

Firm Brochure

(Part 2A of Form ADV)

PALO VERDE CAPITAL, LLC

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This brochure provides you with information about the qualifications, business practices, and nature of advisory services of Palo Verde Capital, LLC, all of which should be considered before becoming an advisory client of our Firm. Please contact Anthony R. Stacy, Managing Member, if you have any questions about this narrative brochure.

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

We are an Investment Adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Registration does not imply any specific level of skill or training. Additional information about our Firm is available on the Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our Firm's CRD number is 164321

December 10, 2012

Item 2 Material Changes

The SEC adopted “Amendments to Form ADV” in July 2010. Part 2A of Form ADV (“Firm Brochure”) and Part 2B of Form ADV (“Supplement Brochure”) are documents that are in narrative format. Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Firm Brochures within 120 days of the close of our business’ fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

Summary of Material Changes

This section of our Firm Brochure will reflect the annual update of any material changes that occurred since the previous delivery of our Firm Brochure. Since our last brochure dated August 15, 2012, our Firm has made an update to its affiliations. Please refer to Item 10C. No other material changes have been made to the Firm’s operations, business structure or management personnel.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at **480-483-4102** or by email at: **tstacy@pvfunds.com**

Item 3 Table of Contents

Item 2	Material Changes.....	i
Item 3	Table of Contents	1
Item 4	Advisory Business.....	2
Item 5	Fees and Compensation.....	4
Item 6	Performance-Based Fees and Side-by-Side Management.....	7
Item 7	Types of Clients.....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	8
Item 9	Disciplinary Information	11
Item 10	Other Financial Industry Activities and Affiliations	11
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	12
Item 12	Brokerage Practices.....	13
Item 13	Review of Accounts	14
Item 14	Client Referrals and Other Compensation.....	15
Item 15	Custody.....	16
Item 16	Investment Discretion.....	17
Item 17	Voting Client Securities.....	17
Item 18	Financial Information	17
	Privacy Policy.....	18

Item 4 Advisory Business

A. Firm Description

Palo Verde Capital, LLC (“PALO VERDE” or the “Firm”), is an investment management firm which is registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment advisor. PALO VERDE is organized as an Arizona limited liability company that was founded in 2011.

PALO VERDE’s current advisory activities consist of providing discretionary and non-discretionary asset management services to individuals and high net worth individuals. PALO VERDE also provides investment supervisory services to a pooled investment vehicle that is exempt from registration under the Investment Company Act of 1940, as amended (the “1940” Act), and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). The Fund is structured as Delaware limited partnership.

Principal Owners: PALO VERDE is wholly owned by Anthony R. Stacy. In addition to serving as managing member, Anthony R. Stacy is the Chief Compliance Officer (CCO) of the Firm.

B. Types of Advisory Services

➤ PORTFOLIO MANAGEMENT SERVICES

PALO VERDE offers discretionary portfolio management services to individuals, including high net worth individuals, based on the specific needs and objectives of such persons. Subject to any written guidelines or restrictions that the client may provide, PALO VERDE is granted full discretion and authority to manage the client’s account.

As a discretionary adviser, PALO VERDE is authorized to perform various functions, at the Client’s expense, without further approval from the Client. Such functions include the determination of the types of securities to be purchased or sold, and the amount of securities to be purchased or sold. PALO VERDE provides asset management services which are designed to offer suitable participants with portfolio construction and managed accounts with defined investment strategies to meet the Client’s investment goals and objectives.

Account management is guided by the stated objectives and guidelines of each Client. Guidelines may include such variables as risk tolerance, capitalization ranges, tax sensitivity, and portfolio category. Once the Client’s investment strategy is determined, PALO VERDE will trade in accordance with the parameters established by the Advisory Agreement.

RETIREMENT PLAN CONSULTATIONS

PALO VERDE offers advisory services to both self-directed and trustee-directed retirement plans whereby it will select, from a large universe of mutual funds, a specified number of mutual funds offered to participants. The selections are based upon the investment policy of the retirement plan, the analysis and due diligence conducted by PALO VERDE. PALO VERDE's services include ongoing monitoring of funds. PALO VERDE also offers investment advice to plan participants.

➤ THE PV FUND

PALO VERDE currently provides investment advisory services to Palo Verde Fund, L.P. (“the PV Fund” or “the Fund”); a Delaware limited partnership. The objective of the PV Fund is to seek absolute returns by primarily investing in public U.S. and non-U.S. corporate securities options and currencies while maintaining strong emphasis on capital appreciation. Current income is not an objective of the PV Fund’s securities trading activities.

PALO VERDE also serves as general partner to the PV Fund.

The PV Fund is closed to new investors. As such, interests in the PV Fund are no longer being offered for investment to new investors.

This document is neither an offer to sell nor a solicitation of an offer to buy interests in the PV Fund. Such an investment may be made only after receipt and review of the PV Fund’s confidential private placement memorandum (the “Memorandum”). The PV Fund’s Memorandum contains important information concerning risk factors and other material aspects of the PV Fund and must be read carefully before any decision whether to invest is made. Upon request to PALO VERDE, a copy of the Memorandum is available to persons meeting the definitions of both accredited investor and qualified client.

C. Tailored Relationships

➤ PORTFOLIO MANAGEMENT SERVICES

The asset management services and separately managed advisory programs offered by PALO VERDE are based on the individual needs of our Clients and the suitability of products and services. Clients may impose restrictions on investing in certain securities or types of securities by advising his/her investment adviser representative of such restrictions during the initial meeting or in writing any time during the engagement.

PALO VERDE requires that a written Investment Advisory Agreement (“IA Agreement”) be signed by the Client prior to the engagement of services. The IA Agreement outlines the services rendered by PALO VERDE and fees that clients will be charged. The IA Agreement also gives PALO VERDE written authority to deduct fees from custodial accounts and discretionary authority to manage accounts.

Clients are advised to promptly notify PALO VERDE if there are any material changes in their financial situations, investment objectives, or in the event they wish to alter any guidelines upon investment management services.

Agreements may not be assigned without prior consent.

➤ RETIREMENT PLAN CONSULTATIONS

Our retirement plan consultations are based on individual needs of our Clients after, a thorough assessment of their retirement goals, objectives, and risk tolerance. The retirement plan allocations are aligned with the investment policy of the plan sponsor.

➤ **THE PV FUND**

PALO VERDE provides investment advisory services to the PV Fund based on the investment objectives of the Fund. **PALO VERDE does not provide tailored investment advice to the Limited Partners in the PV Fund.**

D. Wrap Fee Programs

PALO VERDE does not participate in and is not a sponsor of any wrap fee program(s).

E. Assets under Management

PALO VERDE manages \$63,433,454 in client assets on a discretionary basis; and \$109,977,389.86 in client assets on a non-discretionary basis. The total asset under management figure is \$173,410,843.86 and this figure is based on calculations as of July 30, 2012.

Item 5 Fees and Compensation

A. Advisory Fees

➤ **PORTFOLIO MANAGEMENT SERVICES**

PALO VERDE earns a management fee (“Management Fee”) and a performance fee (“Performance Fee”) for providing discretionary asset management services. The monthly Management Fee is based on a percentage of assets under management. On an annualized basis, PALO VERDE’s fees for ongoing portfolio management services, subject to negotiation, are based on the following tiered fee schedule:

Portfolio Size	Annualized Fee
First \$1,000,000	1.50%
Over \$1,000,001	1.00

The monthly investment Management Fee is subject to a minimum fee of \$125 per month payable in advance as of the first business day of each month and calculated before any accrual for or payment of the Management Fee.

The annual Performance Fee is in an amount equal to twenty percent (20%) of the increase in the account’s net assets during each calendar year. No Performance Fee shall be paid unless the net assets of the account are greater than the prior high net assets of such account.

The fees set forth above do not include commissions on securities transactions, miscellaneous brokerage charges, or custodial fees.

➤ **RETIREMENT PLAN CONSULTATIONS**

Retirement Planning Consultation Fees range from less than .05% to 1.0% depending on the size of the plan assets, the number of plan participants and the cash inflow and outflow of contributions.

All of the above-referenced fees are negotiable. Lower fees for comparable services may be available from other sources.

➤ **THE PV FUND**

PALO VERDE receives compensation from the PV Fund pursuant to the terms of the PV Fund's Memorandum. Generally, such compensation may take the form of a management fee (the "Management Fee"), a performance allocation (the "Performance Allocation"), or both.

PALO VERDE receives a management fee (the "Management Fee") that is payable quarterly in advance. The fee is equal to 0.25% (a 1% annual rate) of the beginning capital account value of each Limited Partner for the quarter.

PALO VERDE shall receive an annual Performance Allocation fee (if applicable) computed as of December 31 of each calendar year, as well as upon certain withdrawals. The Performance Allocation is equal to twenty percent (20%) (the "Performance Allocation Rate") of the Profits allocated to each Limited Partner for that calendar year of the beginning Capital Account balance for such Limited Partner for such year, pro-rated, as applicable, for monthly additions of capital that may occur for such Limited Partner during the year. The Performance Allocation is subject to a high water mark provision as fully described in the Fund Documents.

B. Billing Procedures

➤ **PORTFOLIO MANAGEMENT SERVICES**

The fee for SMA Portfolio management will be due and payable monthly in advance. The fee is based on the value of the assets under management as of the close of business on the last business day of the preceding month. The first payment under the fee schedule is due upon execution of the Investment Advisory Agreement and is assessed on a pro rata basis in the event the account is opened at any time other than the first day of the calendar quarter. Multiple accounts for the same client may be combined for purposes of calculating the total fee. The Account Fee is paid to and retained by PALO VERDE.

The Performance Fee is paid annually. No Performance Fee shall be paid unless the net assets of the account are greater than the prior high net assets of such account.

➤ **RETIREMENT PLAN CONSULTATIONS**

Fees for Retirement Planning Consultations may be paid either in advance or in arrears as negotiated with each client. It is customary procedure for the account custodian authorized to debit the plan for the fees and pay them directly to PALO VERDE.

➤ **THE PV FUND**

PALO VERDE deducts its fees automatically from each Limited Partner's capital account balance pursuant to the fee structure agreed upon between the Limited Partner and the Fund.

C. Other Fees and Expenses

There may be additional fees or charges that result from the maintenance of or trading within your account. These fees are imposed by third parties in connection with investments made through the client's account, including but not limited to, commissions on securities transactions, miscellaneous brokerage fees, no-load mutual fund 12(b)-1 distribution fees, certain deferred sales charges on previously purchased mutual funds, IRA and Qualified Retirement Plan fees.

The Fund shall pay for all ordinary operating and other expenses, including, but not limited to, investment-related expenses (such as brokerage commissions, clearing and settlement charges, custodial fees, interest expenses, expenses relating to consultants, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments, appraisal fees and expenses and investment banking expenses); research costs and expenses (including fees for news, quotation and similar information and pricing services); legal expenses (including, without limitation, the costs of on-going legal advice and services, blue sky filings and all costs and expenses related to or incurred in connection with PALO VERDE's compliance obligations under applicable federal and/or state securities and investment adviser laws arising out of its relationship to the Fund, as well as extraordinary legal expenses); accounting fees and audit expenses; administrative fees; tax preparation expenses and any applicable tax liabilities (including transfer taxes and withholding taxes); other governmental charges or fees payable by the Fund; director and officer and/or errors and omissions liability insurance premiums or fiduciary liability insurance premiums for directors, officers and personnel of PALO VERDE; costs of printing and mailing reports and notices; and other similar expenses related to the Fund, as PALO VERDE determines in its sole discretion. To the extent that expenses are borne by a Fund are paid by PALO VERDE, the Fund will reimburse PALO VERDE for such expenses. There may be additional fees or charges that result from the maintenance of a Limited Partners participation, including but not limited to, fees associated with purchasing Interests via an IRA and Qualified Retirement Plan. Other fees are generally deducted from the capital account of each Limited Partner.

D. Termination and Refund Policy

➤ **PORTFOLIO MANAGEMENT SERVICES**

The client has the right to terminate the Investment Advisory Agreement ("Agreement") without penalty within five (5) business days from the date of execution of the Investment Advisory Agreement. Afterwards, the client must deliver written notice requesting termination of the Agreement to PALO VERDE. Any prepaid fees will be refunded. Either party may terminate the Agreement upon thirty (30) days written notice to the other party. The client will be entitled to a pro rata refund of any prepaid monthly fee based upon the number of days remaining in the month after termination.

➤ **RETIREMENT PLAN CONSULTATIONS**

The client has the right to terminate the Agreement without penalty within five (5) business days from the date of execution of the Advisory Consulting Agreement. The client must deliver written notice requesting termination of the Agreement to PALO VERDE. Any prepaid fees will be refunded. Either party may terminate the Agreement upon ten (10) days written notice to the other party. The client will be entitled to a pro rata refund of any prepaid quarterly fee based upon the number of days remaining in the quarter after termination.

➤ **THE PV FUND**

Generally, withdrawals will be permitted with at least sixty (60) days advance written notice and will be effective the last business day of any calendar quarter. PALO VERDE may, in its sole discretion, waive or modify the conditions of withdrawal or suspend the Limited Partners' withdrawal rights when it believes it is in the best interest of the PV Fund. A more detailed discussion of the termination rights is more fully described in the PV Fund's memorandum.

E. Other Compensation

PALO VERDE does not accept any compensation other than Management Fees, the Performance Allocation Fees and other advisory fees as heretofore described.

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

A. Performance-Based Fees

As stated in item 5A, PALO VERDE receives Performance Fees based on calculations at the end of each calendar year. Please refer to Item 5 for details regarding Performance Fees.

Performance-Based Fees ("Performance Fees") are based on a share of the capital gains or capital appreciation of the assets of a client. Fees based on performance means PALO VERDE participates directly in the account's results.

The Performance Allocation will only be charged to "qualified clients" as that term is defined in Rule 205-3 under the Investment Adviser Act of 1940, or similar state statutes.

B. Side-by Side Management

PALO VERDE conducts side-by-side management of a pooled investment vehicle, portfolio management programs and retirement planning consultations. These dissimilar investment products are designed for separate and distinct types of clients and diverse methods of management are required. For a number of reasons, including compensation variations and allocation of trades, managing side-by-side products may present PALO VERDE with potential conflicts of interest. The conflicts may include the incentive to give preferentiality to performance-based fee transactions over other accounts or intentionally allocating trades to increase value of assets thereby generating higher advisory compensation. To mitigate this conflict of interest, we have developed policies and

procedures prohibiting allocation of trades based on favorable or unfavorable market fluctuations. PALO VERDE's Chief Compliance Officer will review transactions periodically to prevent and detect preferential trade allocation.

Item 7 Types of Clients

PALO VERDE generally provides investment advisory services to: **Individuals and High Net-Worth Individuals, and a Pooled Investment Vehicle.**

PALO VERDE requires an account minimum of \$250,000 of assets under management for Portfolio Management Services. This minimum may be waived at the discretion of PALO VERDE. In addition, PALO VERDE may impose a minimum \$1,500 annual fee for accounts below \$250,000. If for any reason a portfolio falls below \$250,000, PALO VERDE reserves the right to close the account.

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

A. Methods of Analysis

PALO VERDE employs technical analysis as our primary method for analyzing securities to achieve the investment objectives and goals of the Clients. The technical analysis method of evaluation securities analyzes statistics generated by market activity, such as past prices and volume. Technical analysis aids in the decision of when to buy or sell, how much, and at what price.

B. Investment Strategies

PALO VERDE is a large cap equity manager that utilizes a short-term tactical trading strategy to generate returns with a lower risk profile than that of a traditional equity allocation. Short-term trading in general involves purchasing securities with the idea of selling those securities within a relatively short time (typically within 30 days or less). PALO VERDE does this in an attempt to take advantage of predicting brief price swings.

One strategy used by PALO VERDE is the Global Liquid Alpha approach. This strategy is centered on gathering absolute returns regardless of market direction or sentiment. This strategy specializes in capturing short-term directional moves and locking in gains on a daily basis.

PALO VERDE strives at all times to meet the individual investment objectives of each of its Clients. Our investment strategies and advice may vary depending upon each Client's specific financial situation. As such PALO VERDE determines investments and allocations based upon your defined objectives, risk tolerance, time horizon, financial information, liquidity needs, and other various suitability factors. Client investment objectives will vary, but in general, securities used to build the investment portfolio will generally consist of the largest 250 equities, exchange traded funds, and individual stocks. Security selection will be on a client-by-client basis but generally will be based on the Client's portfolio size, goals

and risk tolerance.

PALO VERDE's investment strategies may be altered, without prior approval by the Clients. However, PALO VERDE will notify all Clients of any such change.

The Fund: PALO VERDE's objective is to seek above market returns over the long term by investing in public U.S. and non-U.S. corporate securities, private placement securities and options, while maintaining strong emphasis on capital appreciation. We will consider tax consequences when appropriate; however, limiting the potential effects of taxation is not the primary economic motivation behind any investment decision. PALO VERDE believes that consistent execution of their disciplined investment process is the key to achieving superior returns in the securities markets. To achieve that goal, PALO VERDE employs a proactive strategy to identify and assess investment opportunities. Careful consideration is also given to the risk/reward characteristics of each potential position before committing capital and much care is taken to initiate and exit positions as favorable as possible.

C. Material Risks of Methods of Analysis and Investment Strategies

➤ PORTFOLIO MANAGEMENT SERVICES

The risk of a short-term strategy is that the anticipated price swing may not materialize. Further the strategy involves more frequent trading and may result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Notwithstanding the method of analysis or investment strategy employed by the Firm, the assets within the Fund are subject to risk of devaluation or loss. PALO VERDE wants investors to be aware that there are many different events that can affect the value of your assets or portfolio including, but not limited to, changes in financial status of companies, market fluctuations, changes in exchange rates, trading suspensions and delays, economic reports, and natural disasters.

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Market Risk:* The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic, and social conditions may trigger market events.
- *Inflation Risk:* When any type of inflation is present, a dollar will be worth less today than a dollar next year because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Business Risk:* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Financial Risk:* Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

While this information provides a synopsis of the events that may affect your investments, this listing is not exhaustive. We want you to understand that there are inherent risks associated with investing and depending on the risk occurrence; you may suffer LOSS OF ALL OR PART OF YOUR PRINCIPAL INVESTMENT.

➤ THE PV FUND

Alternative investment products often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. Because risks are inherent in all the investments in which the Fund engages, no assurances can be given that the Fund's investment objectives will be realized.

There can be no assurance that the Fund will achieve its investment objective or avoid substantial losses. An investor could lose all or a substantial amount of his or her investment. Notwithstanding the method of analysis or investment strategy employed by the Firm, the assets within the Fund are subject to risk of devaluation or loss. An investor should not make an investment in the Fund with the expectation of sheltering income or receiving cash distributions. An investment in the Fund should form only as part of a complete investment program, and an investor must be able to bear the loss of its entire investment. Investors are urged to consult with their personal advisers before investing in the Fund.

PALO VERDE believes that substantial returns can be achieved by investing in the Fund; however, such investment involves a high degree of risk. Because risks are inherent in all the investments in which the Fund engages, no assurances can be given that the Fund's investment objectives will be realized. **PALO VERDE urges investors to review carefully the risk factors set forth in the Fund's Memorandum.** The Fund's Memorandum contains important information concerning risk factors and other material aspects of the Fund and must be read carefully before any decision whether to invest is made. The risk

factors set forth in the Fund's Memorandum are those deemed by PALO VERDE to be the most significant.

D. Recommendation of Specific Types of Securities

PALO VERDE makes recommendations relative to the Fund, which is designed for investors who have the knowledge and experience in financial matters to evaluate the merits and risks of such investments. Fund investments may include, but are not limited to, equity securities, debt and other income securities, high-yield securities, exchange traded funds, derivative instruments including options transactions, and emerging markets securities. Nonetheless, PALO VERDE's advisory offerings are not limited to the Fund. As outlined in item 4A the advisory services of PALO VERDE include an array of investment vehicles.

Item 9 Disciplinary Information

Neither PALO VERDE, its management nor related persons has been involved in legal or disciplinary events that are material to a client's or prospective client's evaluation of the Firm's advisory business or the integrity of the Firm's management.

Item 10 Other Financial Industry Activities and Affiliations

A. Financial Industry Activities

PALO VERDE is not a registered broker-dealer and does not have an application pending to register as a broker-dealer. Furthermore, none of PALO VERDE's management or supervised persons is registered representatives of, or has applications pending to register as representatives of, a broker-dealer.

B. Financial Industry Affiliations

PALO VERDE is not registered as, and does not have pending applications to register as, a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor. Furthermore, none of PALO VERDE's management or supervised persons is registered as, or has applications pending to register as, associated persons of the foregoing entities.

C. Other Material Relationships

PALO VERDE is related to PVPE, LLC and PALO MANAGEMENT, LLC through common ownership. Anthony R. Stacy has majority ownership interests in both entities. PVPE, LLC serves as the investment adviser and general partner to the Palo Verde Private Equity Fund, LP, a Delaware limited partnership. PALO MANAGEMENT, LLC is the company through which Mr. Stacy holds his personal investments and does not have or intend to have clients.

PALO VERDE does not have any other arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law

firm, insurance company or agency, pension consultant, other than those already disclosed herein.

D. Other Investment Advisers

As noted in item 10C, PALO VERDE is affiliated with PVPE, LLC through common ownership; Anthony R. Stacy serves as principal owners of both entities. PVPE, LLC is registered as an investment advisor with the U.S. Securities Exchange Commission.

PALO VERDE does not have any other arrangements, not previously disclosed, with other investment advisers that are material to its clients or advisory business.

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

A. Description of Code of Ethics

All employees of PALO VERDE must act in an ethical and professional manner. In view of the foregoing and applicable provisions of relevant law, PALO VERDE has adopted a Code of Ethics to specify and prohibit certain types of transactions deemed to create conflicts of interest (or the potential for or the appearance of such conflicts), and to establish reporting requirements and enforcement procedures relating to personal trading by PALO VERDE personnel. PALO VERDE's Code of Ethics, which specifically deals with professional standards, insider trading, personal trading, gifts and entertainment, and fiduciary duties, establishes ideals for ethical conduct based upon fundamental principles of openness, integrity, honesty, and trust. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

B. Participation or Interest in Client Transactions

PALO VERDE's managing member is also an investor in the PV Fund. The performance allocation may vary amongst the Fund. While PALO VERDE intends to allocate the investment opportunities amongst the Fund in a manner that it believes is fair and equitable, the possibility of receiving the performance allocation and the variation of the structure of the performance allocation amongst the Fund may create an incentive for PALO VERDE to favor one Fund over another and to recommend more speculative investments on behalf of the respective Fund.

As noted in Item 4, the PV Fund is closed to new investors. PALO VERDE is not soliciting potential limited partners to purchase interest in the Fund.

C. Proprietary Trading

At times, PALO VERDE or related persons may buy or sell for our own accounts securities that have also been recommend for the Fund or individually managed client portfolios. However, any purchase or sale of a security by PALO VERDE or a related person will be subject to PALO VERDE's fiduciary duty to the Fund and clients. PALO VERDE will always document any transactions that could be construed as a conflict of interest. To mitigate or

remedy any conflicts of interest or perceived conflicts of interest, PALO VERDE will monitor trading reports for adherence to our Code of Ethics.

D. Simultaneous Trading

From time to time, representatives of PALO VERDE or related persons may buy or sell securities for themselves at or around the same time of the clients. In any instance where similar securities are bought or sold, we will uphold our fiduciary duty by always ensuring that transactions are more beneficial for our clients than for our own benefit.

Item 12 Brokerage Practices

A. Selection and Recommendation

Unless the Client directs otherwise, PALO VERDE has complete discretion over the selection of the broker-dealer to be used in connection with SMA portfolio and the commission rates to be paid without obtaining specific client consent.

With respect to the Fund, PALO VERDE is not limited in its authority to purchase securities for the PV Fund. PALO VERDE has full discretion and authority to make all investment decisions with respect to the types or the amount of securities to be bought or sold for the Fund.

PALO VERDE will have complete discretion regarding the selection of brokers for the Fund and the amount of brokerage commissions and fees paid to such brokers, and this determination will be based upon four factors: (1) where the best execution (price) is likely to be obtained; (2) a brokerage firm's research and investment ideas that directly impact the Fund's portfolio; (3) a firm's ability to properly execute any orders (based on the size of the trade and its complexity to execute); and (4) the operational aspects of brokerage firms' back office (will the Fund receive payment of securities on a timely basis) and custodian or other administrative services. "Best execution" is not synonymous with lowest brokerage commission. Consequently, PALO VERDE may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction for other investment funds similar to the Fund. However, PALO VERDE has determined that the research, execution and other services rendered by a particular broker merit greater than typical fees.

B. Soft Dollar Benefits

PALO VERDE has not received research or other products or services other than execution from a broker-dealer or a third party in connection with the Client's securities transactions. It has not generated "soft dollars" benefits as of the date of this Brochure.

As of the date of this Brochure, the Firm has not utilized any particular procedures direct client transactions in return for products and research services.

C. Brokerage for Client Referrals

When selecting or recommending broker-dealers to clients, the Firm does not consider whether it receives client referrals from a broker-dealer or third party.

D. Directed Brokerage

PALO VERDE will recommend that Clients utilize the Firm's recommended broker dealer(s) to execute transactions. This arrangement is designed to maximize efficiency, enhance the ability to monitor positions, and to be cost effective for our Clients. By requiring Clients to use our specific custodians which PALO VERDE has approved, we seek to achieve most favorable execution of Client transactions.

PALO VERDE also permits clients to direct brokerage. If clients have their own preferred broker-dealer, we will notify the broker-dealer of our advisor-client relationship. Please be aware, however, when clients are permitted to direct brokerage, we may not be able to effect transactions in the most cost effective manner. Furthermore, we may be limited in our ability to aggregate transactions and clients may in turn, incur greater costs associated with brokerage transactions.

The Fund: PALO VERDE provides investment advisory services involved with managing pooled investment vehicles, heretofore described as the Fund. Due to the structure of the pooled investment vehicles, directed brokerage arrangements are not applicable.

E. Order Aggregation

PALO VERDE may, at times, aggregate sale and purchase orders of securities for the in order to obtain the best pricing averages and minimize trading costs. The Firm may employ blocking or bunching of trades to lower transaction costs in the management of accounts. This practice is reasonably likely to result in administrative convenience or an overall economic benefit to PALO VERDE. Client portfolios are benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions or a combination of these and other factors. Our policies and procedures mandate aggregating multiple orders and aggregate orders will be allocated to accounts in a systematic non-preferential manner.

Item 13 Review of Accounts

A. Periodic Reviews

The day-to-day supervision of the SMA portfolios is the responsibility of the principals of PALO VERDE. Each investment account is reviewed at least quarterly for compliance with policy, suitability of investments and customer investment objectives.

With respect to the Fund, PALO VERDE reviews the Fund's investment program, including current holdings, on a continual basis. The Firm reviews the Fund's investment program to analyze rates of return, allocation of assets and to verify that the Fund's portfolio is consistent with its investment objective. Anthony R. Stacy, Chief Compliance Officer conducts such reviews quarterly.

B. Intermittent Review Factors

Intermittent reviews may be triggered by substantial market fluctuation, economic or political events, or by changes in your financial status (such as retirement, termination of

employment, relocation, or inheritance). Clients are advised to notify PALO VERDE promptly if there are any material changes in their financial situation, investment objectives, or in the event they wish to place restrictions on their account.

With respect to the Fund, intermittent reviews may be triggered by substantial market fluctuation, economic or political events, or by changes in the Fund's objectives.

C. Reports

Clients will receive a report at least monthly from the custodian, detailing account performance and account holdings. PALO VERDE does not issue separate reports for SMA Portfolio clients and Retirement Plan clients.

The Fund: The Fund's books of account may be audited at the end of each fiscal year, in the sole discretion of PALO VERDE, by a firm of certified public accountants selected by PALO VERDE. Books of account will generally be kept by the Fund, in accordance with GAAP. In addition, all Limited Partners will receive the information necessary to prepare federal and state income tax returns following the conclusion of such fiscal year as soon thereafter as is reasonably practical. All Limited Partners will also receive unaudited performance reports and such other information as PALO VERDE determines on a quarterly basis. PALO VERDE will not be required to provide information with regard to specific investment transactions of the Fund.

Item 14 Client Referrals and Other Compensation

A. Economic Benefits for Advisory Services Rendered

The Firm does not receive an economic benefit (such as sales awards or other prizes) from any third party for providing investment advice or other advisory services to its clients.

B. Compensation for Client Referrals

From time to time various investment professionals and firms may introduce their clients to PALO VERDE and, in return, PALO VERDE may pay such professionals and firms a referral fee. The person or firm making the referral (solicitor) provides each prospective client with a copy of this document along with a written disclosure of the terms of the solicitation arrangement between PALO VERDE and the solicitor, including the compensation to be received by the solicitor from PALO VERDE. This fee does not increase or decrease the management fee any client pays to PALO VERDE. PALO VERDE discloses the referral arrangement, if any, to the client and asks the client to acknowledge it in writing.

Item 15 Custody

A. Custodian of Assets

Unless otherwise directed by the client, the physical assets of the Portfolios Management Programs are held in an account with J.P. Morgan Securities LLC ("JP Morgan"), Charles Schwab & Co, Inc ("Schwab"), and Pershing. JP Morgan, Schwab and Pershing are the preferred qualified custodians of the managed portfolio's assets. All are members of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). See Item 12 for additional information regarding Brokerage Practices.

PALO VERDE has indirect custody of the PV Fund's portfolio assets because it has the ability to deduct advisory fees payable to it, and has a general power of attorney over the Fund's account. Additionally, as General Partner of the Fund, PALO VERDE has indirect custody of the Fund's portfolio assets (funds and securities). The physical assets of the Fund are held in an account with each Fund's custodian.

PALO VERDE, as General Partner and investment adviser to the PV Fund, has selected J.P. Morgan Securities LLC ("JP Morgan"), a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investor Protection Corp. ("SIPC"), as the Fund's prime broker to execute trades. JP Morgan also serves as the Fund's custodian; as such, it will have custody of the Fund's cash and securities.

B. Account Statements

➤ PORTFOLIO MANAGEMENT CLIENTS

Clients invested in separately managed accounts, will receive statements by mail or electronically from the account custodian. Please review these statements carefully by comparing asset values, holdings, and advisory fees to that in previously received statements, confirmations, and advisory fee invoices.

➤ RETIREMENT PLANS

Clients will receive statements at least quarterly, which include holdings and fee notifications. *Please review statements carefully comparing fees, holdings and activity to that in the previously received statements, confirmations, and advisory fee invoices.*

➤ THE PV FUND

The Administrators for the PV Fund will deliver transaction reports to PALO VERDE. Please be advised that PALO VERDE is not required to provide information about specific investment transactions of the Fund to the Limited Partners. Nonetheless, on a monthly basis, PALO VERDE will provide Limited Partners with unaudited performance reports and other pertinent information regarding the Fund's performance. Additionally, the Fund is subject to an annual audit by an accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board ("PCAOB"). The audited financial statements are distributed to Limited Partners within 120 days of the end of the Fund's fiscal year.

Item 16 Investment Discretion

Generally, clients will grant to PALO VERDE complete discretion and authority to make all investment decisions with respect to the types of securities to be bought or sold and the amount of securities to be bought or sold. Notwithstanding the foregoing, all discretionary trades made by PALO VERDE on behalf of a client will be in accordance with that client's articulated investment objectives and goals, and, as such, may be subject to various limitations.

With respect to the Fund, PALO VERDE is not limited in its authority to purchase or sell securities for the PV Fund. PALO VERDE has complete discretion and authority to make all investment decisions with respect to the types and the amount of securities to be bought or sold for the PV Fund.

Item 17 Voting Client Securities

PALO VERDE will not vote nor advise Clients how to vote proxies for client securities held in separately managed accounts. Clients are responsible for directing their own proxies solicited by issuers of securities, including making elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings and other types of events pertaining to the securities in your account. Clients will receive proxy and other solicitation information by mail from the account custodian.

With respect to the Fund, PALO VERDE will exercise all designated rights, powers and privileges of ownership in all partnership property, including the right to vote, give assent, execute, and deliver proxies, and that the Partnership's proxy voting policies override the undersigned's proxy voting policies. The undersigned hereby adopts the voting policies of the Partnership for purposes of its investment in the Partnership. PALO VERDE has adopted proxy voting policies and procedures for voting proxies on behalf of the Fund.

Item 18 Financial Information

A. Balance Sheet Requirement

PALO VERDE is not the qualified custodian for client fund or securities, and does not require prepayment of fees of more than \$1,200 per client, six (6) months or more in advance.

B. Financial Condition

PALO VERDE does not have any financial impairment that would preclude the Firm from meeting contractual commitments to Clients.

C. Bankruptcy Petition Filings

PALO VERDE has not been the subject of a bankruptcy petition at any time during the last 10 years.

Privacy Policy

PALO VERDE does not disclose nonpublic personal information about its clients or former clients to any persons other than as described below. PALO VERDE collects information about its clients (such a name, address, social security number, assets and income) from discussions with clients, from documents that clients may deliver to PALO VERDE (such as account applications) and in the course of providing services. In order to service its client accounts and effect client transactions, PALO VERDE may provide client personal information to its affiliates and to firms that assist it in servicing client accounts and which have a need for such information. PALO VERDE does not otherwise provide information about its clients to outside firms, organizations or individuals except as required by law. Any party that receives this information will use it only for the services and as allowed by applicable law or regulations, and is not permitted to share or use this information for any other purpose.