

**Form ADV Part 2A: Firm Brochure**

**ENCOMPASS CAPITAL ADVISORS LLC**

February 14, 2012

**Principal Office**

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This brochure provides information about the qualifications and business practices of Encompass Capital Advisors LLC (“Encompass Capital” or “Advisor”). For more information on the disclosure requirements required for Part 2A see the “General Instructions for Part 2 of Form ADV” by visiting [www.sec.gov/rules/final/2010/ia-3060.pdf](http://www.sec.gov/rules/final/2010/ia-3060.pdf). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at 646-351-8452 or email [lkassman@encompasscap.com](mailto:lkassman@encompasscap.com).

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

The Advisor is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

## **Item 2: Material Changes**

This item is not applicable as the Advisor filed its initial application to register as an investment adviser with the SEC on February 14, 2012.

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## **Item 4: Advisory Business**

The Advisor is an investment advisor organized as a limited liability company under the laws of the State of Delaware, with a principal place of business in New York, NY. The Advisor commenced operations as an investment adviser on February 1, 2012, and filed an initial application to register as an investment adviser with the SEC on February 14, 2012. Todd Kantor (the "Portfolio Manager") is the founder, principal owner and portfolio manager of the Advisor. The investment decision-making authority is principally vested with the Portfolio Manager.

The Advisor serves as an investment manager and provides investment advisory services on a discretionary basis to (i) an institutional investor (the "SMA Investor") with a separately managed account (the "SMA"), and (ii) private pooled investment vehicles (the "Funds", and collectively with the SMA, the "Client Accounts") that are offered to investors satisfying the applicable eligibility and suitability requirements, either in private offerings within the United States or in offshore transactions.

The Advisor's investment advisory services generally focus on advice related to investments, both long and short, in the equity and equity-linked securities of companies in the United States and abroad in energy and energy-related markets.

The Advisor provides investment advice directly to the Client Accounts and not individually to investors in the Client Accounts (the "Investors"). The Advisor does not tailor advisory services to the individual needs of Investors.

The Advisor generally does not permit Investors to impose restrictions on investing in certain securities or certain types of securities. The Advisor manages the assets of the Client Accounts in accordance with the terms of each Client Account's governing documents, which include, as applicable, any confidential explanatory or private placement memorandum, limited partnership agreement, memorandum and articles of association, investment management agreement, investment advisory agreement and other applicable governing documents (the "Governing Documents").

As of February 8, 2012, the Advisor managed approximately \$1.597 billion client assets under management, all of which are managed on a discretionary basis.

## **Item 5: Fees and Compensation**

### Asset Based Compensation

The Advisor is paid a fixed management fee (the "Management Fee"), quarterly in advance, in an amount equal up to 0.5% per quarter (2.0% per annum) of the net assets of the Funds.

In the event an additional contribution is made to a Fund during a quarter, the Management Fee will be charged as of the date of the additional contribution based on the value of the net assets as of such date and will be prorated for the number of days remaining in the quarter. In the event a withdrawal or redemption is made from a Fund during a quarter, the Management Fee will be refunded based on the number of days remaining in the quarter.

The Advisor, in its sole discretion, may, in effect, waive or reduce the Management Fee for Investors that are members, employees or affiliates of the General Partner (as defined below) or the Advisor, relatives of such persons and for certain large or strategic investors. Other than the arrangement with the Anchor Investor (as defined in Item 10), the Fund does not intend to enter into any side letters with other Investors.

Management fees with respect to the SMA are calculated in accordance with the SMA's investment advisory agreement.

### Performance Allocation

An affiliate of the Advisor that serves as general partner of certain of the Funds (the "General Partner") receives an annual performance-based allocation equal to 20% of net profits (including unrealized gains) allocated to the Funds (the "Performance Allocation"). The Performance Allocation is subject to a "loss carryforward" provision.

The General Partner, in its sole discretion, may waive or modify the Performance Allocation for Investors that are members, employees or affiliates of the General Partner (as defined below) or the Advisor, relatives of such persons, and for certain large or strategic investors. Other than the arrangement with the Anchor Investor (as defined in Item 10), the Fund does not intend to enter into any side letters with other Investors.

Performance-based compensation with respect to the SMA is calculated in accordance with the SMA's investment advisory agreement.

### Other Fees Earned and Expenses allocated by the Advisor

The Advisor will render its services to the Funds at its own expense and is responsible for its overhead expenses including: office rent; utilities; furniture and fixtures; stationery; secretarial/internal administrative services; salaries and bonuses; entertainment expenses; employee insurance and payroll taxes.

All other operating expenses of the Funds are borne by the Funds including: the Management Fee; fund legal, compliance, administrator, audit and accounting fees and expenses (including third party accounting services); shareholder proxy voting services, if applicable; organizational expenses; investment expenses such as commissions, research fees and expenses (including research-related travel, meals and lodging expenses); interest on margin accounts and other indebtedness; borrowing charges on securities sold short and any other expenses associated with financing the Fund's portfolio; custodial fees; bank services fees; the Fund's pro-rata share of Fund-related insurance costs (including D&O and E&O insurance for the Advisor, the General Partner, and, if applicable, outside directorship liability); directors' fees and expenses, if applicable; the Fund's pro rata share of expenses related to the implementation and licensing of trading and order management systems; and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets.

Expenses paid to the Advisor by the SMA are set forth in the SMA's investment advisory agreement.

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

As described above, the Advisor receives performance-based compensation, which constitutes a share of net profits (including unrealized gains) allocated to the Client Accounts. Performance-based compensation may create an incentive for the Advisor to make investments that are riskier or more speculative than would be the case in the absence of a right to performance-based compensation. The performance-based compensation received by the Advisor is based on a share of net profits, including unrealized gains. As a result, the performance-based compensation could be based on unrealized gains that Client Accounts may never realize. Additionally, performance-based compensation may create an incentive to favor Client Accounts that pay higher performance-based compensation in the allocation of investment opportunities.

The Advisor has a fiduciary obligation to use its best efforts to ensure that no Client Account is treated unfairly in relation to any other client in the allocation of securities or investment opportunities or in the order in which transactions are executed. Accordingly, the Advisor seeks to allocate orders and investment opportunities among its Client Accounts in a manner that it believes is equitable and in the best interests of all the Client Accounts. However, the Advisor may give advice, and take action, with respect to any particular Client Account that may differ from the advice given to, or the timing or nature of action taken for, other Client Accounts. There can be no assurance that an investment opportunity that comes to the attention of the Advisor will be allocated to all or any of the Client Accounts. In addition, depending on the facts and circumstances, certain Client Accounts may be unable to participate in a particular investment opportunity or may participate in an opportunity only on a limited basis. The Advisor makes investment allocation determinations based on a variety of factors, including but not limited to: risk limitations or parameters; Client Account investment objectives, risk tolerance, and time horizon; Client Account imposed mandates or investment restrictions; capital available for investment; and other factors.

With the exception of certain risk parameters and restricted instruments applicable to the SMA, the Funds and the SMA are expected to invest on a side-by-side basis. The Advisor, however, is not obligated to trade the assets of the Funds and the SMA on a *pari passu* basis. The Advisor has a fiduciary responsibility to the SMA and will make each decision regarding the allocation of assets of the SMA based solely on what it perceives to be the best interests of the SMA. The Advisor is also a fiduciary to the Funds regarding portfolio management decisions such as when and how much leverage to use, when to liquidate investments and similar decisions. The best interests of the SMA and the Funds may at times be in conflict. Furthermore, it is expected that at some point in the future, the SMA Investor or the Advisor will begin reducing the size of the SMA. As a result of the foregoing, the Funds and the SMA may have different investment portfolios. The Advisor has instituted procedures to ensure that all Client Accounts are treated fairly and equitably and to prevent conflicts from influencing the Advisor's allocation of investment opportunities.

In circumstances where the Advisor aggregates orders for the Client Accounts for the purchase or sale of securities, absent other compelling circumstances, orders are generally allocated among Client Accounts *pro rata* based on invested capital. In addition, in such circumstances,

transactions for the Client Accounts are price-averaged. Please refer to Item 12 below for a further discussion of the Advisor's practice of aggregating orders for execution for Client Accounts.



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

The Advisor's clients consist of the Funds and the SMA.

The minimum investment required to invest in the Funds is described in the applicable Fund's Governing Documents. The Advisor, in its sole discretion, may waive or reduce any minimum investment amount in certain circumstances.

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

The Advisor generally focuses, on investments, both long and short, in the equity and equity-linked securities of companies in the United States and abroad in energy and energy-related markets, including natural gas, crude and refined oil products, steel and other metals, chemicals, power, coal and alternative energy. The Funds may also invest in derivatives, commodities, including futures, debt securities, including convertible debt securities, and other investments. Further, the Funds may invest a portion of their assets in illiquid investments, including without limitation, real estate-related assets (including leases and royalties), private investments in public equity ("PIPEs"), container freight derivatives, and private equity investments, subject to certain restrictions imposed on such illiquid investments set forth in the Funds' Governing Documents.

Fundamental long/short equities strategies will be a principal focus of the Advisor's investment activities. In its fundamental long/short equities strategies, the Advisor uses both fundamental top-down and bottom-up analysis in an attempt to develop a deep, fundamental view of individual companies and sectors. Within the fundamental long/short equities strategies, the Advisor will attempt to identify relative values within a sector by selecting the under- and out-performers, and will take long and short positions to express these views. To identify under- and out-performers, the Advisor relies on fundamental, quantitative and/or statistical analysis. The Advisor utilizes risk management and other systems to provide quantitative insights that allow proactive management of the portfolio across all aspects of the investment process.

These methods, strategies and investments involve risk of loss to the Client Accounts, and the Client Accounts must be prepared to bear the loss of their entire investment.

Material risks (including significant or unusual risks) relating to the Advisor's investment strategies include:

Issuer-Specific Changes. Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

Fundamental Value. The Advisor engages in fundamental value investment strategies wherein the Advisor attempts to invest in asset-oriented securities the Advisor believes are undervalued by the market.

Short Selling. Short selling transactions expose the Client Accounts to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Advisor in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Advisor might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with

purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

Leverage. The Advisor's investment program utilizes leverage which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for marketable securities investments.

Hedging. The Advisor may utilize a variety of financial instruments such as derivatives, options, swaps, futures and forward contracts and other derivative instruments as part of its investment strategy and/or for risk management purposes. There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Advisor may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Advisor's investment portfolios than if the Advisor did not engage in any such hedging transactions.

Lack of Diversification. Client accounts may not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, Client Account portfolios may be subject to more rapid change in value than would be the case if the Advisor were required to maintain a wider diversification among types of securities and other instruments.

Risks (including significant or unusual risks) associated with types of securities primarily recommended by the Advisor include:

Equity Securities. The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

Energy-Related Investments. The Client Account will invest in a wide range of energy and energy-related markets including natural gas, crude and refined oil products, power, coal and alternative energy. The Client Accounts may invest through physical and financial derivative instruments. The energy and energy-related markets are susceptible to significant short-term price volatility as a result of a variety of factors which are inherently unpredictable, such as weather-related events, rate and tariff regulation, changes in law (including environmental laws), government ownership of certain major market participants, the unstable political situation in the Middle East and elsewhere, war, terrorist attacks, consumer advocacy and the trading activity of market participants. The energy markets are also subject to price volatility as a result of breakdowns in the facilities necessary to produce, refine, transport, store and deliver physical energy.

Derivatives. Swaps, certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the Advisor. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose Client Accounts to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

Non-U.S. Securities. Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

Illiquid Investment Instruments (Funds Only). The Funds may invest a portion of its assets in illiquid investments, including without limitation, real estate assets related to the oil, gas and coal industries (including leases and royalties), PIPEs, container freight derivatives, and private equity investments, subject to certain restrictions imposed on such illiquid investments set forth in the Funds' Governing Documents. From time to time certain of such investments may be, or may become, illiquid and may not have readily ascertainable fair market values. Valuation of such illiquid investments, taking into account the factors unique to such investments, will be made consistent with each Fund's Governing Documents. Such valuations will affect the Funds' performance reporting as well as the calculation of Management Fees and Performance Allocations. In addition, the Funds may only be able to liquidate these investments, if at all, at disadvantageous prices, should the Advisor determine, or it become necessary to do so.

**Item 9: Disciplinary Information**

Neither the Advisor nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events that would require disclosure in response to this Item.

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

The Advisor provides investment advice to the Client Accounts. The General Partner is affiliated with the Advisor by common ownership. Otherwise, the Advisor and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

The Advisor has a strategic relationship with an alternative investment management firm that has agreed to provide a significant capital contribution to the Funds (the "Anchor Investor"). In exchange for its substantial investment in the Funds, the Anchor Investor will receive a special allocation of a portion of the Performance Allocation and the net profits of the Funds, based upon the NAV of the Funds. Any such special allocation made to the Anchor Investor will not result in the Investors being subject to higher fees and allocations (including Management Fees and Incentive Allocations) to which they otherwise would have been subject. Other than the arrangement with the Anchor Investor, the Fund does not intend to enter into any side letters with other Investors.

Although the Advisor and the Anchor Investor have a strategic relationship, the Advisor is operated independently of the management of the Anchor Investor, and the Anchor Investor does not have an equity stake in the Advisor or the General Partner. The Anchor Investor is also an affiliate of the SMA Investor.

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

Pursuant to Rule 204A-1 of the Advisers Act, the Advisor has adopted a written Code of Ethics (the “Code”) predicated on the principal that the Advisor owes a fiduciary duty to the Funds and its Investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of the Advisor (the “Employees”), each Employee’s spouse, minor children and other family members living in his or her household (the “Related Persons”), as well as any other individuals designated in writing by the Chief Compliance Officer as being subject to all or a portion of the compliance procedures or policies adopted by the Advisor (collectively the “Covered Persons”). The Advisor requires its Employees to act in the Client Accounts’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper. A copy of the Code is available upon request.

Employees must disclose all personal accounts and those of Related Persons initially upon commencement of employment, and annually thereafter. Employees and Related Persons are generally permitted to conduct personal securities transactions in ETFs, mutual funds, index options and commodities; and must pre-clear all transactions for a personal account involving Reportable Securities (as defined by the Code). Securities transactions within the energy sector are not permitted, except for broad based indices. All investments must be held for a minimum of 60 days. In addition, the Advisor requires periodic reporting of Employees’ and Related Persons’ personal securities transactions and all holdings; and requires prompt internal reporting of Code violations. The Advisor endeavors to maintain current and accurate records of all personal securities accounts of its Employees and Related Persons in an effort to monitor all such activity.

Certain transactions in which the Advisor engages may require, for either business or legal reasons that no Employees or Related Persons trade in the subject securities for specified time periods. Such securities will appear on a list (the “Restricted List”) that will be circulated to all Employees. No Employee may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the Chief Compliance Officer.

## Item 12: Brokerage Practices

### Selection of Brokers

In making its decisions regarding the allocation of brokerage transactions for the Client Accounts, the Advisor seeks to obtain best execution, taking into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness, and frequency of available research services considered to be of value to the Advisor and its Client Accounts; (v) the value of brokerage services over and above trade execution provided to the Advisor and its Client Accounts; and (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying Encompass Capital's other selection criteria.

In selecting brokers or dealers to execute transactions, the Advisor is not required to solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Advisor's practice to negotiate "execution only" commission rates, thus the Client Accounts may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

### Soft Dollars

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Except for services that would be a Fund expense or as otherwise described below, the Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the Securities and Exchange Commission or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations. The use of commissions arising from the



Funds' investment transactions for services other than research and brokerage will be limited to services that would otherwise be a Fund expense. The use of commissions to obtain such other services would be outside the parameters of Section 28(e).

Further, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by the Funds may be used by the Advisor to service one or more Client Accounts, including Client Accounts that may not have paid for the soft dollar benefits. The Advisor does not seek to allocate soft dollar benefits to Client Accounts in proportion to the soft dollar credits the Funds generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Advisor (i.e., a "mixed use" item), it will make a good faith allocation of the cost which may be paid for with soft dollars based on the actual use of the product or service by the Advisor and its personnel. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Advisor's allocation of the costs of such benefits and services between those that primarily benefit the Advisor and those that primarily benefit the Client Accounts.

Relationships with brokers providing research products or services obtained with "soft dollars" to the Advisor may influence the its judgment in allocating brokerage business, and may create a conflict of interest in using the services of these brokers to execute a Client Account's securities transactions. While the Advisor believes these relationships are beneficial to its Client Accounts, selecting brokers on the basis of considerations other than applicable commissions may at times result in higher transaction costs than would otherwise be the case.

It is the Advisor's practice, where possible, to aggregate transactions for the Client Accounts for the purchase or sale of the same security. Such aggregation may enable the Advisor to achieve more efficient execution or to provide for equitable treatment among Client Accounts. Client Accounts participating in aggregated trades will be allocated securities based on the average price achieved for such trades.

**Item 13: Review of Accounts**

The Client Account portfolios are reviewed with regard to positions held, risk, exposure and proper settlement on a daily basis by the Portfolio Manager, investment professionals, in-house operations and other the Advisor personnel, where appropriate. Particular attention is given to changes in company fundamentals, industry outlook, market outlook, and price levels.

Investors receive monthly capital account statements directly from the Client Accounts' administrator, a monthly portfolio summary and quarterly performance letters from the Advisor. The Funds receive annual audited financial statements prepared by the auditor for the Funds.

The SMA is subject to an annual audit, for which the Advisor has no responsibility.

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

The Advisor does not directly or indirectly compensate any person for investor referrals. The Advisor receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Advisor to select broker-dealers based on the Advisor’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Advisor on behalf of Client Accounts. Please see Item 12 for further information on the Advisor’s “soft-dollar” practices.

## **Item 15: Custody**

The Item is not applicable.

## **Item 16: Investment Discretion**

The Advisor maintains investment discretion and is generally authorized to make the following determinations, subject to each Fund's investment objectives and restrictions, without obtaining prior consent from the relevant Fund or its underlying Investors: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for transactions.

Investment discretion with regard to the SMA is generally dictated by the SMA's investment advisory agreement. The SMA has fundamentally the same investment program as the Funds, except for certain risk parameters and restricted instruments, such as convertible bonds, private securities, ETFs linked to non-equity securities, futures on non-equity securities, options on non-equity securities, commodities and fixed income high yield bonds.

The Funds are invested in accordance with a single strategy and generally invest *pari passu*, or on a pro-rata basis with trades generally being executed on an aggregate basis among the Funds. Exceptions to this allocation methodology include, but are not limited to, differing legal or tax prohibitions among the Funds, addressing issues which do not equally impact each of the Funds, and rebalancing due to disparities in capital activity (redemptions/subscriptions) in one or more of the Funds. Accordingly, the Funds, as a result, may experience some performance dispersion and there can be no assurance that a particular order or investment opportunity will be allocated in a particular manner.

Simultaneously with the admission of third party investors into the Funds on the date the Funds commenced operations, the Funds purchased, for cash, assets and liabilities from the SMA, which generally constituted a pro rata portion of all of the gross market value of the SMA (the "Initial Transaction"). Except for the Initial Transaction, the Advisor does not effect cross transactions between Client Accounts.

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

Trade and other clerical errors resulting in gains or losses will be borne by the Client Accounts and will not be retained by the Advisor. The Advisor is under no obligation to reimburse the Client Accounts for trade and other operational errors made by the Advisor, its agents and affiliates, as such errors are considered by the Advisor to be a cost of doing business.

While the Advisor is under no obligation to reimburse the Client Accounts for trade and other operational errors made by the Advisor, its agents and affiliates, any correction of a trade or other operational error will only be made to the extent required to attempt to minimize any loss related to such error in the Client Accounts.

Notwithstanding the foregoing, the Advisor will be obligated to reimburse the Client Accounts for any trade or other operational error resulting from the Advisor's willful misconduct or gross negligence, or as set forth under the exculpation of liability and indemnification provisions of the applicable investment management/advisory agreements maintained with the Client Accounts. The Advisor, subject to its fiduciary obligations, will determine whether or not any trade or other clerical error is required to be reimbursed in accordance with such liability and exculpation provisions. The Advisor, in its sole discretion, reserves the right to reimburse the Client Accounts for any trade or other operational error. The Advisor's reimbursement of the Capital Accounts for any particular error will not constitute a waiver of any policy to cause the Client Accounts to bear the losses from other trade or other operational errors.

**Item 17: Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, the Advisor has adopted and implemented written policies and procedures governing the voting of client securities.

It is the policy of the Advisor to exercise its proxy voting rights in the best interest of its Client Accounts, taking into consideration all relevant factors, including without limitation, acting in a manner that the Advisor believes will (i) maximize the economic benefits to the relevant Client Account and (ii) promote sound corporate governance by the issuer.

The Advisor has in place voting procedures designed to enable the Advisor to resolve material conflicts of interest that may arise between the Advisor, the Client Accounts and their underlying Investors, before exercising voting rights.

All proxies that the Advisor receives will be treated in accordance with these policies and procedures. A copy of the Advisor's written proxy voting policies and procedures, as well as a record of how the Advisor has voted in the past, will be maintained and available for review upon written request.

## **Item 18: Financial Information**

This Item is not applicable.