

Capital Tactics Advisors, LLC

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This brochure provides information about the qualifications and business practices of Capital Tactics Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (214) 273-5150 or jrouse@captac.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 Capital Tactics Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. (click on the link, select "investment adviser firm" and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.

If you would like another copy of this brochure, please download it from the SEC's website as indicated above or you may contact our Chief Compliance Officer, John Rouse, at 214-273-5150 or jrouse@captac.com.

We are a registered investment adviser with the United States Securities and Exchange Commission. Our registration as an investment adviser does not imply any level of skill or training.

Material Changes

Since we last updated our Form ADV:

1. We have wound down Capital Tactics Opportunity Offshore Fund, Ltd and Capital Tactics Opportunity Master Fund, L.P.;
2. We have launched Capital Tactics Objective Fund, LP; and
3. Clover Partners, L.P. is no longer affiliated with Capital Tactics Advisor, LLC, and we no longer receive services from Clover Partners, L.P., any of its affiliated entities, or any of its partners.

We encourage everyone to read this Form ADV Part 2A in its entirety.

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1. Advisory Business

Capital Tactics Advisors, LLC, (“*Capital Tactics*”) provides investment supervisory services on a discretionary basis to: (i) private investment funds and (ii) a separately managed account. W.C. Davis Parr, the principal owner of Capital Tactics, established the investment advisory firm in 2009.

We adhere to the investment strategy set forth in each of the funds’ offering documents, but do not modify our securities recommendations to the funds based on the particular interests of the funds’ underlying investors. Neither the funds nor their underlying investors may impose restrictions on investing in certain securities or types of securities.

With respect to the separately managed account, we adhere to investment guidelines which specify the instruments in which we may and may not trade in on behalf of the managed account. However, the managed account client may not otherwise impose restrictions on investing in specific securities.

We currently manage on a discretionary basis \$147,353,802, in client assets under management (calculated as of December 31, 2012).

2. Fees and Compensation

Funds:

Capital Tactics Opportunity Fund, LP

With respect the fund, we generally charge a quarterly management fee in advance at an annual rate of 1.5% of the value of the capital account balance of each investor in the fund. The value of the account on which the management fee is based is an investor’s capital account on the first day of the quarter. Management fees are generally non-refundable and are deducted from investors’ capital accounts quarterly. Capital Tactics Opportunity GP, LP, our affiliate, may also charge an annual performance-based profit allocation at the end of each year of 20% of the fund’s net profits attributable to each investor for such fiscal year, but only to the extent that such profits exceed any losses carried forward from prior years, based on a “high water mark” formula. The performance allocation is calculated and deducted from investors’ capital accounts at the end of each fiscal year. A performance allocation is also calculated and charged (i) with respect to any investor permitted or required to withdraw and (ii) with respect to an investor making a partial withdrawal of such investor’s capital account, as of any time other than the close of a year on the basis of net profits allocated to such investor through the withdrawal date (but only with respect to the amount withdrawn on a *pro rata* basis in the event of a partial withdrawal). Both the management fee and performance allocation are generally non-negotiable.

In addition, the fund bears all costs and expenses directly related to its investment program, including expenses related to proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees, the fees and expenses of risk and portfolio management systems, any withholding or transfer taxes and all expenses incurred in connection with locating, evaluating and implementing potential investments including travel, software subscriptions and other research-related expenses. The fund also bears all out-of-pocket costs of its operation and administration, including accounting, audit and legal expenses, costs of any litigation or investigation involving the fund's activities, and costs associated with reporting and providing information to existing and prospective investors.

Capital Tactics Objective Fund, LP

With respect the fund, we generally charge a quarterly management fee in advance at an annual rate of 1.5% of the value of the capital account balance of each investor in the fund. The value of the account on which the management fee is based is an investor's capital account on the first day of the quarter. Management fees are generally non-refundable and are deducted from investors' capital accounts quarterly. Capital Tactics Objective GP, LLC, our affiliate, may also charge an annual performance-based profit allocation at the end of each year of 15% of the fund's net profits attributable to each investor for such fiscal year, but only to the extent that such profits exceed any losses carried forward from prior years, based on a "high water mark" formula. The performance allocation is calculated and deducted from investors' capital accounts at the end of each fiscal year. A performance allocation is also calculated and charged (i) with respect to any investor permitted or required to withdraw and (ii) with respect to an investor making a partial withdrawal of such investor's capital account, as of any time other than the close of a year on the basis of net profits allocated to such investor through the withdrawal date (but only with respect to the amount withdrawn on a *pro rata* basis in the event of a partial withdrawal). Both the management fee and performance allocation are generally non-negotiable.

In addition, the fund bears all costs and expenses directly related to its investment program, including expenses related to proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees and any withholding or transfer taxes imposed on the fund. The fund also bears all out-of-pocket costs of the administration of the fund, including accounting, audit and legal expenses, costs of any litigation or investigation involving the fund's activities, and costs associated with reporting and providing information to existing and prospective investors.

Managed Account:

We receive a quarterly management fee in advance at an annual rate of 1.5% of the net assets of the managed account. The management fee is payable on the first day of each calendar quarter based on the value of the net assets in the managed account on such date. If additional assets are added during any calendar quarter, the management fee for such additional assets is prorated for the portion of that quarter that such assets are managed by us and the management fee for the prorated portion is payable as of the date such additional assets are added. If the investment management agreement is terminated on a date other than the last day of a calendar quarter, the management fee will be prorated based on the number of days that elapsed in such

quarter and we will return the excess portion of the management fee for such quarter. Within 30 days of receipt of an invoice from us, the managed account client must direct payment of the management fee.

In addition, we charge an annual fee equal to 20% of the managed account's net profits for each fiscal year, payable within 30 days of the end of each fiscal year, but only to the extent that such profits exceed any losses carried forward from prior years, based on a "high water mark" formula. The incentive fee may, at the direction of the client, be paid out of managed account assets.

We pay all expenses incurred by us in performing our obligations under the investment management agreement for the managed account, except that we are not required to pay: any expenses of the client with respect to the managed account including, without limitation, charges of auditors, accountants, counsel fees and other legal expenses, the cost of reporting to the plan participants and beneficiaries, interest on margin borrowing, dividends payable with respect to securities sold short, custodial fees, brokerage commissions, bank service fees and interest on managed account-related loans and debit balances, custody fees, the fees and expenses of risk and portfolio management systems, any withholding or transfer taxes and all expenses incurred in connection with locating, evaluating and implementing potential investments, including travel, software subscriptions and other research-related expenses. To the extent that such expenses are incurred on behalf of the managed account and the funds, such costs will be allocated pro rata among the managed account and the funds.

3. Performance-Based Fees and Side-By-Side Management

Capital Tactics Opportunity GP, LP (our affiliate) receives a performance-based profit allocation with respect to Capital Tactics Opportunity Fund, LP. Capital Tactics Objective GP, LLC receives a performance-based profit allocation with respect to Capital Tactics Objective Fund, LP. The performance based fees for each fund are described in "*Fees and Compensation*" above. Performance-based fees are calculated based on capital gains or capital appreciation attributed to each investor's investment. We also receive a performance-based fee with respect to the managed account. We do not manage any client accounts that do not pay a performance-based fee.

4. Types of Clients

Capital Tactics advises private investment vehicles and a single separately managed account. Each of the funds has a minimum initial subscription of \$1,000,000, although investments of a lesser amount may be accepted at the discretion of the general partner. There is no minimum account size for managed accounts. Currently, we advise a single managed account maintained on behalf of a trust.

5. Methods of Analysis, Investment Strategies and Risk of Loss

Funds:

Capital Tactics Opportunity Fund, LP

The fund's objective is to maximize long-term, risk-adjusted absolute returns through long and short investments across the capital structure. We will employ a strategy that is focused on major corporate events to drive a superior internal rate of return. Due to the expected concentrated nature of the portfolio, volatility may be higher than that of overall market indices.

We focus on identifying situations with attractive event-driven investment themes in which we can develop a competitive advantage. We maintain professional relationships with other fund managers, industry leaders, sell-side analysts and industry contacts. In addition, we place a particular emphasis on corporate event detection based on a proprietary process in which we screen internet-based information sources. Other sources of investment ideas include the constant review of investment and industry publications, the review of insider buying and selling, and other reliable sources of information. We believe that our relationships and investment identification process will provide us with investment opportunities that may not be widely recognized by other investors.

We will pursue investment opportunities on behalf of the fund in the following general categories:

Risk Arbitrage: In a cash merger, an acquirer proposes to purchase the shares of the target for a certain price in cash. Until the acquisition is completed, the stock of the target typically trades below the purchase price. An arbitrageur buys the stock of the target and makes a gain if the acquirer ultimately buys the stock. In a stock merger, the acquirer proposes to buy the target by exchanging its own stock for the stock of the target. An arbitrageur may then short the acquirer and buy the stock of the target. After the merger is completed, the target's stock will be converted into stock of the acquirer based on the exchange ratio determined by the merger agreement. The arbitrageur delivers the converted stock into his short position to complete the arbitrage.

If this strategy were risk-free, many investors would immediately adopt it, and any possible gain for any investor would disappear. However, risk arises from the possibility of transactions failing to consummate. This may be due to either party's inability to satisfy conditions of the merger, failure to obtain the requisite shareholder approval, failure to secure financing, failure to receive anti-trust and/or other regulatory clearances, or some other event that may change the target's or the acquirer's ability or willingness to consummate the transaction.

Additional complications can arise in stock mergers when the exchange ratio is not constant but changes with the price of the acquirer. These are called "collars" and arbitrageurs use options-based models to value transactions with collars. The exchange ratio is sometimes determined by taking the average of the acquirer's closing price over a

period of time (typically a fixed number of trading days prior to the closing of the transaction).

Capital Structure Arbitrage: The Investment Manager may seek opportunities created by differential pricing of various instruments issued by one corporation, such as traditional bonds and convertible bonds or equity. Convertible bonds are convertible into shares of equity, and this stock-option component has a calculable value. The theoretical value of the whole instrument is the value of the traditional bonds plus the extra value of the option feature. If the difference between the convertible and the non-convertible bonds becomes excessive, then the Investment Manager may take a position in the expectation that such spread will converge. Similarly, there may be value discrepancies between traditional bonds and equities.

Short-term Information Advantage: The Investment Manager, through knowledge across a broad industry base, may become aware of material mispricings of specific securities and may seek to benefit from this knowledge. For instance, one security may experience a material earnings surprise, thus presenting a profitable trading opportunity in a security related either by industry or by capital structure.

Spin-offs: Often companies spin-off businesses into separately traded public entities in order to unlock shareholder value. In many cases, the equity of the spun-off entity may outperform the overall market due to a number of factors, including but not limited to: equity grants to the management of the spun-off company, elimination of a holding company discount prior to the spin-off, and enhanced opportunities for the spun-off company to do business with competitors of the parent company.

Distressed Debt: When companies suffer a period of financial distress, the original holders often sell the debt securities of the issuer to a new set of buyers. Investors in distressed debt securities often try to influence the process by which the issuer restructures its debt, implements a plan to rationalize its business, or otherwise improve its operations. Investors may also invest new capital into a distressed company in the form of debt or equity. Investors in distressed debt securities typically must make an assessment not only of the issuer's ability to improve its operations but also whether the restructuring process (which frequently requires court supervision) might benefit one class of securities more than another.

Post-bankruptcy Equities: It is often possible to purchase the new equity of a Chapter 11 reorganization company by buying the bonds of the company prior to the company's emergence from bankruptcy. In doing so, the purchaser is often able to create an equity position at a substantial discount to fair value due to lack of equity research coverage, and ownership limitations between debt and equity investors prior to bankruptcy emergence.

Financial Restructurings: Financial restructuring involves changes in the capital structure of a company. A company may lever its balance sheet up or down via a stock or bond buyback or issuance, or payment of a cash dividend. An example of financial restructuring would be to add debt to lower the corporation's overall cost of capital. Otherwise, companies under stress may undertake debt rescheduling or equity-for-debt

swaps. Financial restructurings should be viewed with respect to the effect on return on equity and on share price. The Investment Manager believes that such events can provide significant trading opportunities.

Operational Restructurings: Unlike financial restructuring, operational restructuring is the process of increasing the economic viability of the underlying business of a company. Examples include mergers, the sale of divisions or abandonment of product lines, management changes, exiting a loss-making business or general cost-cutting initiatives. In most turnarounds and bankruptcy situations, both financial and operational restructuring must occur simultaneously to maximize the potential of the business.

Mutual Savings Banks Conversions: A mutual saving thrift typically comes public in two stages with the bank selling less than 50% of the shares to the public and the balance going into a mutual holding company. During this period, the Investment Manager believes investors fail to correctly value these banks because investors do not recognize the capital that will ultimately be raised from the bank selling the shares in the mutual holding company (“*MHC*”) to the public, more commonly known as a “second step.” In essence, when calculating tangible book value per share or earnings per shares, investors typically use an inflated number of shares in the denominator and do not take into account that greater than half of the shares are yet to be sold to the public. The Investment Manager has a history of buying thrifts in the “*MHC* stage” at what it views as extremely cheap multiples of tangible book value. Ultimately, the bank’s management team is incentivized to sell the shares in the *MHC* to the public once the thrift is appropriately levered. At this time, the thrift’s valuation usually converges to that of its fully public peers, which typically trade at a premium to tangible book value.

Other Categories: Other investment categories may include, but are not limited to: “stub” trades; share class convergence or divergence; holding company trades; litigation-based securities, and certain securities whose price may be dependent on other unconventional metrics.

Long Positions: The Investment Manager will generally buy equity and debt securities that it believes are likely to be affected by a specific corporate action. The Investment Manager will generally seek to invest in securities that represent absolute as opposed to relative value, thereby reducing exposure to market fluctuations and reducing the need to hedge each long position.

Short Positions: Short selling is the practice of selling assets that have been borrowed from a third party with the intention of buying identical assets back at a later date to return to the lender. The short seller expects to profit from a decline in the price of the assets between the sale and the repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. Shorting also refers to entering into any derivative or other contract whereby one profits from the fall in the value of an asset. The Investment Manager may short stock in overvalued companies that likely will miss financial or other targets and/or where management has publicized

unrealistic expectations for future outcomes. The Investment Manager may also short stock in companies whose businesses are in secular fundamental decline.

Bank Debt, Trade Claims and other Senior Securities: Loans and other securities at the most senior part of the capital structure have increasingly become packaged for resale, allowing an investor to buy senior securities from a bank or directly from a corporation, or in the secondary market.

Credit Default Swaps: A credit default swap (“**CDS**”) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the underlying credit instrument (typically a bond or loan) experiences a negative credit event, for example, a default, restructuring, or bankruptcy. Generally an investor would buy a CDS if it expects the underlying credit to deteriorate and would sell a CDS if it expects the underlying credit to improve.

CDS contracts have been compared with insurance, because the buyer pays a premium and, in return, receives a sum of money if one of the events specified in the contract occurs. However, there are a number of differences between CDS and insurance, for example:

- The buyer of a CDS does not need to own the underlying security or other form of credit exposure; in fact the buyer does not even have to suffer a loss from the negative credit event. In contrast, a buyer of traditional insurance, must have an insurable interest such as owning a debt obligation;
- the seller of a CDS need not be a regulated entity;
- the seller of a CDS is not required to maintain any reserves to pay off buyers, although major CDS dealers are subject to bank capital requirements;
- in the United States CDS contracts are generally subject to mark to market accounting and to collateral calls

Listed Equity Options: An option is a contract between a buyer and a seller that gives the buyer the right, but not the obligation, to buy or to sell a particular asset (the *underlying asset*) on or before the option's expiration time, at an agreed price (the *strike price*). In return for granting the option, the seller collects a payment (the *premium*) from the buyer. A call option gives the buyer the right to buy the underlying asset and a put option gives the buyer of the option the right to sell the underlying asset. If the buyer chooses to exercise this right, the seller is obligated to sell or buy the asset at the strike price.

Swap Agreements: A financial swap is a derivative contract in which two counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. The benefits depend on the type of financial instruments involved. Specifically, the two counterparties agree to exchange one stream of cash flows against another stream. These streams are called the legs of the swap. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. Usually, at the time when the contract is initiated, at least one of these series of cash flows is determined by a random or uncertain variable such as an interest rate, foreign exchange rate, equity price or commodity price.

The cash flows are calculated over a notional principal amount, which is usually not exchanged between counterparties. Consequently, swaps can be used to create unfunded exposures to an underlying asset, since counterparties can earn the profit or loss from movements in price without having to post the notional amount in cash or collateral.

Swaps can be used to hedge certain risks such as interest rate risk, or to speculate on changes in the expected direction of underlying prices.

New Issues: There are generally three types of equity issues – an initial public offering (“*IPO*”), a follow-on offering of additional new securities and a secondary offering of shares by existing shareholders. An IPO is when a company issues common stock or share to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be issued by large privately-owned companies looking to become publicly traded. In an IPO, the issuer generally obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

In a new issue of debt or debt-related securities the dynamics are similar. The Fund will attempt to capitalize on pricing discrepancies that may accompany new issues.

Capital Tactics Objective Fund, LP

The primary investment objective of the fund is to seek capital appreciation and generate absolute returns by utilizing a concentrated value-oriented investment strategy. We will seek to purchase securities selling below their intrinsic values and short securities with deteriorating fundamentals. We will be authorized to use a broad array of investment practices at any time and the Investment Manager will have the discretion to pursue a single investment practice, to the exclusion of others. Due to the concentrated nature of the portfolio, volatility may be higher than that of overall market indices.

We will employ a bottom-up investment process through which it will seek asymmetric risk-reward situations while placing a premium on non-consensus ideas. Our fundamental analysis involves rigorous research, beginning with the fullest possible understanding of a company, its business and the markets in which it operates. With a focus on each position’s internal rate of return over its anticipated life in the portfolio, sizing will be a function of the our assessment of the risk-reward profile of each opportunity and its place within the fund’s portfolio.

We will vary the net and gross exposures of the portfolio based on both a top-down approach driven by macro factors and an a bottom-up approach based on exposure at the position level. We anticipate making investments with 1 to 3 year holding periods and relatively low turnover; however, we may liquidate positions when it deems it appropriate and is no way restricted with respect to the life of the fund’s positions.

Managed Account:

We may effect transactions for the managed account involving securities, including U.S. and non-U.S. common and preferred stocks, stock options, convertible stocks, bonds, notes,

debentures, certificates of deposit, commercial paper, currencies, demand or time deposits, savings deposits, shares of investment companies and mutual funds and contracts for publicly traded options.

Risk Factors:

The risk factors for the funds are similar but not identical. We urge current and potential investors to consult the relevant funds' private placement memorandum for a complete description such fund's risk factors.

Limited Operating History. The funds are relatively newly-formed entity which do not have an extensive operating history for prospective investors to evaluate prior to making an investment in a fund.

Investment Judgment; Market Risk. The profitability of a significant portion of the Fund's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Fund, there is always some, and occasionally a significant, degree of market risk.

Concentration of Investments. The funds may hold a few, relatively large securities positions in relation to its capital. The result of such concentration of investments is that a loss in any such position could materially reduce the fund's capital.

Market Conditions. Developments in the global financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty. In light of market turmoil and the overall weakening of the financial services industry, the fund, its prime broker(s) and other financial institutions' financial condition may be adversely affected and they may become subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on the funds' business and operations. Moreover, market conditions have substantially reduced the availability of credit, which may have a material adverse effect on the funds' ability to achieve its investment objective with respect to any particular investment and/or the funds' entire portfolios, which could have a material adverse effect on the funds' overall return objectives.

Reliance on Key Persons. The funds will be substantially dependent on the services of Davis Parr. In the event of the death, disability, departure or insolvency of the principal, or the complete transfer of the principal's interest in the General Partner of a fund, the business of such fund may be adversely affected. The principal will devote such time and effort as **he deems** necessary for the management and administration of the funds' businesses. However, the principal may engage in various other business activities in addition to managing the funds, and consequently may not devote all time to fund business.

Illiquidity. The investments made by a fund may be very illiquid, and consequently such fund may not be able to sell such investments at prices that reflect our assessment of their value or the amount paid for such investments by the fund. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the fund and other factors. Furthermore, the nature of the funds' investments,

especially those in financially distressed companies, may require a long holding period prior to profitability. Each fund's partnership agreement authorizes us to make distributions in kind (including interests in affiliated liquidating vehicles) of securities in lieu of or in addition to cash. In the event that we makes distributions of securities in kind, such securities could be illiquid or subject to legal, contractual and other restrictions on transfer.

Short Sales. A fund may enter into transactions, known as "short sales," in which it sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the fund that are not made "against the box" theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

Derivatives. Derivative instruments, or "derivatives," include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom a fund contracts for the purpose of making derivative investments (the "*Counterparty*"). In the event of the Counterparty's default, the fund will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive.

Counterparty Creditworthiness. In addition to the exchange-traded and exchange-cleared options contracts, the funds may also invest in the OTC market in contracts which involve dealing with Counterparties and their ability to meet the terms of the contracts. In particular, the funds may enter into repurchase agreements, forward contracts and swap arrangements, each of which expose the fund to credit risk to the extent that the Counterparty defaults on its obligations to perform under the relevant contract.

Foreign Securities. Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of a fund are maintained) and the various foreign currencies in which a fund's portfolio securities will be denominated and costs associated with conversion of investment

principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

Leverage. Subject to applicable margin and other limitations, the funds may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the funds' portfolio would be amplified. Interest on borrowings will be a portfolio expense of the funds and will affect the operating results of the funds. Also, the funds could potentially create leverage via the use of instruments such as options and other derivative instruments.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (*i.e.*, sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

Commodities and Futures. The funds may trade on a limited basis in commodities and futures. Such trading activity is regulated by the Commodity Futures Trading Commission (the "*CFTC*"). Pursuant to an exemption from registration under CFTC regulations, the funds' general partners are not required to register, and is not registered, with the CFTC or the National Futures Association ("*NFA*") as a commodity pool operator (a "*CPO*") or as a commodity trading advisor ("*CTA*"). To comply with the exemption, each fund's general partner is subject to specific limitations on the amount of commodities and futures that it can trade on behalf of the relevant fund. Should a fund's investments in commodities or futures instruments exceed the limits provided by the applicable exemption from registration, such fund's general partner will either have to register with the NFA or cease providing commodity interest trading advice to such fund and liquidate the fund's holdings of commodities and futures which could result in losses and additional costs to the fund.

Investment Authority. Substantially all decisions with respect to the management of a fund are made by us. Investors have no right or power to take part in the management of the Fund.

Performance Allocation. The performance-based profit allocation made to a fund's general partner may create an incentive for the general partner to make investments that are riskier or more speculative than would be the case in the absence of such performance-based profit allocation.

Withdrawal Restrictions. There are severe restrictions on withdrawals from the funds (which may be settled in securities rather than cash) and on transfers of interests. A subscription for interests in a fund should be considered only by persons financially able to maintain their investment and who can accept a loss of all of their investment.

No Distributions. Since the funds do not generally intend to pay distributions, an investment in a fund is not suitable for investors seeking current distributions of income. Moreover, an investor is required to report and pay taxes on its allocable share of income from the funds, even though no cash is distributed by the funds.

Diversification. Since a fund's portfolio will not necessarily be widely diversified, the investment portfolio of the fund may be subject to more rapid changes in value than would be the case if the Fund were required to maintain a wide diversification among companies, securities and types of securities.

Valuations. From time to time, certain situations affecting the valuation of the funds' investments (such as limited liquidity, unavailability or unreliability of third-party pricing information and acts or omissions of service providers to the Fund) could have an impact on the net asset value of the funds, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. The funds are not required to make retroactive adjustments to prior subscription or withdrawal transactions or management fees or performance-based profit allocation based on subsequent valuation data.

Non-Public Information: From time to time, we may come into possession of non-public information concerning specific companies. Under applicable securities laws, this may limit our flexibility to buy or sell portfolio securities issued by such companies. The funds' investment flexibility may be constrained as a consequence of our inability to use such information for investment purposes.

Soft Dollars. We may enter into "soft dollar" arrangements with one or more broker-dealers whereby we will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although we will use the research and services in making investment decisions for the funds, we may use such research or services for other accounts and the Fund will generally pay more than the lowest available commissions for execution of these transactions. We may also enter into "soft dollar" arrangements to cover fund expenses or our costs and expenses to the extent such arrangements are permitted by law.

Taxation. The funds may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the Internal Revenue Service or other applicable taxing authority, an investor might be found to have a different tax liability for that year than that reported on that investor's federal income tax return.

6. Disciplinary Information

We have had no disciplinary or legal events since our establishment in 2009.

7. Other Financial Industry Activities and Affiliations

We sponsored the formation of Capital Tactics Opportunity Fund, LP and Capital Tactics Objective Fund, LP. Capital Tactics Opportunity GP, LP, our affiliate, serves as the general partner to Capital Tactics Opportunity Fund, LP. Capital Tactics Objective GP, LLC, our affiliate, serves as the general partner to Capital Tactics Objective Fund, LP. W.C. Davis Parr controls both the funds' investment manager and general partners. We address this potential conflict of interest by fully disclosing the relationship among us, the general partner and the funds in the funds' offering documents. Although Mr. Parr's control of the funds' investment manager and general partners may give him heightened control and discretion over the funds, he manages any potential conflicts of interest by strictly adhering to the investment strategy and business philosophy discussed in the funds' private placement memoranda. In addition, the general partner entered into the investment management arrangement with us on behalf of the funds. While this may be an interested party agreement, the material terms of the investment management arrangement are fully disclosed to all investors in the funds prior to their investment.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under the Investment Advisers Act of 1940, as amended. If requested, we will provide at no cost a copy of our Code of Ethics.

Our Code of Ethics contains policies and procedures that ensure that all personal securities trading by our employees are conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. We prohibit personal trading on certain securities or instruments, require pre-clearance before purchasing an IPO or a new private placement, require periodic reporting of employees' personal securities transactions and holdings and require prompt internal reporting of Code violations.

Our employees and related persons may buy and sell securities for their own account or the account of others, but may not buy securities from or sell securities to the clients. Our employees and related persons may invest in the same securities in which we have invested the assets of the clients, but may purchase or sell such securities only contemporaneously with or after the clients' purchase or sale of such securities, as the case may be.

In order to prevent any potential conflicts of interest, we require all employees and partners to comply with a pre-clearance procedure before placing an order for the purchase or sale of any publicly-traded equity security. Such pre-clearance procedure requires all employees and partners to obtain approval from the compliance officer before placing any trade order. Additionally, unless otherwise excepted pursuant to the Code of Ethics, no employee or partner may purchase or sell any security within two days before or after we purchase or sell the same security for any client. No employee or partner may acquire any securities in an initial public offering or a private placement without prior approval from the compliance officer.

9. Brokerage Practices

Funds:

We are responsible for the placement of the portfolio transactions of the clients and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities' exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price.

Many of the funds' securities trades will be cleared through either Morgan Stanley or Cantor Fitzgerald. Securities transactions are executed by brokers selected by us in our sole discretion and without the consent of the funds. In placing portfolio transactions, we will seek to obtain the best execution for the funds, 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 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. We are not required to weigh any of these factors equally.

We are authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide us with investment and research information or to pay higher commissions to such firms if we determine such prices or commissions are reasonable in relation to the overall services provided. When selecting a broker that provides soft dollar arrangements, we must satisfy our fiduciary obligation to seek to achieve best execution, which is measured by the total services provided by the broker including execution as well as the quality of research obtained. Information so received is in addition to and not in lieu of services required to be performed by us, and the management fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by the funds may be utilized by us or our affiliates in connection with our investment services for other accounts and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by us in performing our services for the funds. Since commission rates in the U.S. are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

We have the option to use "soft dollars" generated by the funds to pay for the research and research-related services described above. The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Section 28(e) of the United States Securities Exchange Act of 1934, as

amended, provides a “safe harbor” to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. We intend to limit the use of soft dollars to fall within the “safe harbor.”

Our use of brokerage commissions to obtain investment research services and to pay for our administrative costs and expenses creates a conflict of interest between us and the funds, because the funds pay for such products and services that are not exclusively for the benefit of the funds and that may be primarily or exclusively for our benefit. To the extent that we are able to acquire these products and services without expending our own resources (including the management fee paid by the funds), our use of soft-dollars would tend to increase our profitability. In addition, the availability of these non-monetary benefits may influence us to select one broker rather than another to perform services for the funds.

Managed Account:

Under Section 28(e) of the Securities Exchange Act of 1934, we may use brokerage commission to obtain research and other services. These brokerage commission are commonly referred to as “soft dollars.” Section 28(e) provides a safe harbor under certain circumstances, to investment managers with investment discretion who use brokerage commissions to obtain research and other services related to the execution of portfolio transactions. The controlling principle is whether a product or service provides lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. This section requires the person receiving the services make a good faith determination that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. Only products and services that fall within the Section 28(e) safe harbor will be purchased with brokerage commissions of the managed account. When selecting a broker that provides soft dollar arrangements, we must satisfy our fiduciary obligation to seek to achieve best execution, which is measured by the total services provided by the broker including execution as well as the quality of research obtained.

Managed Account and Fund Clients:

The research services that we may acquire with soft dollars include:

- research reports and analyses concerning specific issuers, industries or sectors,
- market, financial and economic forecasts and other data,
- statistics and pricing services,
- subscriptions to financial publications and periodicals and research compilations and
- services of economists and other consultants.

The products and services that we generally obtain with soft dollars include:

- hardware,
- online research tools,
- portfolio management software,
- databases and
- telecommunications services, equipment and facilities (such as quotation equipment and telephone lines).

We primarily use these research services and products to assist us with our investment decision-making responsibilities and enhance our capability to discharge those responsibilities.

When a product or service benefits both the managed account and the funds, all clients will pay their pro rata share.

All sales and purchases of securities are aggregated for all of the funds. However, fund transactions are not aggregated with managed account transactions. Because the transactions on behalf of the managed account are not aggregated with those of the funds, the managed account may incur higher transactional costs.

10. Review of Accounts

Funds:

The funds' portfolios are reviewed by our Senior Managing Director on a bi-monthly basis or more frequently if triggered by market and/or economic factors. Each portfolio is reviewed for compliance with its investment objectives.

We provide quarterly written newsletters to the funds' investors, which contain quarterly returns and a detailed discussion of selected positions. Year-end results are audited and provided to investors upon completion of the audit.

Managed Account:

Our Senior Managing Director reviews the managed account on a bi-monthly basis or more frequently if triggered by market and/or economic factors. Each portfolio is reviewed for compliance with the client's investment objectives.

At least monthly, the client receives or has access to a report, provided by the custodian, as of the last day of such month, indicating the assets in the managed account and an estimate of the net asset value of the account as of the end of such month.

11. Client Referrals and Other Compensation

We do not receive an economic benefit from any non-client in connection with giving advice to clients. We do not compensate any person who is not a supervised person for client referrals.

12. Custody

Funds:

While it is our practice not to accept or maintain physical possession of any client assets, we are deemed to have custody of the funds' assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to access our clients' funds and deduct fees and expenses from our clients' accounts.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all clients assets. The custodian sends monthly statements to the clients. Clients should carefully review these statements. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit the clients' accounts at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in the funds as soon as practicable after the end of the fiscal year.

Managed Account:

We do not have custody of the managed account client's assets.

13. Investment Discretion

Funds:

Our investment advisory contract with each of the funds contains language whereby the fund clients grant us broad discretionary power to manage the account. We adhere to the investment strategy set forth in each fund's private placement memorandum.

All investors in the funds are provided a private placement memorandum that sets forth, in detail, the relevant fund's investment strategy and program. By completing subscription documents to acquire an interest in a fund, investors execute a power of attorney and give us complete authority to manage their investments in accordance with the relevant private placement memorandum.

Managed Account:

Pursuant to the investment management agreement between the client and us, the client gives us complete discretionary authority to manage its assets, subject to the applicable investment guidelines set forth in the investment management agreement (See "*Methods of*

Analysis, Investment Strategies and Risk of Loss” for a description of limitations placed on our investment authority).

14. Voting Client Securities

Funds:

We have been delegated the authority to vote proxies on behalf of client accounts. We have adopted and implemented policies and procedures reasonably designed to ensure that we vote proxies in the best interest of each client. In determining how to vote a particular proxy, we will generally vote in favor of matters which follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management’s accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and common market practices. Clients cannot direct our vote in any particular proxy solicitation.

Managed Account:

With respect to the managed account and in accordance with the investment guidelines set forth in the investment management agreement, we have full authority to vote all proxies and are responsible for ensuring that proxies are voted in the best interests of the client to maximize the long term value of the managed account. We must exercise our duties with respect to the voting of proxies in accordance with the investment guidelines and must maintain records to permit the client to monitor our compliance. The client cannot direct our vote in any particular proxy solicitation.

General Guidelines:

If a proxy vote creates a potential material conflict between our interests and the interests of a client, we will resolve the conflict before voting the proxy either by obtaining the consent of the client or take other reasonable steps to minimize the impact of the conflict. A copy of the proxy voting policy is available upon request. Further, upon request, we will provide a record of how proxies have been voted relative to each client’s account.

15. Financial Information

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.