition, the Proxy Committee will review any “Exceptions” (as described below) that have occurred since the previous meeting of the Proxy Committee.

### **PROXY VOTING PROCEDURES**

Carne has retained a third party (the “Proxy Voter”) to vote Proxies for the relevant accounts of its clients. The Proxy Voter receives a daily electronic feed of all holdings our voting accounts, and trustees and/or Broker-Dealer/Custodians for those accounts have been instructed to deliver all proxy materials that they receive directly to the Proxy Voter. The Proxy Voter monitors the accounts and their holdings to be sure that all proxies are received and voted for client shares owned. As a result of our decision to use the Proxy Voter, there is generally no physical handling of proxies by firm personnel.

The above-referenced Proxy Voting Guidelines (the “Guidelines”) state the general view and expected vote of the Proxy Voter under the majority of circumstances with respect to the issues listed in the Guidelines. The indicated vote in the Guidelines is the default position on any matter specifically addressed by the Guidelines, and for any such matter, absent prior instructions to the contrary from us, the Proxy Voter will automatically vote in accordance with the Guidelines. However, the Guidelines are just that—guidelines; they are not strict rules that must be obeyed in all cases, and Proxies may be voted contrary to the vote indicated by the Guidelines if such a vote is in the clients’ best interests as described below with respect to “Exceptions.” Carne votes all securities based upon the guiding principle of seeking the maximization of economic value to our clients, and ultimately all votes are cast on a case-by-case basis, taking into consideration the contractual obligations under the Advisory Agreements or comparable documents, and all other relevant facts and circumstances at the time of the vote.

If at any time a portfolio manager becomes aware that he or she desires to vote on a specific matter in a manner that is contrary to the vote that would be indicated based upon the Guidelines (an “Exception”), regardless of whether such indicated vote is with or against management, then such individual should contact the Proxy Committee as soon as possible prior to the relevant

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voting deadline for such matter. The Proxy Committee must first make a general determination as to whether any potential conflicts of interest exist. In the event of a potential conflict, a meeting of the Proxy Committee will be convened regarding the potential conflict. Once any potential conflict is either determined not to exist, or resolved, the Proxy Committee, along with the portfolio manager, will review the issue and collectively agree as to the appropriate vote. They may make their decision based upon any of the information and/or research available to them, including any recommendation made by the Proxy Voter, in their discretion. The Proxy Committee will then review the issues and arrive at a decision based on the overriding principle of seeking the maximization of the ultimate economic value of our clients' holdings. In all cases, regardless of whether the ultimate voting decision with respect to any vote is made by the portfolio manager, or the Proxy Committee, such decision must be based on the overriding principle of seeking the maximization of the ultimate economic value of our clients' holdings. If for any reason, no voting decision is made with respect to any particular vote in accordance with these policies and procedures as to how to instruct the Proxy Voter to vote our shares prior to the relevant voting deadline for any Exception, the Proxy Voter will vote all of our shares in accordance with the Proxy Voter's independent assessment of the matter.

Carne will provide to any client, at no cost, a copy of its voting policies and procedures and information regarding how proxies have been voted in the past. Clients wishing to receive this information should contact Carne by telephone during normal business hours.

### **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about Carne's financial condition. Carne has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.