

# STONECASTLE ASSET MANAGEMENT, LLC

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## Form ADV Part 2 BROCHURE

This Brochure provides information about the qualifications and business practices of StoneCastle Asset Management, LLC (“StoneCastle”). If you have any questions about the contents of this Brochure, please contact us at **212-354-6500**. 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.

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

## **Item 2 – Material Changes**

This Item is not applicable because this is the Firm's initial Brochure.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes.

This document has been posted on the SEC's public disclosure website (IAPD)  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Additional information about StoneCastle is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with StoneCastle who are registered, or are required to be registered, as investment adviser representatives of StoneCastle.

If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer, Matthew Mayers at (212) 354-6500, ext. 301 or [mmayers@stonecastlepartners.com](mailto:mmayers@stonecastlepartners.com).

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## **Item 4 – Advisory Business**

StoneCastle Asset Management, LLC (“StoneCastle”) was formed in 2012 and is a wholly-owned subsidiary of Stone Castle Partners, LLC. StoneCastle expects to provide investment advisory services to investment funds.

As of November 30, 2012, StoneCastle had discretionary assets under management of \$0.

StoneCastle offers advice on common stock, preferred stock with warrants, convertible preferred stock, Trust preferred securities, subordinated debt, bank stock loans and other fixed income or equity securities issued by financial institutions (including, without limitation, banks, thrifts, credit unions or similar financial institutions or holding companies thereof).

StoneCastle tailors its advisory services according to the individual needs and requests of clients. Additionally, clients may impose restrictions on investing in certain securities or types of securities. All such features and restrictions would be set forth in a client’s written agreement with StoneCastle.

## **Item 5 – Fees and Compensation**

Generally, StoneCastle charges a base management fee, based on assets under management, and in certain cases, an incentive fee based on the performance of the assets managed. All advisory fees are negotiated on a case by case basis and are set forth in the related advisory contract.

The specific manner in which fees are charged by StoneCastle is established in a client’s written agreement with StoneCastle. StoneCastle’s base management fee is payable periodically. Generally, performance fees are payable after investors have received a stipulated amount of preferred return, but will be determined on a case by case basis and will be set forth in the related advisory contract.

Other potential client fees are negotiated and determined on a case by case basis and are set forth in the related advisory contract.

Whether fees are paid in advance or arrears is negotiated and determined on a case by case basis and is set forth in the related advisory contract. Generally, fees paid in advance would be non-refundable but such feature is negotiated and determined on a case by case basis and is set forth in the related advisory contract.

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

Performance fees are negotiated and determined on a case by case basis and will be set forth in the related advisory contract.

## **Item 7 – Types of Clients**

StoneCastle does not currently provide investment management services to any clients, but in the future expects to provide such services to investment funds including registered investment companies

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

### **Analysis:**

As part of its focus on fundamental analysis, StoneCastle selects its investments through rigorous initial and ongoing issuer screening and manages its portfolios using a conservative credit discipline, as evidenced by the high underlying credit quality of its investments.

After such detailed analysis of the investment is conducted by StoneCastle, the Investment Committee meets to discuss the merits of the investment (which may include the relative value of the investment, the asset quality, the structural features, and how the investment contributes to the diversification of the investment portfolio for which the investment is being considered). This process is highly iterative between the committee members, where decisions can swing between buy/don't buy based upon ideas and perspectives that arise as each member discusses the target investment from his particular perspective.

### **Investment Strategies:**

The investment strategies used to implement any investment advice given to clients include long term purchases (securities held at least a year).

In addition, StoneCastle uses the following as main sources of information: financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filing with the SEC, and company press releases.

StoneCastle also uses other public data bases (such as those available through FDIC, OTS, OCC and the Federal Reserve) to conduct its analysis.

### **Risk of Loss:**

Investing in securities involves risk of loss that clients should be prepared to bear. Stock markets and bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not

guaranteed. As a result, there is a risk of loss of the assets we manage that will be out of our control. We cannot guarantee any level of performance or that you will not experience a loss of your account assets.

## **Item 9 – Disciplinary Information**

StoneCastle does not have any legal, financial or other disciplinary item to report.

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

StoneCastle is part of a group of affiliated companies engaged in the financial services business. In some cases, StoneCastle has business arrangements with its related companies that are material to StoneCastle’s advisory business or to its clients. These arrangements may cause StoneCastle or a related person’s interests to diverge from the best interests of a client. We refer to advisory affiliates and any person or company that is under common control with StoneCastle as “related persons”.

### **Related Investment Advisers**

StoneCastle is a related person of the following other investment advisers:

- StoneCastle Investment Management, LLC
- StoneCastle Partners, LLC
- StoneCastle Advisors, LLC
- StoneCastle Loan Management, LLC
- StoneCastle Cash Management, LLC
- StoneCastle Portfolio Advisors, LLC

### **Related Broker Dealers**

Stone Castle is a related person of the following broker dealer:

StoneCastle Securities, LLC

StoneCastle’s Code of Ethics described in Item 11 below addresses these potential conflicts.

## **Item 11 – Code of Ethics**

StoneCastle has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at StoneCastle must acknowledge the terms of the Code of Ethics annually, or as amended.

Such potential conflicts include those relating to allocation of investment opportunities. For example, it is possible that an investment opportunity may be suitable for more than one account managed by StoneCastle, but may not be available in sufficient quantities for all accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple accounts. A conflict arises where the portfolio manager has an incentive to treat an account preferentially because the account pays StoneCastle or its affiliates a performance-based fee or the portfolio manager, StoneCastle or an affiliate has an ownership or other economic interest in the account. To address these conflicts of interest associated with the allocation of trading and investment opportunities, StoneCastle has adopted an investment allocation policy and trade allocation procedures that govern the allocation of portfolio transactions and investment opportunities across multiple advisory accounts, including affiliated accounts. StoneCastle allocates across accounts fairly and equitably over time based upon its policies and procedures.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of StoneCastle will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of StoneCastle's clients. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between StoneCastle and its clients.

To supervise compliance with its Code of Ethics, StoneCastle requires that its Access Persons provide copies of their personal securities holdings and transaction reports to the Firm's Chief Compliance Officer for review. In addition, StoneCastle requires all employees to receive approval from the Chief Compliance Officer for certain types of investments (i.e., IPO's or private placements) and at certain times based on client trading activities. Any individual not in observance of the above may be subject to disciplinary action.

As a registered investment adviser, StoneCastle serves as a fiduciary to its clients. As a fiduciary, StoneCastle owes its clients an affirmative duty of utmost good faith and full and fair disclosure of all material facts. StoneCastle must disclose all material facts regarding the Firm, the advisory services rendered, compensation and conflicts of interest. StoneCastle has adopted a Code of Ethics which deals with the following areas: employee conduct, conflicts of interest, gifts, outside business activities, confidentiality of information, insider trading, procedures for personal securities transactions of directors, officers and employees, and initial public offerings and private offerings. Each officer, director and employee is required to certify that he or she has read and understands the Code of Ethics.

StoneCastle's Code of Ethics is based upon the following core principles:

1. The interests of clients will be placed ahead of the Firm's or any Supervised Person's own investment interests at all times.

2. Access Persons are expected to conduct their personal securities transactions in accordance with the Firm's Personal Trading Policy, which requires that they submit an initial holdings report and regularly report their personal securities holdings thereafter, and notify the Chief Compliance Officer of any outside business activity in which they would like to engage.
3. Supervised Persons are expected to comply with federal and other applicable securities laws.
4. Information concerning the identity of security holdings and financial circumstances of all clients is confidential.
5. Supervised Persons should not accept inappropriate gifts, favors, entertainment, special accommodations or other things of material value that could influence their decision-making or make them feel beholden to a person or firm.

Failure to comply with the Firm's Code of Ethics may result in disciplinary action, up to and including termination of employment.

Clients and prospective clients may request a complete copy of StoneCastle's Code of Ethics by contacting the Chief Compliance Officer, Matthew Mayers, at the address, telephone number and/or email on the cover page.

### **Conflicts of Interest**

StoneCastle Securities, LLC ("StoneCastle Securities"), a registered broker-dealer and an affiliate of StoneCastle may, as part of the selling syndicate of the securities of a fund client for which StoneCastle acts as investment advisor, receive compensation from such fund client. The role of each of StoneCastle and StoneCastle Securities is disclosed in the Offering Circular for such transactions, and any conflicts of interest are disclosed in the Offering Circulars. Fees received by StoneCastle and StoneCastle Securities are also disclosed in such Offering Circular.

StoneCastle acts as investment advisor collateral manager to fund clients for which it receives management fees. StoneCastle may recommend to other clients that they buy or sell securities issued by such fund client. StoneCastle will disclose its role as investment advisor prior to recommending the purchase of any securities issued by such fund client for a client.

## **Item 12 – Brokerage Practices**

### **Selection of Broker-Dealers**

StoneCastle generally has the authority to determine, without obtaining specific client consent, securities to be bought and sold, including the type, amount and price of the securities, the specific brokers used for the trades and the commission rates paid. As an investment adviser, StoneCastle has a fiduciary relationship to its clients. One of the



specific duties that flow from this relationship is a duty to seek the best price and execution of client securities transactions when the adviser is in a position to direct brokerage transactions. It is StoneCastle's policy to always seek best execution for client securities transactions.

The limitations on StoneCastle's authority to determine, without obtaining specific consent, the securities to be bought or sold, or the amount of the securities to be bought or sold, are set forth in the applicable management agreement that is negotiated with each client.

When StoneCastle is directing the purchase of a security for a client and such purchase is going to be made from a broker (as opposed to directly from an institutional investor), StoneCastle may or may not pay a commission or a "mark up" to the selling broker. The amount of the mark-up is not disclosed to investors. The factors that StoneCastle considers in purchasing a security from a broker are the availability of the security (if any) from other sources and the price.

#### **Aggregation and Allocation of Orders**

StoneCastle may combine orders on behalf of an account with orders for other accounts for which it or it has trading authority, or in which it has an economic interest. When it does, StoneCastle will allocate the securities across accounts, considering account size, diversification, cash availability, and other factors, including, where appropriate, the value of having a round lot in the portfolio. StoneCastle believes combining orders in this way will be advantageous to all participants over time. However, the average price could be less advantageous to an account than if an account had been the only account effecting the transaction or had completed its transaction before the other participants. When a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if StoneCastle believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **Internal Cross Transactions**

StoneCastle generally utilizes cross trades to address account funding issues and when it specifically deems the practice to be advantageous for each participant. Internal cross transactions involve selling a security in one client's portfolio and buying the same security in another client's portfolio. StoneCastle receives no financial remuneration in cross transactions.

StoneCastle does not currently participate in any soft dollar relationships with other firms for research or any other service.

To date, StoneCastle has not entered into any client directed brokerage arrangements. StoneCastle does not engage in Principal Trading or Agency Cross Transactions.

## **Item 13 – Review of Accounts**

### **Reviews**

The Investment Committee of StoneCastle reviews each account on at least an annual basis. The Investment Committee consists of Joshua Siegel, President, StoneCastle, Matthew Mayers, Secretary and CCO, StoneCastle and George Shilowitz, Treasurer, StoneCastle Partners.

For managed accounts, StoneCastle’s strategy is generally a “buy and hold” strategy – buy a security below its intrinsic value creating high cash-on-cash returns relative to the underlying risk. Generally, as long as the security is performing and the credits underlying the security are healthy, StoneCastle will not sell an investment. However, StoneCastle will take advantage of strategic selling opportunities when available.

Regular reports are provided to clients on such periodic dates, and with such content, as is negotiated on a case by case basis.

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

On a case-by-case basis, StoneCastle may provide compensation for a client referral. Such compensation may take the form of a one-time fee, or may take the form of a portion of StoneCastle’s fees on the account.

## **Item 15 – Custody**

StoneCastle does not maintain custody of clients’ funds and/or securities.

## **Item 16 – Investment Discretion**

The limitations on StoneCastle’s authority to determine, without obtaining specific consent, the securities to be bought or sold, or the amount of the securities to be bought or sold, are set forth in the applicable management agreement that is negotiated with each client.

## **Item 17 – Voting Client Securities (i.e., Proxy Voting)**

StoneCastle shall vote proxies relating to portfolio voting securities in what StoneCastle perceives to be the best interests of its clients. StoneCastle shall review on a case-by-case basis each proposal submitted to a shareholder vote to determine its impact on portfolio voting securities held by its clients. Although StoneCastle will generally vote against proposals that may have a negative impact, StoneCastle may vote for such a proposal if there is a compelling long-term reason to do so.

StoneCastle's proxy voting decisions are made by the senior officers who are responsible for monitoring portfolio securities. To ensure that StoneCastle's vote is not subject to a conflict of interest, StoneCastle requires that: (1) anyone involved in the decision making process disclose to the CCO any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) anyone involved in the voting decision making process is prohibited from revealing how StoneCastle intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Conflicts based on a business relationship with StoneCastle or any affiliate will be considered only to the extent that StoneCastle has actual knowledge of such relationships. If StoneCastle determines that voting a particular proxy would create a material conflict of interest between StoneCastle's interests and the interests of clients, StoneCastle may: (1) disclose the conflict to the client and obtain the client's consent before voting the proxy; (2) vote such proxy based on the recommendation of an independent third party; (3) "mirror vote" the proxy in the same proportion as the votes of other non-client proxy holders; or (4) vote in accordance with predetermined decision making criteria.

## **Item 18 – Financial Information**

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

StoneCastle does not require prepayment of advisory fees; therefore the Firm is not required to provide an audited financial statement.

## **Item 19 – Requirements for State-Registered Advisers**

Not Applicable.