

# 1607 Capital Partners, LLC

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of 1607 Capital Partners, LLC. If you have any questions about the contents of this brochure, please contact us at 804-525-1750. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## Material Changes

This Item of the Brochure is intended to discuss material changes that are made to the Brochure and provide clients with a summary of such changes. No material changes have been made since our last update in March 2012.

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## Advisory Business

1607 Capital Partners, LLC (“1607” or the “Company”) was established in 2007 as a privately held investment firm and is currently owned by Shannon Fake, Ashley Long, Jim Mallory, Kirk Tattersall, and Fred Tattersall. As of December 31, 2012 the Adviser had \$2.10 billion of assets under management on a discretionary basis.

Investment advisory services are offered to high net worth individuals and institutional clients including corporate and public pension funds, and university and foundation endowments. We currently offer five different investment products in which a client may participate. Aside from a willingness to abide by a limited set of guidelines imposed by the client, our firm does not tailor investment advice based on each client's individual needs, but rather according to the parameters for each investment product we manage. The investment management objective is implemented on a discretionary basis as stated in the Adviser’s asset management agreement. Client assets are actively managed by investing primarily in closed-end mutual funds that invest in domestic and international equities, fixed income products, and ETFs. “Closed-end mutual funds” means exchange-traded closed-end funds and similar exchange-traded investment funds and investment holding companies that trade at prices that may reflect a discount (or premium) to net asset value. On an ongoing basis we monitor the performance of client accounts and the investment markets and reallocate clients’ assets as appropriate.

1607 Capital Partners also provides investment advisory services and serves as the General Partner to three private investment Delaware limited partnerships, including: the 1607 Capital International Equity Fund, LP, the 1607 Capital Global Equity Fund, LP, and the 1607 Capital Bond Fund, LP. (collectively the “1607 Funds” and together with separate account clients “Clients”)

Similar to our separate account clients, Fund assets are actively managed by investing primarily in exchange listed closed-end mutual funds. The 1607 Funds are actively managed with the objective of, on a net rate of return basis, exceeding a specified benchmark.

## **Fees and Compensation**

Fees may include a combination of a management and performance based fees. Asset based management fees will be charged quarterly in advance or in arrears, as agreed to with the client, based on a percentage of the client's assets under management at the beginning or end of the calendar quarter, subject to adjustments for contributions to or withdrawals from the client account. Performance based fees are negotiated on a case by case basis and will generally be based upon a share of the capital gains or capital appreciation of the funds and securities in a client's account above those of the stated benchmark for the particular client. Performance fees will only be charged to qualified clients and in accordance with Rule 205-3 under the Advisers Act. The compensation for our services, which include investing a client's assets in accordance with one of our stated strategies, monitoring a client's investment results, and reporting to the client on a quarterly basis, is as follows:

### **Separately Managed Accounts**

Equity Portfolios:

| <b>Assets Under Management</b> | <b>Fee</b> |
|--------------------------------|------------|
| First \$100 Million            | .75%       |
| Next \$150 Million             | .65%       |
| Above \$250 Million            | .50%       |

Fixed Income Portfolios:

Flat fee of .50%

Investment advisory services begin with the effective date of the Agreement, which is the date the client signs the Investment Advisory Agreement. For that calendar quarter, fees will be adjusted pro rata based upon the number of calendar days in the calendar quarter that the Agreement was effective. Fees can either be deducted directly from the client's brokerage account or paid directly by the client pursuant to a written agreement. We reserve the right to adjust the fee schedule for accounts depending on the size and type of account and the services required. In some cases, negotiation of fees may result in different fees being charged for similar services and may be less than the stated fee schedule.

Advisory fees charged are separate and distinct from fees and expenses charged by the closed-end funds that are recommended to clients. Additionally, the fees paid to 1607 are exclusive of custodial and transaction costs paid to custodians, brokers, or any other third parties. Clients should review all fees charged and fully understand the total amount of fees to be paid.

## **1607 Funds**

Management fees charged to investors in the 1607 Funds are based on the value of account assets at the end of each month. Detailed information regarding the fees charged to the 1607 Funds are provided in the fund's private offering memorandum and other governing documents. In addition to the fees charged by us, investors will bear indirectly other fees and expenses incurred by the 1607 Funds including, but not limited to, the following: legal fees; accounting fees; custodian fees; fund administration fees; organizational and registration expenses; and certain offering costs. Investors should review all fees charged by us and the expenses charged to the 1607 Funds to fully understand the total amount of fees to be paid by the fund and, indirectly, the investors. The private offering memorandum provides a summary of the expenses charged to the fund.

We have adopted a Valuation & Pricing Policy and Procedures to govern the pricing (valuation) of securities held in client portfolios. With respect to the separate account clients, the advisory fees are based on security valuations obtained using independent pricing sources. Although we utilize well-known, widely-used independent pricing vendors, such security valuations may differ from the security valuations assigned by a client's custodian. With respect to the 1607 Funds, the advisory fees are based on security valuations confirmed by the independent third-party administrator.

Either 1607 or the client may terminate the Agreement for any reason upon 30-days written notice. The client is responsible to pay for services rendered until the termination of the agreement. Upon termination, any unearned fees charged for advisory services will be refunded on a pro-rata basis. Investors' ability to redeem from the 1607 Funds are subject to formal notice requirements and other restrictions. The 1607 Funds' offering memorandum provides a summary of when investors are permitted to make complete or partial redemptions.

## **Performance Based Fees and Side-by-Side Management**

Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An adviser charging performance fees to some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (*e.g.*, an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

We will enter into performance-based fee arrangements and the fact that we are compensated based on the trading profits may create an incentive for us to make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of such

compensation. In addition, some clients are not charged an incentive fee, thus we have an incentive to favor accounts for which we receive a performance-based fee. In no instance will clients paying performance-based fees receive preferential treatment over clients not paying performance-based fees. As a fiduciary, 1607 recognizes its duties to act in good faith and with fairness in all of its dealings with all clients. To further mitigate this potential conflict of interest, we have adopted trade allocation and aggregation procedures (see Brokerage Section) to ensure that no client is allocated more profitable investments.

Only qualified clients are eligible to be assessed a performance fee. Qualified clients must i) have at least \$750,000 in assets under management with 1607, or ii) have a net worth (or joint net worth with a spouse) of at least \$1,500,000. The performance compensation will be negotiated with each client. Performance-based compensation may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of performance compensation.

## **Types of Clients**

In addition to high net worth individuals and institutional clients, including corporate and public pension funds, and university and foundation endowments, we also provide discretionary investment advice to the 1607 Funds which are private investment Delaware limited partnerships.

We typically will not act as investment adviser for separately managed accounts that are less than \$25 million, and generally require 1607 Fund investors to initially contribute \$1 million. However, we reserve the right to make exceptions to the minimum investment requirements.

We may from time to time enter into letter agreements or other similar agreements (“side letters”) with one or more investors of a 1607 Fund which provide such investor with additional and/or different rights than investors have pursuant to the general terms of the Fund. Such rights may include providing the investor with shorter notice periods and more frequent and detailed reports, as well as the reduction or waiver of the management fee.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

The 1607 investment team employs a bottom-up, value-oriented approach in selecting closed-end funds based on a proprietary system. We begin our investment process with the collection of data on the universe of investable closed-end funds. The universe of funds generally will include exchange-traded closed-end funds, and other similar commingled investment companies, that invest primarily in domestic and international equities, fixed income products, and ETFs. Information such as prices, dividends, net asset values and portfolio composition is collected and used to estimate the net asset values of the funds at any given time. Based on this information, we then rank the universe of investable funds using a proprietary model that evaluates various indicators, including relative and absolute discount levels, net asset value performance, and qualitative factors, including fund management, corporate action activity (share repurchases, tender offers, open-ending provisions, etc.) and fund size. The output of this ranking system provides the starting point for our investment decisions.

We then use top down country and regional data to both confirm the bottom-up research and control risks. Country valuations, economic growth, and geopolitical environments are all evaluated during this step. Specific client guidelines and benchmarks along with diversification considerations are then monitored to further control risks and confirm fund choices. Client portfolios are created from this research and re-evaluated on a daily basis.

The description provided above is a brief overview of the investment strategy and is not intended to be complete. All investing involves a risk of loss and our investment strategy could lose money over short or even long periods. The information below is a summary of the key risks. While the investment strategies used in our Funds are the same as those used for separate accounts, there are risks that are specific to the Funds. Investors in the 1607 Funds should carefully consider the investment objectives and risk of each 1607 Fund. Investors should review the offering document for each Fund for a more detailed explanation of the investment strategy and risks involved. Clients should contact us for additional information on other risks that may be present when opening account with 1607.

### *Investment Approach and Strategies*

Risk is inherent in all investing. No guarantee or representation is made that our investment approach or strategies will be successful or produce profitable results. Our unique, fund of funds investment style may not be successful in realizing the client's investment objectives. Profitable investing is often dependent on anticipating that the market will change its perception of what appears to be an undervalued stock at some point in the future. Markets subject to random price fluctuations, rather than rational decisions, may generate a series of losing investments. There have been periods in the past when the markets have been subject to irrational price movements, and such periods may recur. Any factor which would make it difficult to execute trades, such as reduced liquidity or extreme market developments resulting in limit moves, also could be detrimental to profits. No assurance can be given that our techniques and strategies will be profitable in the future.

### *Closed – End Funds*

We intend to invest primarily in closed-end funds that invest in domestic and international equities, fixed income products, and ETFs (depending on the specific investment product). Risks of investing in shares of a closed-end fund that invest in domestic and international equities, fixed income products, and ETFs are similar to those risks associated with investing in these securities directly. In addition to these risks, the shares of closed-end funds often trade at a discount to the underlying net asset value of the fund and this discount can increase significantly during various market conditions that do not otherwise impact the value of the fund's holdings. 1607 clients and investors are also subject to manager risk, which is the risk associated with the closed-end fund management team's ineffective or underperforming management. While 1607 analyzes the fund management, clients are indirectly subject to the risks associated with the investment decisions of the closed-end fund management. Further, closed-end funds incur investment advisory, transactional, administrative and other expenses that are in addition to the investment advisory, transactional, administrative and other expenses incurred by the client.

## **Disciplinary Information**

1607 and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

1607 and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

1607 its principals and employees are permitted to trade for their own accounts on a limited basis, and from time to time may buy or sell securities that we trade for clients. This creates a potential conflict of interest, however, 1607 has prohibited its principals and employees from trading ahead of any client account. To avoid any additional conflicts of interest resulting from the personal trading of our principals and employees, and to avoid the misuse of material non-public information, we have adopted a written Code of Ethics designed to address and avoid potential conflicts of interest, as required under Rule 204A-1 of the Advisers Act.

Our Code of Ethics requires, among other things, that its principals and employees:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of 1607 above one's own personal interests;
- Adhere to the fundamental standard that he or she should not take inappropriate advantage of his or her position;
- Avoid and/or disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with the policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analyses, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on the employee and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve his or her professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Our Code of Ethics also requires principals and employees to: (1) pre-clear certain personal securities transactions; (2) report personal securities transactions on at least a quarterly basis; and (3) provide the CCO with a detailed summary of personal securities holdings (both initially upon commencement of employment and annually thereafter), in each case subject to certain exceptions described in the Code of Ethics.

A copy of our Code of Ethics will be provided to any client or prospective client upon request.

## **Brokerage Practices**

In the course of providing services, 1607 will execute trades for clients through various broker-dealers. When we have broker discretion, there is no restriction on the brokers that may be selected to execute client transactions. When placing portfolio transactions, we will seek to obtain best execution for the clients, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of the order and difficulty of execution; the financial strength, integrity, and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

### *Allocation and Aggregation of Orders*

Determinations concerning the investment and trading needs of each client and the timing of transactions (e.g., security purchases and sales) shall be made throughout the trading day by the responsible Portfolio Manager(s). Each client will not necessarily participate in every security transaction notwithstanding the fact that such investment opportunity may otherwise be suitable for that client.

If we have determined to invest at the same time for more than one client account, we may place combined orders for all such accounts simultaneously. Each account that participates in a blocked transaction will participate at the average share price for all of our transactions in that security on that business day. When allocating trades, the Portfolio Manager takes into account all relevant factors, including, but not limited to, the amount of shares received, the size of each client's allocation, clients' liquidity needs and previous allocations. In the case of partial fills, accounts with smaller weightings in the security will generally receive allocation priority.

Such block trading is done to facilitate best execution and to allocate equitably among our clients differences in prices that might have resulted had such orders been placed independently. We effect batched transactions in a manner designed to ensure that no participating client is favored over any other client. The vast majority of our trades are executed in this manner. However, when significant cash flows occur within a specific account, trades may be executed for that specific account individually (i.e. not blocked with others) in order to align that account with similar accounts participating in the same investment strategy. The CCO, or his designee, conducts periodic reviews of client account performance, and purchase and sale journals to ensure that no client or group of clients is being systematically favored or harmed in the selection and allocation of investment opportunities.



### *Cross Trades*

Consistent with our duty to seek to obtain best execution, occasionally we may execute cross transactions between client accounts. A cross trade occurs when we purchase and sell a particular security between two or more accounts under our management by instructing brokers to cross the trade. We generally utilize cross trades to address account funding issues and when the practice is specifically deemed advantageous for each participant. In no instance do we receive additional compensation when crossing trades for client accounts. We will seek to ensure that the terms of the transaction, including the consideration to be paid or received, is fair and reasonable, and the transactions is done for the sole benefit of all participating clients.

### *Soft Dollars*

The term “soft dollars” refers to a means of paying brokerage firms for products and services through commission revenue, based on the volume of brokerage commission revenues generated from securities transactions executed through brokers by an investment manager on behalf of advisory clients. Section 28(e) of the Securities Exchange Act of 1934, as amended allows the Adviser to pay broker-dealers more than the lowest commission available in order to obtain research and brokerage services without breaching its fiduciary duties to clients or imposing a duty upon the Adviser to obtain the lowest commission if certain conditions are met and the Adviser makes a good faith determination that the commissions paid are reasonable in relation to the value of the brokerage or research services on behalf of its advisory clients.

In selecting a broker-dealer, we will consider, among other things, the broker-dealer’s best execution capabilities, reputation, and access to the markets for the securities being traded. We will generally seek competitive commissions for transactions for advisory client’s accounts. Consistent with obtaining best execution, transactions for advisory clients may be directed to brokers in return for research services furnished by them to 1607. Such research generally will be used to service all of our clients, but brokerage commissions paid may be used to pay for research that is not used in managing a specific account.

We currently trade with one broker-dealer that provides soft dollar credits, Bloomberg TradeBook. The soft dollar credits earned through Bloomberg TradeBook are used to offset the costs for our Bloomberg terminals, which provide research capabilities, real-time security quotes, and general security information (i.e. corporate actions, dividend information, proxy information, etc.). 1607 receives a benefit because we do not have to produce or pay for these services. Investment research and brokerage services received through this soft dollar arrangement may be used in servicing various clients, and not all such services will necessarily benefit all clients. We will make any appropriate allocations so that 1607 bears the cost of any such services used for purposes other than for eligible research or brokerage (e.g., for administration) as contemplated by Section 28(e). Due to the soft dollar relationship with Bloomberg TradeBook, we have an incentive to direct trades to Bloomberg TradeBook since we will be relieved of expenses which we might otherwise bear.

Some of our clients specifically instruct us not to use broker-dealers that provide soft dollar credits. As a result, clients who provide us with complete discretion in the selection of brokers

may incur different commission costs compared to clients who instruct us not to use broker dealers providing soft dollar credits.

## **Review of Accounts**

Client accounts are monitored continuously and changes and/or alternate investment opportunities are recommended when a Portfolio Manager believes it is appropriate to do so. General conditions in the stock and bond markets are continuously monitored. Factors triggering reviews, and perhaps triggering buy or sell recommendations, include changed circumstances of the clients; changed general conditions in the stock and bond markets; and changes in closed end mutual funds owned by clients. Client accounts are reviewed by each Portfolio Manager, including, Mr. Fred Tattersall, Mr. James Mallory, Mr. Shannon Fake, and Mr. Ashley Long. There is no set minimum or maximum number of accounts that will be reviewed.

Clients receive copies of all transaction confirmations and monthly/quarterly statements from their custodians. All clients and 1607 Fund investors receive monthly reports, which include performance, market commentary, and a “fund of the month” section. In addition, all investors receive quarterly reports regarding account performance, expanded market commentary, holdings, discounts, and country allocation. Investors in 1607 Funds receive annual audited financial statements prepared by an independent accounting firm, as discussed in the Custody section below.

## **Client Referrals and Other Compensation**

We do not have any arrangements to compensate third parties for client referrals. However, we may compensate our officers, directors, or employees, on a bonus award basis, for obtaining new clients.

## **Custody**

All Client assets are held in custody by unaffiliated broker/dealers or banks, however a registered investment adviser who, directly or through an affiliate, acts as the general partner or managing member to a limited partnership or other comparable pooled investment vehicle is considered to have custody over client assets. In addition, if an adviser can debit accounts to collect fees then it is considered to have custody. Rule 206(4)-2 imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients’ funds and securities.

To comply with Rule 206(4)-2 and to provide meaningful protection to 1607 Fund investors, each 1607 Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles, and are distributed to each investor within 120 days of the Fund’s fiscal year end.

In cases where we can access separate account client funds and securities though our ability to debit advisory fees from the custodial account, the account custodians send statements directly to

the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by 1607.

## **Investment Discretion**

When a client agrees to discretionary management, we will be responsible for selecting the amount of securities to be bought and sold. Discretionary authority will be established through the execution of an investment advisory agreement. The only limitations on the investment authority will be those limitations imposed in writing by the client. The offering memorandum and governing document for each 1607 Fund provides that the investment manager has discretion to manage the business and affairs of the 1607 Fund, subject only to specific and express limitations provided therein.

## **Voting Client Securities**

Among the services we provide is that we may vote proxies on behalf of our clients. We are charged with identifying the proxies requiring a vote, voting the proxies in the best interest of clients, and submitting the proxies promptly and properly.

Our policy is to vote client proxies in the interest of maximizing shareholder value. To that end, we will vote in a way that we believe is, consistent with our fiduciary duty, by causing the issue to increase the most or decline the least in value. Consideration will be given to both the short and long term implications of the proposal to be voted on when considering the optimal vote.

We have currently identified no conflicts of interest between our client interests and our own within our proxy voting process. Nevertheless, if we determine that we are facing a material conflict of interest in voting client proxies, our procedures provide for us to seek instruction, where feasible and practicable (e.g., as to time), from the Account owner, or submit the matter to an independent third party (e.g., proxy voting service) for action. As an added protection, the third party's decision is binding.

Our complete proxy voting policy and procedures are memorialized in writing and are available for client review. In addition, our complete proxy voting record is available to our clients, and only to our clients. Please contact us if you have any questions or if you would like to review either of these documents.

In the event we do not exercise proxy-voting authority over client securities then the obligation to vote client proxies shall at all time rest with client. Client shall in no way be precluded from contacting us for advice or information about a particular proxy vote. However, we shall not be deemed to have proxy-voting authority solely as a result of providing such advice to client.

Should we inadvertently receive proxy information for a security held in client's account (in which 1607 does not maintain proxy voting authority), then we will immediately forward such information on to client, but will not take any further action with respect to the voting of such proxy. Upon termination of our Agreement with the client, we shall make a good faith and

reasonable attempt to forward proxy information inadvertently received by us on behalf of client to the forwarding address provided by the client to us.

We will not file Class Action lawsuits on behalf of our separate account clients. However, we will help clients who seek assistance in filing Class Actions.

For Class Action documents received by us on behalf of the Funds we manage, we will ensure that the Funds either participate in, or opt out of, any class action settlements received. We will determine if it is in the best interest of the Funds to recover monies from a class action.

## **Financial Information**

We have never filed for bankruptcy and are not aware of any financial condition that is expected to affect our ability to manage client accounts. Per SEC guidelines, we are not required to and do not receive an annual audit of our financial statements.