



## **VARDEN PACIFIC LLC**

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## **FORM ADV PART 2**

July 17, 2013

**This brochure provides information about the qualifications and business practices of Varden Pacific LLC. If you have any questions about the contents of this brochure, please contact us at (415) 835-3880. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

## **Item 2 – Material Changes**

Since the annual filing of this brochure on March 15, 2013, Varden Pacific LLC has updated this brochure to provide disclosure in Item 14 (“*Client Referrals and Other Compensation*”) regarding additional third-party marketers engaged by Varden Pacific LLC and/or its affiliates to solicit prospective investors in pooled investment vehicles and separate accounts managed by Varden Pacific LLC.

Because this Item 2 discusses only those changes to this brochure that have been made since March 15, 2013 that the firm believes to be material, this brochure should be reviewed in its entirety.

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## **Item 4 – Advisory Business**

### **Structure; History and Ownership**

Varden Pacific LLC is an investment advisory firm with its principal place of business in San Francisco, California. Varden Pacific LLC will be referred to in this brochure as “Varden,” “the firm,” “we” or “us.” Varden was organized as a limited liability company formed under the laws of the State of Delaware. This brochure provides information about the firm and its “relying adviser” listed in Section 1.B. of Schedule D in Part 1A of the firm’s Form ADV (in reliance on the position expressed in the letter of the SEC staff dated January 18, 2012 to the American Bar Association, Business Law Section).

The firm has five employees and its principal direct and indirect owners are Dennis Lin, Brad Scelfo and Shawn Stoval. The firm was founded by Dennis Lin, Brad Scelfo, Shawn Stoval and Chris Slattery. Dennis Lin serves as the firm’s chief compliance officer (the “CCO”).

Varden commenced business in 2010. The firm and its affiliates have formed Varden Pacific Opportunity Partners I LP (the “Onshore Fund”) and Varden Pacific Opportunity Offshore Fund I Ltd (the “Offshore Fund”), each of which was organized for the primary purpose of investing in Varden Pacific Opportunity Partners I Master (Cayman) Unit Trust, an open-ended exempted unit trust established under the Trusts Law (Revised) of the Cayman Islands by declaration of trust dated December 1, 2010 (the “Master Fund” and, together with the Onshore Fund, the Offshore Fund and any additional pooled investment vehicles sponsored by Varden or its affiliates, the “Funds”). The Onshore Fund and the Master Fund were launched together in April 2011; the Offshore Fund was launched in May 2012. Varden has been delegated responsibility for investment management of the Funds and has full discretionary authority and responsibility over the Fund’s investments.

### **Types of Advisory Services**

Varden provides discretionary investment advisory services to the Funds and to a number of separate accounts (each a “Separate Account”). Investments in the Funds are only offered to institutional and high net worth investors through private placements. Full descriptions of the Funds’ investment objectives and strategies, as well as risk factors pertaining to an investment in the Funds, are set forth in the Funds’ Confidential Offering and Explanatory Memoranda, copies of which will be delivered to qualifying prospective investors. The Separate Accounts are contractual arrangements between Varden and clients whereby we undertake to monitor the client’s portfolio and direct a custodian selected by the client to purchase or sell securities on behalf of the client in particular amounts. Such arrangements are governed by an investment advisory agreement between us and each Separate Account, and may include single-investor private fund structures.

The Funds are managed only in accordance with their own investment guidelines and are not tailored to any particular investor’s needs, nor are the Funds’ investors permitted to impose restrictions on the Funds’ investments. Investors in Separate Accounts may have greater flexibility in directing the investment strategy and guidelines applicable to their investments. Although the Funds and the Separate Accounts may generally hold the same securities, each Separate Account may vary greatly in terms of concentration and turn-over as directed by its owner or determined by us.

### **Assets Under Management**

As of December 31, 2012 we managed approximately \$264.7 million in “regulatory assets under management,” as reported in Item 5.F. in Part 1A of the firm’s Form ADV, on a discretionary basis.

## Item 5 – Fees and Compensation

### Fees

We are generally entitled to receive a management fee in consideration of the management and administrative services we provide to the Funds. The management fee we receive from the Funds is payable quarterly in advance and is equal to 0.4375% (or 1.75% on an annualized basis) of the net asset value of the Funds excluding the allocable share attributable to the firm and its affiliates. The management fees are charged on a *pro rata* basis to each investor, other than such investors, if any, as we may designate. We may agree to different fee terms with respect to Separate Accounts.

We are entitled to receive performance-based compensation from the Funds equal to 20% of the net profits (including realized and unrealized profits and losses) allocated to each investor in the Funds for each six-calendar month period above a “high-watermark” (*i.e.*, any prior losses allocated to an investor in respect of such investment must be recouped before we may receive any performance-based compensation in respect of such investor). The performance-based compensation we receive from the Funds is calculated separately with respect to each investment by each investor. Performance-based compensation charged to the Separate Accounts is negotiated with respect to each Separate Account individually.

### Expenses

Each Fund shall bear all operating expense and other costs incurred by such Fund including, but not limited to, accounting and auditing fees; administration fees; custodial fees; investment related software and data expenses; and trustee and legal fees. Each Fund’s investors shall bear these fees on a *pro rata* basis.

Expenses incurred in the organization of the Funds, in an aggregate amount of up to \$150,000 per Fund, were borne or reimbursed by the Funds. As unitholders of the Master Fund, the Onshore Fund and the Offshore Fund indirectly bear a ratable portion of the organizational expenses of the Master Fund. For financial reporting purposes, organizational expenses will be amortized by the Onshore Fund and the Offshore Fund during their first 36 months of operations. Amortization of such expenses over a period that is up to 36 months is a divergence from U.S. generally accepted accounting principles (“GAAP”), which may, in certain circumstances, result in a qualification of the Onshore Fund’s and/or the Offshore Fund’s annual audited financial statements. In such instances, we may make modifications to our accounting practices for financial reporting purposes in order to eliminate such qualifications. We generally bear our own expenses (aside from customary trade execution and settlement expenses) in connection with providing advice to Separate Accounts.

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

As noted in Item 5, we receive performance-based compensation from our clients. The rates at which we receive performance-based compensation may vary from client to client. As a result, we may have a conflict of interest, because we can potentially receive proportionately greater compensation from those clients subject to higher performance based compensation rates than those subject to lower rates. We have an incentive to:

- direct the best investment ideas or give favorable allocation to those clients that are subject to higher performance-based compensation rates;

- use trades by a client that is not subject to any performance-based compensation or is subject to lower performance-based compensation rates to benefit those clients that are subject to higher performance-based compensation rates, such as where a Fund sells short before a sale by a Separate Account that is subject to a lower performance-based compensation rate, or a Fund sells a security only after a Separate Account that is subject to a lower performance-based compensation rate has made a large purchase of the security; and
- benefit those clients subject to a higher performance-based compensation rate over those clients subject to a lower performance-based compensation rate which have a different and potentially conflicting investment strategy.

We owe a fiduciary duty to our clients not to favor one client over another, without regard to the types and amounts of fees paid by those clients. In light of the possible conflicts of interest described above, we have allocation policies and procedures in place to ensure that each of our clients is treated fairly. Where we determine to trade for more than one client in the same instruments, we generally aggregate the trades and cause the accounts to trade *pari passu* with each other. However, while clients may trade the same and/or similar instruments, some may be distinguished from one another by their investment objectives, investment methodology, fee terms or other investment or trading parameters. Accordingly, we may cause purchases or sales to be effected for one client while not causing such purchases or sales to be effected for another client. We may determine also to use substantially different degrees of leverage in certain clients' accounts when effecting a transaction, when maintaining a position, or in conducting investment activities generally. Discretion as to which clients will receive allocations of particular positions may be exercised whether investment opportunities are limited or unlimited, and opportunities to participate in transactions may not necessarily be allocated among our clients in any particular proportion.

If multiple clients qualify for participation in the purchase of a specific security or investment opportunity by such portfolio group, we will endeavor to allocate the instruments among the clients for which the instrument or investment opportunity is appropriate, on a fair and equitable basis. Common trades on the same day among clients are generally allocated on the basis of the relative assets committed to the strategy at the average price per share among such clients. While no client will be given investment priority over any other client, each client may have separate investment objectives and investment restrictions which we are required to follow; as a result, certain investment opportunities may be appropriate for certain clients and not for others. We apply such considerations as we deem appropriate, including relative size of such entities, amount of available capital, size of existing positions in the same or similar securities, leverage and tax considerations and other factors. Nevertheless, prospective investors should understand that we may have an incentive to favor certain clients over others.

## Item 7 – Types of Clients

We generally provide investment advice to two types of clients: unregistered investment vehicles (such as the Funds) and the holders of the Separate Accounts. Our Separate Account clients and the investors in the Funds may include high net worth individuals and a variety of institutional investors, including private funds of funds, trusts, employee benefit plans, foundations, endowments, corporations, banks, thrifts and other types of entities meeting the terms of the exceptions and exemptions under which the Funds operate and wishing to invest in accordance with the Funds' investment objectives. U.S. investors in the Offshore Fund and all investors in the Onshore Fund must be "accredited investors" under the Securities Act of 1933, as amended (the "Securities Act"), "qualified purchasers" under the Investment Company Act of 1940, as amended, and "qualified eligible persons" under the regulations of the

Commodity Futures Trading Commission, in order to invest in the Onshore Fund or the Offshore Fund. Our Separate Account clients are subject to similar regulatory qualifications.

The Funds have a minimum initial investment amount of \$5,000,000, a requirement which may be waived subject to applicable law. Additional contributions, in minimum amounts of \$250,000 unless waived, may be made at the beginning of a month or at other times as we may permit. Separate Accounts generally have a minimum initial investment amount of \$50,000,000.

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

### **Investment Objective and Strategy**

For a more complete description of the Funds' investment objective and strategy, please see the relevant Fund's Confidential Offering or Explanatory Memorandum.

Our investment objective is to obtain attractive long-term returns by capitalizing on dislocations in the global fixed income market. Our investment team (the "Portfolio Managers") collaborate to identify opportunities across global markets by leveraging their knowledge and contacts. Investments may include both short dated (less than 3-years) and long dated (more than 3-years) products. A significant portion of our investments will be purchased in non-US markets. While we currently focus on investing in structured finance products, we also look across fixed income markets for investment opportunities. Such opportunities may include, *inter alia*, corporate credit, emerging markets, interest rates, government and agency bonds, municipal bonds, currencies, commodities and index or index like instruments (*e.g.*, exchange traded funds) that reference related risks. Our core investment strategy emphasizes the following products and strategies:

*Structured Finance Products Including Collateralized Debt Obligations.* The majority of our investments are currently in fixed income products, including structured products such as Collateralized Debt Obligations ("CDOs") and other derivative based products. We may invest in any tranches of CDOs.

*Hedging.* We may, but are not required to, employ a variety of hedging techniques. Such techniques are intended to limit our exposure to risks. Hedging may involve a variety of instruments and strategies, including selling short securities believed to be likely to decline in price, taking offsetting or partially offsetting positions in swaps, options, futures or other derivatives or cash products, or investing in or shorting market index or "market basket" instruments.

*Leverage.* We may utilize borrowed funds or utilize swaps, options, futures or other derivatives for investing or hedging purposes. These activities may incur leverage in their investment or hedging activities on our behalf. The use of leverage can increase investment returns, as well as the risk of investment loss and associated volatility.

*Short Selling.* We may from time to time engage in short sale transactions in which we will sell securities we do not own (but have borrowed) in anticipation of a decline in the market price of the securities or for hedging purposes.

*Corporate Credit.* We may invest in corporate debt securities and other instruments directly or indirectly linked to corporate credit risk, including CDOs.



*Restricted Securities.* We may invest in so-called “Restricted Securities,” *i.e.*, securities as to which the public resale is currently restricted under the Securities Act, and which are not immediately convertible into freely tradable securities.

*Foreign Issuers.* We may invest in the securities of foreign issuers, including both those traded overseas as well as those traded in the United States.

*Cash Positions.* Pending the identification of appropriate investment opportunities, we may hold or invest in cash, U.S. government securities, commercial obligations, bankers’ acceptances, certificates of deposits, money-market instruments and other cash equivalents.

*Options.* We may purchase or write call and put options on swaps, options, futures, securities, securities indices or groups of securities that are traded on U.S. or non-U.S. securities exchanges or sold over-the-counter. We may also buy or sell put and call options on currencies or other instruments.

*Swaps, Forwards, Indices and Other Derivatives.* We may utilize various types of swaps (including but not limited to credit default swaps and total rate of return swaps), spot or forward contracts, indices and other derivatives, including with respect to commodities or currencies, in furtherance of their objectives.

*U.S. Treasury Bills and other Government Securities.* We may invest in government bonds issued by the United States Department of the Treasury through the Bureau of the Public Debt.

*Municipal Securities.* We may invest in municipal bonds issued by one or more cities or other local governments and agencies, including, but not limited to, counties, redevelopment agencies, special-purpose districts, school districts, publicly owned airports and seaports and any other governmental entities below the state level, in order to take advantage of fixed and/or variable interest rates and possible exemptions granted to holders of municipal bonds on interest received with respect to federal income tax and income tax of the state in which the municipal bonds originate.

*Stock Index Options.* We may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing our investment objectives or for the purpose of hedging our portfolio.

*ETFs.* We may also invest in ETFs, or exchange traded funds, which are publicly traded investment vehicles that hold passively managed portfolios of stocks.

In addition to our core investment strategy, we may make any other investments or employ any other investment strategies that we deem appropriate and may invest in and trade a variety of securities and instruments.

We may utilize leverage to increase the amount of capital available for investment purposes, or incur leverage due to investing or hedging activities. We may also use leverage to enhance investment returns, to pay our fees and expenses, to fund the payment of withdrawal proceeds and in other circumstances that we deem appropriate. We may enter into one or more credit facilities or otherwise obtain leverage (for example by trading on margin) with one or more financial institutions. The actual amount, which is likely to vary over time, and form of leverage to be utilized is determined in our discretion. Such varying amounts and forms of leverage may be expected to have a material impact on our investments’ performance, as well as its risk of loss. Leverage may also be obtained through swap agreements, options or other derivative instruments (or through a combination of such methods).

## **Investment Philosophy**

The Portfolio Managers believe that the following factors, among others, have created attractive investment opportunities which may be capitalized on by investment managers with the necessary experience and technical expertise:

- The last ten years saw a rapid proliferation of new products in fixed income, including structured products, securitizations, credit linked notes, swaps, options and futures, among others. At times these products were purchased without a solid understanding of their structural mechanics or risk profiles.
- Recent changes in the regulatory and accounting landscape have eliminated the rationale for the original purchasers to continue to own these products. Thus, institutions may no longer choose to hold these products to maturity and may look to sell them in the coming years.
- Demand for such securities may be limited due to, among other reasons, a lack of product expertise, liquidity and price volatility concerns, negative perceptions of collateral quality, rating agency conservatism, regulatory changes and accounting changes.
- The above factors create the potential for dislocated markets and have contributed to the creation of a large legacy supply of fixed income securities.

## **Investment Approach**

Our competitive advantage is our unique expertise in structured or derivative-based assets within fixed income and our ability to identify unique opportunities and risk manage investments. We employ a “top down/bottom up” analysis of potential investments. Investment ideas are generated using a top down approach to sector and asset class analysis, including collaborative discussion of economic and political environments, market conditions and current research. Investment ideas are verified, and investment decisions made, using a bottom up approach to analyzing individual assets, including (as a general matter): documentation analysis; quantitative analysis and trade modeling; risk neutral pricing; assessment of legal and compliance concerns; assessment of the liquidity of individual investments; calculation of risk/return profiles, comparison to other known investment opportunities; and assessment of investments as they relate to our strategy and market views. Once an investment has been identified for potential purchase, an investment recommendation is submitted to the Investment Committee. Purchase decisions require unanimous Investment Committee approval.

## **Risks Associated with Our Investment Strategy**

The Master Fund’s methods of minimizing the risks associated with our investment strategy may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted. Further, we may apply such risk management techniques on a selective or other periodic basis rather than at all times.

For a more complete summary of the risks inherent in an investment in the Funds or with a Separate Account, please contact us or see the relevant Fund’s Confidential Offering or Explanatory Memorandum.

*Limited Prior Application of Investment Strategy.* While we have experience dealing with the products that we invest in, we have only implemented our investment strategy with respect to a

commingled private investment vehicle or other entity comparable to the Funds for a limited amount of time. Past performance of any methodology should not be considered as assuring any given future results. Accordingly, there can be no assurance that our investment strategy and approach will prove successful when applied in the context of the Funds and over time under various market conditions and events.

*Risks of Investments in Securities Generally.* Our investment program may at times involve, without limitation, risks associated with limited diversification, leverage, interest rates, currencies, correlation, volatility, liquidity, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, recovery risks, collateral risks, counterparty default risks, systems risks and other risks inherent in our investment activities.

*Concentration of Investments.* We do not apply fixed diversification standards to our portfolio with respect to any particular industries, industry sectors or types or securities. In addition, our investment strategy contemplates investing primarily in a limited number of types of securities. Such concentration can increase significantly both investment risk and portfolio volatility.

*Structured Finance Products including Collateralized Debt Obligations.* We generally invest the majority of our clients' capital in structured finance products, which are subject to credit, liquidity, default, recovery, correlation, market value, interest rate, currency, sovereign, collateral, operations, structural, legal, tax and certain other risks.

*Price Volatility.* Investments we make are inherently volatile, which may result in the value of our clients' assets fluctuating from time-to-time more greatly than that of other investment vehicles which may be more widely diversified.

*Restricted Securities and Other Illiquid Investments.* We may direct our clients to invest in non-public and restricted securities and other assets which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and we may not be able to sell them when we desire to do so or to realize what we perceive to be their fair value in the event of a sale.

*Equity Risks.* We may invest our clients' assets in equity and equity derivative securities, including exchange traded funds, index based products and options. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, we may suffer losses if we invest in equity securities of issuers whose performance diverges from the our expectations or if equity markets generally move in a single direction and we have not hedged against such a general move. To the extent that we invest our clients' assets in equity derivatives and private placements activities, our clients are exposed to risks that issuers will not fulfill their contractual obligations.

*Debt Securities.* Certain of the debt instruments in which our clients invest, including derivatives, swaps, options and futures, may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine their ability to make timely payment of interest and principal.

*Forwards, Swaps, Repos and Other Derivatives.* We may direct our clients to utilize forwards, swap contracts, repurchase agreements and other over-the-counter derivative instruments. Principal risks relating to the use of derivatives include losses magnified by the degree of leverage (exposure) represented by the derivative; lack of a liquid secondary market for closing out the position; losses resulting from interest rate or currency movements not anticipated by us; reduced returns as a result of

collateral posting to counterparties; and the risk of counterparty default. Principal risks relating to the use of derivatives include, in the case of hedging strategies, the possible imperfect correlation between the derivative and the market value of the securities, currencies or other commodity position intended to be hedged (*i.e.*, tracking risk); losses magnified by the degree of leverage (exposure) represented by the derivative; lack of a liquid secondary market for closing out the position; losses resulting from interest rate or currency movements not anticipated by us; reduced returns as a result of collateral posting to counterparties; and the risk of counterparty default.

*Futures Contracts.* Futures contract trading is typically accompanied by a high degree of leverage as initial margin deposits are typically low relative to the value of the futures contracts purchased or sold. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. Futures positions may be illiquid and the firm may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low.

*Commodities.* Commodity markets are highly volatile. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. Additionally, there is no assurance that a liquid secondary market will exist for commodity futures contracts or options.

*Currencies.* Some investments may be denominated in foreign currencies. This creates currency risk which may or may not be hedged. Trading in the foreign currency exchange market is speculative and volatile; should interest or exchange rates move in an unexpected manner, our clients' accounts may not achieve the anticipated benefits of forward currency contracts or could realize losses.

*Non-U.S. Investments.* We may direct our clients to invest in non-U.S. markets or industries, in instruments that contain embedded non-US exposures such as but not limited to foreign corporate or sovereign risks, in securities denominated in foreign currencies and/or traded in emerging markets. Such investments require consideration of certain risks typically not associated with investing in U.S. securities.

*Short Selling.* Selling securities short creates the risk of losing an amount greater than the initial investment in a relatively short period of time and the theoretically unlimited risk of an increase in the market price of the securities sold short. Short selling, particularly in the case of thinly traded or speculative securities, can involve the further risk of an inability to locate or purchase adequate amounts of the security sold short in order to cover the short position.

*Options.* Option techniques can involve a high level of risk. The writing of uncovered options involves a theoretically unlimited risk of a price increase or decline in the underlying security. The expiration of unexercised long option positions effectively results in loss of the entire cost or premium paid for the option. Option premium costs, as well as the cost of covering options written by our clients, can create losses. Our clients' ability to close out positions as purchasers of an exchange listed option is dependent upon the existence of a liquid secondary market on option exchanges.

*Substantial Competition.* Other investors with significant capital and positioning in the market will compete with us for investment opportunities. These competitors may include investment banking firms, banks and other financial institutions, hedge funds, family offices, private institutional investment partnerships, individuals and others. These competitors may have greater resources than us and may have different investment objectives than us, enabling them to accept more risk or pay higher prices than we deem appropriate. Due to substantial competition, we may be unable to find attractive investments that offer suitable rates of return and there can be no assurance that we will be able to fully invest our clients' capital.

## **Item 9 – Disciplinary Information**

Neither the firm nor any of its principals has ever been sanctioned or reprimanded by any regulator or self-regulatory organization, nor has any such person been sued (or, to our knowledge, threatened with litigation) by any client or by any local state or federal authority on behalf of a client.

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

Varden Pacific General Partner I LLC, the general partner of the Onshore Fund, is a “relying adviser” of the firm.

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

### **Code of Ethics**

We have established a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act as part of our overall compliance program. The Code of Ethics includes policies and procedures relating to personal securities trading by firm personnel and protection against the misuse of material nonpublic information. The Code of Ethics is designed to prevent, among other things, any improper conduct whenever any potential conflict of interest may exist with respect to any fund or investment portfolio. In addition, the Code of Ethics requires the firm and/or all supervised persons of the firm to safeguard and prevent dissemination of non-public information, to refrain from engaging in self-interested transactions without prior approval, to develop adequate internal accounting controls and maintain proper books and records, and to refrain from insider trading. The Code of Ethics also outlines the duties of care and loyalty that the firm and its supervised persons are required to follow with respect to clients, including our obligation to exercise a high degree of care, to seek best execution, to safeguard client assets, to act in the best interest of clients and to render impartial advice to clients. A copy of the Code of Ethics is available upon written request to Dennis Lin, Chief Compliance Officer, c/o Varden Pacific LLC, One Montgomery Street, Suite 3309, San Francisco, California 94104.

### **Interested Transactions**

The firm’s Code of Ethics requires employees to pursue the best interests of the firm and its clients and not to put their own personal trading interests ahead of such interests. Governing principles include but are not limited to: (i) employee transactions involving a conflict of interest between an employee and the firm, its Funds or investors are prohibited; (ii) employees are prohibited from using access to the firm’s proprietary, Fund or investor information in any way to advantage their own personal investing; (iii) employee transactions that present potentially material reputational or regulatory risk to the firm are prohibited; (iv) employees may not trade, or recommend that others trade, in a security or related derivative while in possession of material, non-public price sensitive information about the security or an issuer of a security; (v) employees may not trade, or recommend that others trade, in a security or related derivative if they are aware that the firm is effecting or proposing to effect a transaction for its own account, a Fund or a client in a security or related derivative of the same issuer; and (vi) employees may not trade, or recommend that others trade, in a security or related derivative if they are aware of a research report or other communication which has not yet been publicly disseminated.

Firm employees may not engage in transactions prohibited by the Restricted List which is managed and updated by the Firm's CCO. A complete detail of policies and procedures relating to employee account trading can be found in the firm's Employee Personal Account Trading Policy, which is available upon request.

## **Item 12 – Brokerage Practices**

### **Selection of Brokers; Directed Brokerage**

We have investment discretion with respect to the initiation of portfolio securities transactions for the Funds. We have the authority to select broker-dealers to execute such transactions and may utilize a number of broker-dealers to effect transactions for the Funds. Broker-dealers will be selected by based upon a variety of factors, including the amount of commission (or bid/offer spread), quality of execution, expertise in particular markets, the reputation, experience and financial stability of the broker-dealer, quality of service, familiarity both with investment practices generally and the techniques employed by the Fund, research and analytic services and clearing and settlement capabilities, subject at all times to principles of best execution. We may in our discretion select, and change, brokers for the Funds.

UBS Securities LLC ("UBS") has served, and may continue to serve, as an executing broker regarding securities transactions for the Funds and certain of our other clients. In addition, we have paid and may continue to pay UBS for use of certain office space and related services, which may include telephone and data network infrastructure and maintenance, receptionist, mailroom and technical support, office furniture, telephone equipment and usage, cable service, food and beverage services, computer equipment and copiers, and shared use of common areas. We believe that the provision of office space and related services to us is not on more advantageous terms than those which we could obtain from other vendors. As such, the provision of office space and related services to us by UBS is not a factor when we select our prime brokers or select brokers for the execution of portfolio transactions for the Funds.

### **Soft Dollars**

We do not make use of soft dollars. If we do determine to make use of soft dollars in the future, we will do so in compliance with the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

### **Aggregation of Orders**

When we deem the purchase and sale of securities to be in the best interest of the Funds or any other managed investment vehicles or accounts, we may aggregate the securities to be purchased or sold in order to obtain superior execution and/or lower brokerage expenses. In particular, execution prices for identical securities purchased or sold on behalf of multiple investment vehicles or Separate Accounts in any one business day may be averaged. In such event, we will allocate the securities purchased or sold, as well as expenses incurred in the transaction, among the Funds and any other participating investment vehicles or accounts by applying such considerations as we deem appropriate, including relative account size of such investment vehicles and accounts, amount of available capital, size of existing positions in the same or similar securities, impact of leverage, tax considerations and other factors. Although such allocations may be *pro rata* as to the Funds and other such investment vehicles and Separate Accounts, they will not necessarily be so where allocation considerations, such as availability of capital, positions in similar securities or differing objectives dictate a different result. The Funds will not be entitled to investment priority over other managed investment vehicles or accounts and may not necessarily

participate in every investment opportunity. We will endeavor to make all investment allocations in a manner that we consider to be the most equitable to all managed investment vehicles and accounts.

## **Trade Errors**

We have adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions of the Funds, any Separate Accounts and any other managed investment vehicles and accounts. An example of a trade error is the sale of a security when it should have been purchased. Pursuant to the policy, we will seek to identify and correct any trade errors in an expeditious manner. Trade errors that result in losses for a Fund, Separate Account or other managed investment vehicle or account that are the result of our bad faith, gross negligence or willful misconduct, as determined by us, will be reversed, and we will be responsible to make the affected Funds, Separate Accounts or other managed investment vehicles and accounts whole. Trade errors that result in losses for a Fund, Separate Account or other managed investment vehicle or account that are not the result of our bad faith, gross negligence or willful misconduct, as determined by us, will be reversed and we may, but are not required to, bear such losses in whole or in part. Any such losses we do not bear will be borne by the affected Funds, Separate Accounts or other managed investment vehicles and accounts. Gains from trade errors will be credited to the affected Funds, Separate Accounts or other managed investment vehicles and accounts. Gains from trade errors may not be used to offset losses from trade errors. “Soft dollars” or “client commissions” will not be used, either directly or indirectly, to correct trade errors. The determination of whether or not a trade error has occurred will be in our sole discretion.

## **Item 13 – Review of Accounts**

### **Reviews**

We review the holdings of the Funds and Separate Accounts on an ongoing basis. Individual investments are evaluated with respect to their individual merit and whether they are additive or subtractive to the overall riskiness of the Funds’ and Separate Accounts’ portfolios. Such review is performed by Dennis Lin, Shawn Stoval, Brad Scelfo and Chris Slattery.

### **Reports**

*The Funds.* After the end of each fiscal month, each investor is provided with an unaudited account statement regarding the applicable Fund’s operations and performance for the period covered. The books and records of the Funds are audited at the end of each fiscal year by a firm of certified public accountants, and investors will be furnished with audited year-end financial statements, including a statement of operations for such fiscal year, and certain tax reporting information if applicable. In general, the Funds’ financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). However, for financial reporting purposes, organizational expenses are amortized by the Funds during their first 36 months of operations. Amortization of such expenses of a period of 36 months is a divergence from GAAP, which may, in certain circumstances, result in a qualification of the Funds’ annual audited financial statements. In such instances, we may make modifications to our accounting practices in order to eliminate such qualifications.

*Separate Accounts.* Clients with Separate Accounts directly own the assets in the Separate Accounts and have the primary relationship with the custodian holding their assets. These custodians send such clients brokerage statements regarding the assets in their accounts. These reports list the account positions, activity in the account over the covered period, and other related information. These clients are also sent

confirmations following each brokerage account transaction unless receipts of confirmations has been waived by the client. We also send unaudited monthly reports to clients with Separate Accounts.

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

We have retained Spearhead Capital LLC, Jefferies & Company, Inc., BTIG, LLC, Hamilton Miller Investments, LLC and MCAM Holding Limited as third-party marketers to solicit potential investors in the Funds and Separate Account clients. Third-party marketers will receive 20% of the management fees and performance-based compensation we receive in respect of investors in the Funds and Separate Account clients solicited by the respective marketers. We may in the future enter into additional compensation arrangements with solicitors for new investors. To the extent applicable, solicitations of prospective investors and clients are made in accordance with SEC Rule 206(4)-3 adopted under the Advisers Act. We do not receive any economic benefit from any person that is not a client for providing investment advice or other services to our clients.

## **Item 15 – Custody**

We currently entrust the custody of the Funds' assets to US Bank National Association, Cayman Branch. We may change custodians, and/or retain one or more additional custodians, in our discretion.

With respect to Separate Accounts, brokerage statements are generated not less than quarterly. These statements are sent directly to the client by the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Separate Account holders are also sent confirmations following each brokerage account transaction unless receipt of confirmations has been waived by the client. Clients should carefully review statements they receive from their custodians.

## **Item 16 – Investment Discretion**

A description of the investment discretion that we exercise with respect to the Funds and Separate Accounts is included in “*Advisory Business – Types of Advisory Services*,” above. We generally exercise investment discretion pursuant to power of attorney that is granted by the Funds and each Separate Account client as part of the investment advisory agreement relating to each such client.

## **Item 17 – Voting Client Securities**

We have established a set of “Proxy Voting Policies and Procedures” that are designed to ensure that the firm complies with the Advisers Act and Rule 206(4)-6 thereunder. Under the Advisers Act, an adviser owes each of its clients duties of care and loyalty with respect to all services undertaken on the client's behalf, including proxy voting. To satisfy its duty of care, an adviser with proxy voting authority must monitor corporate events and must, except in unusual circumstances, vote proxies. To satisfy its duty of loyalty, an adviser must ensure that no conflict of interest interferes with the adviser's ability to vote proxies in a client's best interests. Rule 206(4)-6 under the Advisers Act requires all federally registered investment advisers that exercise voting authority over client proxies to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients.



These Proxy Voting Policies and Procedures apply whenever a Fund or investor has, whether implicitly or expressly, granted us the authority to vote proxies on its behalf. In some cases, the Fund or investor's agreement with us expressly provides that we shall have the power to vote proxies. Where the Fund or investor has entrusted us with full discretionary authority over its account, the grant of discretionary authority implicitly includes the authority to vote proxies. Clients with Separate Accounts have the option of receiving proxy voting information directly, in which case we will not vote proxies in respect of securities held in their accounts.

We vote proxies with respect to securities held in a Fund or Separate Account in the manner that we believe is in such parties' best interests. Unless otherwise instructed by a Fund or client investing in a Separate Account, we believe that the maximization of the value of a client's investments constitutes the client's best interests. Our specific policies with respect to certain specific types of voting decisions are set forth in the Proxy Voting Policies and Procedures, a copy of which will be provided upon request. Where we believe that it is in a Fund or client's best interests, we will deviate from the general approaches summarized in the Proxy Voting Policies and Procedures.

Upon request by a client, we will provide the client with information regarding how we voted with respect to securities held in the client's account and a copy of these Proxy Voting Policies and Procedures.

## **Item 18 – Financial Information**

We do not require or solicit prepayment of more than \$1,200 in fees six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year.