



## ARROWPOINT ASSET MANAGEMENT, LLC

### Part 2A of Form ADV The Brochure

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This disclosure brochure provides information about the qualifications and business practices of Arrowpoint Asset Management, LLC (“Arrowpoint”, “we” or “us”). If you have questions about the contents of this brochure, please contact us at 303-398-2929 or by email at info@ap-am.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Arrowpoint is a registered adviser with the United States Securities and Exchange Commission and conducts itself accordingly. Such registration requires that we conduct our business in accordance with the Investment Advisers Act of 1940 but does not require specific professional financial training or exams or imply a certain level of skill or training.

## Item 2: Material Changes

Pursuant to SEC rules, this item will summarize material changes made to this brochure and reference the date of the last annual filing.

Arrowpoint Life Science Fund, LP was launched on September 1, 2012. This brochure has been updated to include the biography for the portfolio manager, the affiliated general partner as well as fees and compensation.

Arrowpoint Income Opportunity Fund QP, L.P. was launched on February 1, 2013. This fund was split from the Arrowpoint Income Opportunity Fund, L.P. to serve two distinct investor categories. This brochure has been updated to include the new affiliated general partner and investor qualification.

Arrowpoint's Regulatory Assets Under Management changed from approximately \$1.8 billion on February 29, 2012 to \$2.3 billion on December 31, 2012.

Arrowpoint's previous filing was dated March 31, 2012.

Arrowpoint provides a copy of its brochure to its clients annually and to prospective clients upon request, free of charge. Arrowpoint's brochure may be requested by contacting our Compliance Department at (303) 398-2929.

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## **Item 4: Advisory Business**

Arrowpoint was founded in 2007 and is 100% privately held by its members David Corkins, Minyoung Sohn, and Karen Reidy. Arrowpoint provides investment management services to high-net-worth individuals and associated trusts, estates, endowments, foundations (which we refer to as separate accounts) and privately offered limited partnerships and corporate vehicles (which we refer to as “funds”). As of December 31, 2012, we managed \$2.3 billion of regulatory assets on a discretionary basis.

Arrowpoint uses a fundamental research and opportunistic investment philosophy when investing. We invest in a broad array of financial instruments including, but not limited to, fixed income, equity, distressed debt, options, defaulted instruments, mortgage-backed, asset-backed, collateralized debt obligations, futures, swaps, repurchase agreements, bank loans, initial public offerings and investments pursuant to the Term Asset-Backed Securities Loan Facility (“TALF”). On behalf of our clients we may engage in hedging, forward trading and short selling. We also may employ leverage. We have a long-term investment horizon.

Arrowpoint works with each separate account client to understand its investment objectives and to establish the elements of our relationship as their investment adviser. This process culminates with the negotiation and preparation of an investment management agreement that outlines the terms of the client-adviser relationship including, but not limited to, investment strategy, investment limitations and fees. In limited circumstances, we oversee an external manager to manage certain portions of the client’s assets.

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

### **Separate Accounts**

As compensation for our advisory services, each separate account client pays an investment management fee based on assets under management (which we refer to as the advisory fee), a performance-based incentive fee (which we refer to as the performance fee), or both. Our advisory fees, which range from 0.20% to 1.00% of assets per annum depending on strategy and size, are calculated and collected quarterly in arrears as of the first business day of each calendar quarter based on the account’s average of the preceding three month-end net asset values as provided by the custodian. Advisory fees are deducted directly from the client’s brokerage account unless the client requests us to send quarterly invoices. Our performance fees are negotiable and may be subject to a performance “hurdle” and/or “high water mark” treatment. We have established lower fees or waived fees entirely based on particular elements of the individual client profile, such as the investment strategy to be deployed, the amount of assets under our discretionary management, and employee-related accounts.

If a separate account client contributes more than \$10,000 during a quarter we will pro-rate the fees on this contribution. Contributions of less than \$10,000 and partial withdrawals of client assets are not pro-rated and will be reflected in our fee calculation for the entire quarter. If a separate account client terminates the investment management agreement with Arrowpoint in the

middle of a billing period we will collect a pro-rated fee based on the number of days that the account was managed.

In addition to our advisory fee and performance fee, separate account clients bear trading costs and custodial fees associated with their accounts. These expenses may include (i) all costs and expenses of transferring the assets to the account; (ii) all taxes and governmental fees and charges incurred by the account (including all withholding taxes); (iii) all brokerage commissions and other trading costs and fees, underwriting discounts, sales loads, spreads and other similar charges; and (iv) all charges of U.S. depositories and of any custodian and/or other service providers. To the extent that clients' accounts are invested in mutual funds, these funds pay a separate layer of management, trading, and administrative expenses. See Item 12 for a discussion of our brokerage practices.

## **Funds**

As compensation for our advisory services, we, or our affiliate, receive from each fund (or fund structure) we manage an investment management fee based on assets under management (which we refer to as the management fee) and a performance-based incentive allocation (which we refer to as the performance allocation).

Our management fees, which range from 0.0% to 2.0% per annum depending on the fund, are calculated and collected quarterly either in arrears or in advance as set forth in the applicable offering documents. They are based on the net asset value of each limited partner's capital account (calculated by the fund's third-party administrator) and the book value of certain sub-accounts with respect to special situation investments. This fee is deducted directly from each fund's brokerage account on a quarterly basis. We have the right to waive or reduce our management fee with respect to any investor. The management fees are prorated for partial periods.

The performance allocations, which our affiliated general partners are entitled to receive, range from 10% to 20% of the net increase, if any, in the net value of an investor's capital account as determined by a third-party administrator on an annual basis for the proceeding year, subject to a loss carry-forward commonly referred to as a "high-water mark". These performance allocations are allocated to our affiliated general partners through a re-allocation from the capital accounts of investors in our funds to the capital account of the affiliated general partner. Each general partner has the right to waive or reduce its performance allocations with respect to any investor. Investors in some of our funds benefit from a "clawback", calculated and due upon the fund's liquidation, that, subject to certain limitations, requires us to restore to the investors amounts by which the performance allocations we receive over the life of the fund exceed the stated performance allocation percentage.

The Funds also bear organizational and ongoing expenses (which include, without limitation, formation costs, legal expenses, audit expenses and other fund related fees and expenses as set forth in the applicable offering document) as well as the fees and expenses of the administrator and custodian, the fees and commissions associated with brokerage services provided to each fund

and fees or duties incurred by the fund in processing an investor's subscription documents. See Item 12 for a discussion of the brokerage practices.

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

As discussed in Item 5, we, or our affiliated general partners, are entitled to receive performance-based compensation from our clients. Our (or our affiliates) right to the performance allocation or fee may create an incentive for us to make investments that are riskier, more speculative, or more highly levered than would be the case in the absence of performance-based compensation. It may also create an incentive for us to direct riskier, more speculative or more highly levered investments to those separate accounts or funds with higher performance allocations or fees. To mitigate these conflicts, we have developed and maintain trade allocation policies that seek fair and equitable treatment for all accounts over time. For a description of how we allocate investments among our separate accounts and funds, please refer to "Brokerage Practices - Aggregation and Allocation of Transactions" in Item 12.

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

Arrowpoint's separate account clients are typically high net-worth individuals and associated trusts, estates, endowments and foundations. Our minimum separate account size is generally \$10,000,000.00, but this amount is negotiable.

Our fund clients are typically organized using a "master-feeder" structure where a Delaware limited partnership serves as the master fund and offshore entities (typically, Cayman Islands entities) serve as feeder funds, investing all or substantially all of their assets in the Master Fund. Each fund, however, may be restructured so that the fund becomes a feeder to a newly formed offshore master.

In order to be eligible to invest in our funds, an investor must be an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, and a "qualified client" or "qualified purchaser" within the meaning of the U.S. Investment Advisers Act of 1940. Each investor in our funds is required to represent that their investment in our fund is being acquired for its own account, for investment, and not with a view to resale or distribution. Investments in our funds are suitable only for sophisticated investors for whom an investment in our fund does not constitute a complete investment program and who fully understand, are willing to assume, and who have the financial resources necessary to withstand the risks involved in our fund's specialized investment program and to bear the potential loss of their entire investment in those investments. The minimum initial investment in our funds ranges from \$500,000 to \$2,000,000, but is negotiable on a case-by-case basis.

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

### **General**

Arrowpoint's investment decisions are made by the portfolio managers, David Corkins, Minyoung Sohn, and Karen Reidy, acting as our investment committee, in consultation with our research analysts.

Investment decisions for Arrowpoint Life Science Fund, L.P. are made by Tony Yao in consultation with the investment committee and research analysts.

Our investment process for all clients is anchored by in-depth fundamental research and risk management. Arrowpoint primarily invests for relatively long time horizons, often for a year or more. We conduct fundamental analysis to identify what we believe to be asymmetries in (or imbalances between) risks and rewards of investment opportunities. We rely on internal due diligence, research and modelling as well as research provided by brokers/dealers in order to better understand company fundamentals and street consensus expectations. The sources of our research span quantitative analysis and qualitative assessments, ranging from financial models to information collected at industry trade shows. However, financial modelling to forecast free cash flow generation, balance sheet health, management's effective deployment of capital, and repayment ability is at the core of our fundamental research process. The output of our financial modelling shapes both our directional view on whether we want to hold the security long or short and how we will invest within the capital structure (credit or equity).

We employ various strategies in our capacity as investment advisors to the separate accounts and funds that we manage. These strategies include acquiring and disposing of financial instruments that include fixed income, equity, distressed debt, options, defaulted instruments, mortgage-backed, asset-backed, collateralized debt obligations, futures, swaps, repurchase agreements, bank loans, initial public offerings and investments pursuant to TALF. On behalf of our clients we engage in hedging, forward trading and short selling. We also employ leverage.

The following is a description of our significant strategies and the material risks associated with pursuing those strategies. All investing, and the strategies that direct that investing, involve a risk of loss that clients should be prepared to bear.

### **Fixed Income**

For certain of our clients, we pursue a strategy of investing primarily in a diversified portfolio of fixed income securities, including, but not limited to, government bonds, corporate bonds, convertible bonds, zero-coupon bonds, asset-backed bonds, and securitized assets. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility resulting from, among other things, interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

## **Equity**

We may recommend long and short positions in common stocks, preferred stocks and convertible securities. Equity securities fluctuate in value, often based on factors unrelated to the fundamental economic condition of the issuer of the securities, including general economic and market conditions, and these fluctuations can be pronounced.

## **Options**

We may engage in various types of options transactions. We engage in buying and writing put and call options. An option gives the purchaser the right, but not the obligation, upon exercise of the option, either (i) to buy or sell a specific amount of the underlying security at a specific price (the “strike” price or “exercise” price), or (ii) in the case of a certain options, to receive a specified cash settlement. To purchase an option, the purchaser must pay a “premium,” which consists of a single, nonrefundable payment. Unless the price of the securities underlying the option changes and it becomes profitable to exercise or offset the option before it expires, our clients may lose the entire amount of the premium. The purchaser of an option runs the risk of losing the entire investment. Thus, our clients may incur significant losses in a relatively short period of time. The ability to trade in or exercise options also may be restricted in the event that trading in the underlying securities interest becomes restricted.

## **Asset Backed Securities**

Through the use of trusts and special purpose corporations, various types of assets including but not limited to manufactured housing loans, home equity loans, automobile loans, credit card receivables, and other receivables, are securitized in pass-through structures.

These asset backed securities, sometimes referred to as ABS, do not have the benefit of a security interest in the underlying collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due.

ABS are subject to prepayment risk. ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an asset backed security is affected by changes in the market’s perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

## **Short Selling**

We may sell securities short of an issuer in the expectation of covering the short sale with securities purchased in the open market at a price lower than that received in the short sale. We may adjust our client’s net exposure as we determine to be appropriate in light of market conditions. We may apply short positions to seek to take advantage of deteriorating fundamentals

at the individual security level but may also apply short positions as a hedging technique, such as shorts paired with more fundamentally attractive, historically correlated, long positions. We may also periodically hedge a client's long portfolio through short selling sector, industry, and market ETFs, or through the use of several smaller "basket" positions that, in aggregate, we believe, would theoretically hedge individual long positions or long industry or sector exposure. If the price of the issuer's securities declines, the client may then cover the short position with securities purchased in the market. The profit realized on a short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale. The possible losses from selling short a security differ from losses that could be incurred from a cash investment in the security; the former may be unlimited, whereas the latter can only equal the total amount of the cash investment. Short selling activities are also subject to restrictions imposed by the federal securities laws and the various national and regional securities exchanges, which restrictions could limit a client's investment activities. There can be no assurance that securities necessary to cover a short position will be available for purchase.

### **Leverage**

We use leverage in certain investment programs when we deem it to be appropriate for our clients and consistent with applicable regulations. At times, the amount of such leverage may be substantial. Unless otherwise agreed with our separate account clients, our clients are not subject to any limitations on borrowing or other forms of leverage. Indirect forms of leverage include leverage through short sales or derivative instruments such as options techniques, which have embedded leverage features. We may also leverage a client's assets by entering into reverse repurchase agreements whereby we effectively borrow funds on a secured basis by "selling" interests in investments to a financial institution for cash and agreeing to "repurchase" such investments at a specified future date for the sales price paid plus interest at a negotiated rate.

Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. If a client purchases securities on margin and the value of those securities declines, the client may be obligated to pay down the margin loans to avoid liquidation of the securities. If loans to the client are collateralized with portfolio securities that decrease in value, the client may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses. Moreover, counterparties of our clients, in their sole discretion, may change the leverage limits that they extend to our clients.

### **Hedging**

We use a variety of financial instruments such as derivatives, options, swaps, futures, and forward contracts, both for investment purposes and for risk management purposes. Hedging also involves special risks including the possible default by the other party to the transaction, illiquidity, and, to the extent that our assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used. Those of our clients who engage in hedging transactions are subject to the risk of the failure or default of any counterparty to the client's transactions.



We manage risk at the security level through fundamental research aimed at understanding the strengths and weaknesses of the business model. We combine our fundamental analysis with risk management to structure investments to match our outlook and enhance the overall profile of the investment. We manage risk at the portfolio level by constructing a non-correlated, low volatility portfolio of diverse investments across sectors and asset classes.

*The foregoing list of risk factors does not purport to be an all-encompassing list or explanation of the risks attendant to our investment program for our clients. Prospective clients and investors in the funds are encouraged to seek the advice of independent legal counsel in evaluating the risks of the investment program. In addition, as our investment program develops and changes over time, the strategy may be subject to additional and different risks. A more comprehensive list of risks with respect to the funds is included in the relevant fund's offering materials.*

## **Item 9: Disciplinary Information**

Arrowpoint and its employees have not been involved in any legal or disciplinary events that would be material to a client's or prospective client's evaluation of Arrowpoint's business, its personnel or the integrity of its management.

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

Our master funds are formed as limited partnerships and as such require a general partner. Below is a listing of those entities which are affiliated with us and which serve as a general partner for the master funds. Arrowpoint principals are also principals of these general partners.

- Arrowpoint Partners GP, LLC serves as general partner for Arrowpoint Fundamental Opportunity Fund, L.P. a Delaware limited partnership.
- Arrowpoint Partners GP2, LLC serves as general partner for Arrowpoint Structured Opportunity Fund, L.P. a Delaware limited partnership.
- Arrowpoint Partners GP3, LLC serves as general partner for Arrowpoint Income Opportunity Fund, L.P. a Delaware limited partnership.
- Arrowpoint Partners GP4, LLC serves as general partner for Arrowpoint Life Science Fund, L.P. a Delaware limited partnership.
- Arrowpoint Partners GP5, LLC serves as general partner for Arrowpoint Income Opportunity Fund QP, L.P. a Delaware limited partnership.

As discussed in Item 6, this relationship and the incentive allocation to which the general partners are entitled, create an incentive for Arrowpoint to make investments that are riskier, more speculative or more highly levered than would be the case in the absence of performance-based compensation.

In the course of advising and managing funds, separate accounts and, in some cases, the assets of our employees, we are confronted by several potential conflicts of interest. These potential conflicts of interest arise in the course of selecting investments for acquisition and disposition, allocating resources, allocating our time, allocating expenses, allocating securities, transactions where investments are sold by one fund or separate account to another fund or separate account, valuation of fund assets where such valuation will determine our management fee.

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

Arrowpoint has adopted a Code of Ethics that emphasizes a set of high standards of conduct for all of its principals and employees to observe. The Code of Ethics consists of certain core principles including, but not limited to: 1) the interests of clients will be placed ahead of the firm's or any principal's or employee's own investment interests; 2) principals and employees will not take inappropriate advantage of their positions; 3) principals and employees will provide professional investment management advice based upon unbiased independent judgment; and 4) principals and employees will conduct personal trading activities in accordance with established procedures and in compliance with applicable law.

The Code of Ethics places restrictions on principal and employee personal securities transactions and requires principals and employees to obtain prior approval for most personal securities transactions, including IPOs and private placements. The Code of Ethics also requires employees to report their personal securities transactions and holdings.

It is Arrowpoint's policy not to permit its principals, employees or their immediate family members to benefit from trading done for Arrowpoint's clients in a manner that would harm clients. However, principals, employees and their family members may own, purchase and/or sell securities that we purchase or sell for client accounts subject to the personal trading requirements of our Code of Ethics. We believe such a policy creates a commonality of interest between the clients, on the one hand, and our principals and employees, on the other hand. To the extent an employee invests in a security that is held by or recommended to a client, a conflict of interest arises as the reason for making such recommendation to a client could be to benefit the employee (e.g., by increasing the value of the security) rather than it being in the best interest of the client. Policies and procedures are in place to ensure that clients' interests are not disadvantaged by a trade made by an employee and that an employee does not benefit personally from trades undertaken for clients. In particular, Arrowpoint manages this conflict by pre-approving most personal securities transactions by employees and reviewing personal securities trading reports as provided in the Code of Ethics. In addition, we manage, at no charge, accounts of principals, employees and their families ("Employee-Related Accounts"). For a description of how we allocate investments among our separate accounts, funds and Employee-Related Accounts, please refer to "Brokerage Practices - Aggregation and Allocation of Transactions" in Item 12.

In addition, our account clients may from time to time invest in the funds managed by us. This creates a potential conflict of interest for us in that we may have an incentive to recommend the funds as an investment to our clients because we, and our affiliated general partners, receive

management fees and incentive allocations in connection therewith. We manage this conflict by meeting with each managed account client to help it determine whether an investment in a fund is appropriate for a portion of its assets that are not directly managed by us and do not duplicate fees on the same assets.

Arrowpoint will provide any client or prospective client a copy of the Code of Ethics upon request.

## **Item 12: Brokerage Practices**

Arrowpoint has discretionary authority to select brokers to execute client transactions and negotiate commission rates with these executing brokers consistent with our best execution obligations. It is our policy to attempt to obtain the best net price considering both the execution price and the commission rate paid. Trades are typically executed through either an execution-only brokerage firm, an electronic trading system, or a full-service brokerage firm. The following factors are considered when selecting a broker: (1) general execution capability; (2) commission rate; (3) operational capability to communicate, clear and settle transactions; (4) expertise in a certain asset class; (5) historical trading experience; (6) integrity of brokerage personnel; and (7) quality of research services. As a result of any of the above factors, a client may pay a higher commission than is available from other brokers.

Client's transactions are combined when practical in order to obtain a "volume" discount equal to a lower per share commission.

### **Soft Dollar Benefits**

Arrowpoint pays for some investment research with a portion of the client commissions (i.e., "soft dollars") charged on most client transactions. This is accomplished through either a commission sharing arrangement or trading higher volumes with brokers that provide both execution and research. These methods are described in more detail below. Arrowpoint limits such arrangements to research and brokerage services within the safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Our commission sharing agreements are with brokers providing only execution services whereby a certain percentage of the commission dollars is accrued and used to pay for certain research services provided by approved vendors/broker-dealers. This provides us with a better understanding of execution costs vs. investment research costs.

We also have soft dollar arrangements with brokerage firms to receive their proprietary investment research or participate in their investment research events. Under this arrangement, Arrowpoint is expected to direct a minimum amount of brokerage commissions from client transactions to the brokerage firm, which in turn provides quality research, investment conferences or access to company investor meetings.

We may use client commissions to acquire soft dollar items that we would otherwise be obligated to provide to, or acquire at its own expense for, the relevant account(s) and for which we therefore receive a benefit. Nonetheless, we believe that such soft dollar items may provide the clients with benefits by supplementing the research and services otherwise available to the clients and will use such soft dollar in good faith.

Brokerage commissions from all clients will generally be used to pay for the research services furnished by brokers. However, in certain circumstances, the benefits of the research services provided to each client may not directly align with the client's commission costs. For example, Arrowpoint may use these research services for the benefit of all of its clients and not just the client whose transactions paid for the research services. Moreover, it is possible that the client whose transactions generate brokerage commissions that are used to pay some of Arrowpoint's research obligations may not benefit in any way from this research. Arrowpoint monitors its discretionary brokerage allocation to assure that those brokerage firms providing us with quality research and investment information receive sufficient brokerage business each year and typically allocates more brokerage to those firms that provide better research than other firms. We may have an incentive to select certain brokers based on the soft dollar items provided by such brokers rather than the client's interests in receiving the most favorable execution. There is a potential conflict of interest in these soft dollar arrangements because Arrowpoint may have an incentive to trade clients' accounts in order to pay for research services even if the specific client may not benefit from such research.

### **Aggregation and Allocation of Transactions**

Although each client's account is individually managed, we will often purchase and/or sell the same securities for many clients. When possible, we aggregate the same transactions in the same securities for many clients having the same or similar investment objectives and guidelines. Clients in an aggregated transaction each receive the same price per share or unit, and will pay the same commission rate.

If we place more than one order to fill all orders in an aggregated transaction, each client in the aggregated transaction receives the average price paid in all orders placed for clients in the same aggregate transaction in the same security on that day and pays its pro rata share of transaction costs. If we are unable to fill an aggregated transaction completely, but receive a partial fill of an aggregated transaction, we allocate the partially filled transaction pro-ratably based on the full order. Certain clients may not be included in certain aggregated transactions because of cash availability or if Arrowpoint determines that such investment is not consistent with such client's investment objectives and guidelines. Arrowpoint receives no additional compensation for such aggregation.

While conflicts may arise in the allocation of investment opportunities among clients, Arrowpoint's overall objective is to allocate securities in a fair and equitable manner, depending on the particular facts and circumstances and the needs and financial objectives of its various clients, such that allocations are not based upon account performance, applicable fee structures or the appearance of otherwise preferential treatment, and tradable position sizes are retained in each portfolio. Furthermore, Arrowpoint manages each client account in a personalized manner and

considers multiple factors in making allocation decisions including: risk profile, asset exposure, cash availability, current and future liquidity needs, investment objectives and guidelines, current issuer or industry exposure, prior allocations, tax lot matching, option pairing, existing and anticipated market conditions as well as other factors deemed by Arrowpoint to be appropriate in making investment allocation decisions. Allocation decisions are typically made at the moment an order is placed for a security, unless other considerations, consistent with the policies described here, require a later allocation. Arrowpoint also may deploy specific index hedging techniques utilizing ETFs for general market exposure and/or specific sector exposure. Arrowpoint will seek to allocate investment opportunities believed appropriate for one or more of its clients fairly and equitably over time and consistent with the best interests of all clients involved; however, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

In the course of providing advisory services, we may simultaneously recommend the sale of a particular security for one account and the purchase of the same security for another account if such recommendations are consistent with each client's investment objectives and guidelines. Therefore, opportunities may arise for us to effect "cross" transactions between client accounts. Consistent with its fiduciary obligations to each client, applicable law, and the requirements of best execution, we may, under such circumstances, arrange to have the purchase and sale transaction effected directly between our clients ("cross transactions"). A cross transaction would be effected on the basis of the current market price of the security or at a price reasonably determined to reflect the fair value of the security. We do not receive compensation (other than our advisory fee), directly or indirectly, for effecting a cross transaction between clients, and accordingly will not be deemed to have acted as a "broker" within the meaning of Section 206(3) of the Investment Advisers Act of 1940 with respect to the transaction. Since, in such transactions, we represent both client-seller and client-buyer, we may have a conflict of interest.

Arrowpoint may, from time to time, participate in an initial public offering ("IPO") through an underwriter. Arrowpoint may only be allocated a small portion of the total IPO offering. It is Arrowpoint's policy to allocate IPOs only to those accounts that Arrowpoint considers suitable for such transactions and in accordance with our allocation policies described above and applicable FINRA rules.

### **Client Referrals**

Arrowpoint does not compensate any custodian or broker/dealer for referring client accounts nor does it consider, in selecting or recommending broker-dealers, whether Arrowpoint or a related person receives client referrals from such broker-dealer.

## **Item 13: Review of Accounts**

Clients' investments and portfolios are reviewed by the investment team on an on-going basis and are reviewed as a matter of practice rather than pursuant to any triggering event. The investment team, consisting of our three principal portfolio managers (serving as our investment committee) and seven research analysts, is responsible for such review and meets twice a week. Our investment committee also reviews fundamental investment strategies and monitors overall risk.

Reviews of client accounts will also be conducted if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Clients (and investors in the funds) receive account statements directly from their custodian on at least a quarterly basis. We may supplement these custodial statements with reports provided during client meetings or as requested. Investors in the funds also receive annual audited financial statements.

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

We do not pay referral fees in connection with referrals of a client to Arrowpoint.

Other than soft dollar benefits mentioned in Item 12 above, we do not receive any other economic benefits from non-clients for providing investment advice or other advisory services.

## **Item 15: Custody**

All clients' accounts and assets are held in custody by unaffiliated broker/dealers or banks. However, we do possess a level of authority and/or legal capacity and for this reason Arrowpoint is considered to have custody of client assets. Such capacity comes from our ability to debit advisory fees from the client's account, our general power of attorney for certain clients, the legal capacity of our affiliated general partner for the funds, and the positions of our principals as directors of the offshore funds. Account custodians send statements directly to the account owners monthly and fund investors are provided with monthly statements from the independent fund administrator. The fund investors are also provided with audited financial statements within 120 days of such fund's fiscal year-end (December 31). Clients and fund investors should carefully review statements from the custodians and administrators, and should compare these statements to any information provided by Arrowpoint.

## **Item 16: Investment Discretion**

Arrowpoint has investment discretion over all clients' accounts. Account clients grant us trading discretion through the execution of a limited power of attorney included in Arrowpoint's investment management agreement.

Arrowpoint has discretionary investment authority, but will work within separate account client investment policy and asset allocation guidelines when it determines such management is feasible. Separate account clients can place reasonable restrictions on our investment discretion. For example, some separate account clients have asked us not to buy securities issued by companies in certain industries, or not to sell certain securities where the client has a particularly low tax basis. Separate account clients who place restrictions, including restrictions as to types of securities, concentrations, cash balances, and broker selection should recognize that the performance of their accounts may not be representative of the performance of accounts managed with no restrictions.

With respect to the funds, our discretion is limited only by the investment restrictions set forth in each fund's documents and those set forth by the general partners of the funds or the directors of the funds (as applicable).

## **Item 17: Voting Client Securities**

We recognize our responsibility to vote proxies in respect of securities owned by a client in the best interests of our clients and without regard to the interests of Arrowpoint. To that end, Arrowpoint has subscribed to an independent proxy voting service to provide enhanced ballot analysis, timely voting, record archiving and comprehensive reporting capabilities. Arrowpoint subscribes to Glass Lewis & Co. domestic and international voting policies which apply to all securities held by clients in which we direct voting authority.

Although each proxy issue will be considered individually, Arrowpoint will generally use Glass Lewis' guidelines when voting proxies. Such guidelines are regularly reviewed by our investment and compliance staff. We may elect not to vote with Glass Lewis' guidelines if the investment or compliance staff believes the recommendation is not in the best interests of our clients. Absent specific client instructions, if we identify a material conflict of interest we'll address the conflict by voting with Glass Lewis' standard guidelines.

Arrowpoint's authority to vote proxies or act with respect to other corporate actions is established through the delegation of discretionary authority under its investment advisory agreements. Therefore, unless a separate account client specifically reserves the right, in writing, to vote its own proxies or to take shareholder action with respect to other corporate actions requiring shareholder actions, we will vote all proxies and act on all other actions in a timely manner as part of our full discretionary authority over clients in accordance with established policies and procedures.

A copy of our proxy voting policies and procedures, as well as specific information about how we have voted proxies, is available upon written request. Upon written request, separate account clients can also take responsibility for voting their own proxies, or can give Arrowpoint instructions about how to vote their respective shares.

## **Item 18: Financial Information**

Arrowpoint has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.