

# Grandmaster Capital Management LLC

## Part 2A of Form ADV

### The Brochure

456 Montgomery Street, Suite 1350  
San Francisco, CA 94104  
415.230.2050  
[www.grandmastercap.com](http://www.grandmastercap.com)

Updated: March 2013

This brochure provides information about the qualifications and business practices of Grandmaster Capital Management LLC (“Grandmaster”). Grandmaster is registered with the United States Securities and Exchange Commission (“SEC”) as an investment adviser. That registration does not imply a certain level of skill and training. The information in this brochure has not been approved or verified by the SEC or by any state securities authority. If you have any questions about the contents of this brochure, please contact us at 415.230.2050.

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

**Item 2 - Material Changes**

Grandmaster's prior version of Form ADV Part 2 was available as of June 2012. Since that time, Grandmaster's Advisory Business has changed as it now acts as the investment manager to a separately managed Client Account in addition to the Funds. Grandmaster has updated the disclosure regarding its Soft Dollar policies and procedures to more accurately reflect its actual practices.

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#### Item 4 - Advisory Business

Grandmaster was formed as a Delaware limited liability company in 2010 by its managing member and majority owner Patrick Wolff. Grandmaster is the investment manager of Grandmaster Capital Fund, LLC, a Delaware limited liability company (the “US Fund”), Grandmaster Capital Fund Limited, a British Virgin Islands business company (the “Offshore Fund”) and Grandmaster Capital Fund, L.P., a British Virgin Islands international limited partnership (the “Master Fund” and collectively, “Funds”). The US Fund and the Offshore Fund are feeder funds that invest substantially all of their investable assets into the Master Fund. Grandmaster is also the managing member of the US Fund and the general partner of the Master Fund. Grandmaster also acts as the investment manager to a separately managed account (the “SMA” and, together with the Funds, the “Client Accounts”).

Grandmaster primarily provides discretionary investment advisory services to the Client Accounts with the goal of achieving attractive risk-adjusted total return by investing both long and short, primarily in equity securities and related derivative instruments. Currently, the Client Accounts are Grandmaster’s only clients.

Grandmaster tailors its advisory services by constructing portfolios that seek to meet the investment objectives, guidelines and other terms of each particular Client Account it manages. Grandmaster generally manages the Client Accounts by following a strategy succinctly defined as “macro-informed long/short equity.” The primary strategy will be to take long and short positions in publicly traded equity and related securities. See “Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss” below for more detail.

The Client Accounts may impose limits on or expand the universe of securities or other instruments in which they may invest. Grandmaster has complete discretion over investment decisions for the Client Accounts, and investors generally have no authority to change a Client Account’s investment objectives or limitations. Investors have no right to remove or replace Grandmaster.

Grandmaster does not participate in wrap fee programs.

As of December 2012, Grandmaster manages approximately \$118,000,000 of regulatory assets on a discretionary basis. Grandmaster does not provide non-discretionary investment advice.

#### Item 5 - Fees and Compensation

**Funds.** Grandmaster generally receives an annual asset-based “management fee” from the Master Fund (generally 1% or 2% *per annum* of the value of portfolio assets under management, depending upon the class of share or interest held by an investor), which is deducted from the Master Fund’s account and is paid to Grandmaster. The management fee is calculated and paid monthly in advance based on the value of the Master Fund’s assets as of the beginning of the relevant calendar month. If the Master Fund terminates Grandmaster’s services or if an investor redeems some or all of its shares from the US Fund or the Offshore Fund intra-month, Grandmaster will refund the unearned portion of the management fee it received in advance from the Master Fund, which will be calculated based on the number of days remaining in such month.

In addition, Grandmaster is entitled to a special allocation of profits experienced by the Master Fund (also referred to as an “incentive allocation”). The incentive allocation is calculated and deducted from the Master Fund’s account annually, generally in an amount equal to 20% of the profits (realized and unrealized), if any, from the performance of the Master Fund. Payment of the incentive allocation is subject to a “high water mark” (i.e., paid only after losses, if any, have been recovered). The special profit allocations described above are intended to satisfy the requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended. The incentive allocation is generally calculated and made as of each December 31 and as of the date of any withdrawal from the Master Fund, but only in proportion to such withdrawal.

In addition to a pro rata share of Grandmaster’s management fee and incentive allocation, the US Fund and Offshore Fund also bear all expenses incurred in connection with their operation and administration, including a pro rata share of expenses associated with the Master Fund. These expenses include, among other things, fees of the administrator; legal, accounting and audit fees and expenses; governmental fees and taxes; bookkeeping and other professional fees; directors’ fees; costs of investor meetings and other communications with investors; and all other reasonable costs related to the management and operation of the US Fund and Offshore Fund, as applicable. In the case of the Master Fund, these expenses include, among other things, fees of the administrator; legal, accounting and audit fees and expenses; governmental fees and taxes; bookkeeping and other professional fees; as well as investment-related expenses such as brokerage commissions; interest on margin and other borrowings; borrowing charges on securities sold short; custodial fees; investment-related travel expenses, and research and other due diligence expenses of Grandmaster; and all other reasonable costs related to the management and operation of the Master Fund or the purchase, sale or transmittal of its assets.

Investors in the US Fund and the Offshore Fund generally may redeem capital on the last day of any fiscal quarter on 30 days written notice and subject to certain dollar limitations and a payment schedule. Certain classes of shares are subject to a redemption charge if they are redeemed within the first three years of an investor’s investment. Potential US Fund and Offshore Fund investors may read the redemption provisions specific to the US Fund and Offshore Fund in the relevant confidential offering memorandum.

***Separate Accounts.*** Grandmaster generally receives an annual asset based fee from the SMA, and a performance-based incentive fee. Compensation by separate accounts will generally be determined based on a client’s needs and any applicable portfolio restrictions. A client’s needs are determined through an interview conducted either in person or over the telephone. All separate account fees and account minimums are negotiable. Separate account fees will be deducted from the client’s account or billed in accordance with the specific arrangement with the client.

In addition to Grandmaster’s investment management or other fee, separate accounts will also bear administrative, custodial, brokerage and similar transaction costs or expenses associated with the account, as each separate account client’s investment management agreement provides.

Withdrawals from a separate account will vary based on each client’s agreement with Grandmaster.

**General.** Fees and other compensation are negotiable in certain circumstances and arrangements with any particular client or investor may vary. Although Grandmaster believes its fees are competitive, lower fees for comparable services may be available from other investment advisers.

Grandmaster may receive additional economic benefit through “soft dollar” arrangements with brokers, dealers and other counterparties. Please see “Brokerage Practices” in this brochure for further information on brokerage practices and arrangements that may relieve Grandmaster from certain costs and expenses.

Grandmaster does not accept commissions or other compensation for the sale of securities or other investment products.

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

As discussed above under “Fees and Compensation,” in connection with the Master Fund and SMA, Grandmaster has the right to receive an incentive allocation or an incentive fee and a management fee from both the Funds and the SMA. Grandmaster currently does not have any clients other than these Client Accounts. Currently, Grandmaster does not face any conflicts of interest associated with differing fee arrangements among clients. It may, however, advise additional funds or clients in the future. If and when it does, Grandmaster’s compensation arrangement with the Master Fund and SMA may differ from that of the other funds or clients. As a result of such differences in compensation arrangements, Grandmaster may, at that time, face a conflict of interest in managing the various accounts. Grandmaster will address any such conflict of interest at that time.

#### **Item 7 - Types of Clients**

Grandmaster’s current clients are the Client Accounts. See “Advisory Business” above. Potential investors may read the eligibility criteria and minimum investment requirements specific to the US Fund and the Offshore Fund in the relevant confidential offering memorandum and subscription application. The Funds generally require a minimum initial investment of \$1,000,000.

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

The investment objective of the US Fund and the Offshore Fund is to maximize the total return. The US Fund and the Offshore Fund will pursue this investment objective by investing substantially all of their investable assets into the Master Fund. The Client Accounts’ investment objective is to achieve attractive risk-adjusted total return.

The Master Fund has complete flexibility to invest in a wide range of investments including, but not limited to, listed equity securities, listed and unlisted debt securities (which may be related or unrelated to the equity securities), other collective investment schemes, currencies, commodities and options, futures, warrants, and other derivative instruments. Derivatives instruments may be exchange-traded or over-the-counter. The Master Fund may invest in derivatives for investment or hedging purposes.

The Master Fund aims to provide an attractive risk-adjusted total return to investors by investing both long and short, primarily in equity securities and related derivative instruments. The strategy is

succinctly defined as “macro-informed long/short equity.” The primary strategy will be to take long and short positions in publicly traded equity and related securities. Grandmaster may focus on the United States markets, but may take positions in securities listed around the world as opportunities arise. Grandmaster believes that traditional bottom-up analysis benefits greatly from a sophisticated understanding of the macro, and will therefore employ both bottom-up and top-down fundamental analysis in security selection and trading. Grandmaster expects to maintain a reasonably liquid portfolio. At times, the fundamental macro analysis may uncover opportunities that are best expressed using instruments other than publicly listed equities; to capitalize on such opportunities the Master Fund may take positions using exchange-traded futures or “plain vanilla” swaps, forwards or options. Grandmaster does not contemplate trading exotic, illiquid or hard to value instruments. Grandmaster generally expects to maintain a net long position in the Master Fund but at any time the Master Fund may be net short or market neutral.

The Master Fund may borrow money and employ leverage in connection with its investment strategy and, in limited circumstances, to pay for Master Fund expenses.

While leverage presents opportunities for increasing the Funds’ total return, it has the effect of potentially increasing losses as well. Investors should fully understand the risks associated with the use of leverage before investing in the US Fund or the Offshore Fund.

Grandmaster may, from time to time and under circumstances it deems necessary or appropriate, attempt to hedge certain risks of the Client Accounts’ portfolio. Such periodic hedging activity may be directed to some or all of the aggregate portfolio risks or specific risks within the Client Accounts’ portfolio. In connection with effecting such risk management, the Master Fund may purchase, sell, or sell short securities, indices, derivatives or other financial instruments. Grandmaster is under no obligation to effect any such risk management.

There can be no assurance that the Client Accounts will achieve their investment objectives.

The above description is a simplified summary of the strategies Grandmaster employs with respect to the Master Fund. Client Account investors and prospective investors can find further detail about the strategies in the relevant confidential offering memorandum, and should only make an investment decision after careful review of all those details and the risks relevant to a strategy.

All investing involves a risk of loss and investors should be prepared to bear losses on their investments in the Client Accounts. Past results are not necessarily indicative of future results. Client Accounts may produce gains and losses due to broader changes in the financial markets; however, gains and losses are also based on Grandmaster’s investment acumen and securities selections, and may be impacted by other factors including market volatility, corporate activity, regulatory oversight, trading volume and money flows. Grandmaster may implement a variety of investment strategies and techniques, in addition to those described above, and the Master Fund may invest in a wide array of investments, each of which may have diverse associated risks, including counterparty risk, credit risk and liquidity risk. The Master Fund may be leveraged, which increases the risk of investment loss, and the performance may be volatile. The Client Accounts are not subject to the same regulatory and reporting requirements as SEC registered funds (e.g., mutual funds).

**The risks described above are not a complete list of risks involved with investing in a Client Account – specific risks and conflicts of interest associated with an investment in the US Fund or the Offshore Fund are described in detail in the relevant confidential offering memorandum. Investors and prospective investors in the US Fund or the Offshore Fund should carefully review the relevant confidential offering memorandum for further information.**

#### **Item 9 - Disciplinary Information**

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

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

Grandmaster and its employees are not registered (and do not have any application pending to register) as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of any of the foregoing entities. In addition, Grandmaster and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest. Finally, Grandmaster does not recommend or select for its clients other investment advisers.

Grandmaster is affiliated with Thiel Capital LLC (formerly known as Clarium Capital Management, LLC), a SEC-registered investment adviser, through common ownership. In addition, one of Grandmaster's supervised persons is also an employee of Thiel Capital LLC. This could present a potential conflict of interest. Grandmaster has attempted to mitigate any such potential conflict of interest by structuring the supervised person's position such that it does not overlap his functions at Thiel Capital LLC. The employee does not take part in portfolio management or trading; his position is in the investor relations area. In addition, the employee's compliance with confidentiality requirements, his securities transactions and reporting pursuant to the Code of Ethics (see Item 11 below) are carefully monitored. Grandmaster does not believe that its affiliation with Thiel Capital LLC creates a material conflict of interest.

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

Grandmaster is the Client Accounts' investment manager, the Master Fund's general partner and the US Fund's managing member. From time to time, Grandmaster may cause the Master Fund to buy or sell a security or other instrument of the same class as, or issued by the same issuer as, or otherwise related to a security or other instrument in which Grandmaster or a person associated with Grandmaster has an ownership position. Grandmaster or a person associated with Grandmaster may buy a security or other instrument of the same class as, or issued by the same issuer as, or otherwise related to, a security or instrument that is held by the Master Fund. The governing documents of the Client Accounts permit Grandmaster and its associated persons to engage in those activities. The offering memoranda by which interests in the Client Accounts are offered include disclosure of the potential for those conflicts. By executing and delivering subscription applications pursuant to which they apply to become investors, all investors in the US Fund or the Offshore Fund acknowledge the



potential for those conflicts and consent to the authorization contained in particular Client Account's governing documents.

Grandmaster has adopted a code of ethics (the "Code of Ethics") that describes the standards of business conduct that it requires of employees and accounts owned predominantly by persons associated with Grandmaster, and establishes procedures intended to prevent Grandmaster, and its personnel and certain of their relatives, from inappropriately benefiting from Grandmaster's relationships with its clients. The Code of Ethics provides that (i) Grandmaster will act in its clients' best interests at all times; (ii) Grandmaster will generally disclose to clients all material facts about conflicts of which it is aware between Grandmaster's and its employees' interests on the one hand and clients' interests on the other; (iii) employees must operate on Grandmaster's and their own behalf consistently with Grandmaster's disclosures to and arrangements with clients regarding conflicts and its efforts to manage the impacts of those conflicts; (iv) Grandmaster and its employees must not take inappropriate advantage of Grandmaster's clients or their positions of trust with or responsibility to clients; and (v) Grandmaster and its employees must comply with all applicable securities laws. The Code of Ethics requires employees to report personal securities holdings on an annual basis. In addition, Grandmaster monitors all employees' securities transactions: employees must arrange for duplicate copies of their brokerage statements and trade confirmations to be provided to the Chief Compliance Officer. The Code of Ethics includes procedures for and restrictions on employee trading intended to prevent employees from benefiting from, or appearing to benefit from, any price movement that may be caused by client transactions or Grandmaster's recommendations regarding securities. Additionally, employees are prohibited from purchasing or selling a security at a better price than received or paid by the Private Funds in a similar transaction on the same day. Among other things, these policies and procedures include requirements that employees make a written request for and receive clearance from Grandmaster's Chief Compliance Officer (or his or her designee) before they buy or sell any security (other than certain government securities, shares of mutual funds not managed by Grandmaster, and certain other types of securities that Grandmaster does not believe create a potential for conflicts of interest). Pre-cleared transactions must be completed within a specified time frame. The Code of Ethics also contains restrictions on and procedures to prevent inappropriate trading while Grandmaster is in possession of material nonpublic information.

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

#### **Item 12 - Brokerage Practices**

Generally, clients give Grandmaster complete discretion over the selection and amount of securities to be bought or sold for clients (within the parameters established by the agreement of limited partnership or investment management agreement in the case of the Client Accounts) without obtaining any consent or approval of any client.

Grandmaster also has complete discretion over the selection of brokers and dealers and other transacting parties ("Transacting Parties") to be used and the compensation to be paid. In addition to using brokers as agents and paying commissions, Grandmaster may buy or sell securities directly from

or to dealers acting as principal (such as market-makers for over-the-counter securities) at prices that include markups or markdowns.

### **Selection Criteria**

In placing portfolio transactions, Grandmaster seeks to obtain the best execution for the Client Accounts, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including without limitation, 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 Transacting Party; the Transacting Party'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 Transacting Parties satisfying Grandmaster's other selection criteria. Grandmaster is not required to weigh any of these factors equally. Because commission rates are negotiable in many jurisdictions, selecting Transacting Parties 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.

### **Aggregation of Orders**

Grandmaster may combine orders for Client Accounts for which it or its principals have trading authority, or in which it or its principals have an economic interest. When it does, Grandmaster will allocate the proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. Grandmaster believes combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to the other accounts than only one account has been effecting the transaction or had completed its transaction before the other participants.

Grandmaster may place orders for the same security for different clients at different times and in different relative amounts due to, among other things, differences in investment objectives, cash availability, size of order and practicability of participating in "block" transactions. The level of participation by different clients in the same security may also be dependent upon other factors relating to the suitability of the security for the particular client. Grandmaster has adopted policies and procedures intended to ensure that its trading allocations are fair to all its clients.

In addition, Grandmaster and/or its related persons or funds may buy or sell specific securities for its or their own account that are not deemed appropriate for Client Accounts at the time, based on personal investment considerations that differ from the considerations on which decisions as to investments for each Client Account is made. Where execution opportunities for a particular security are limited, Grandmaster attempts in good faith to allocate such opportunities among clients in a manner that, over time, is equitable to all its clients.

### **Trade Errors**

It is the policy of Grandmaster that the utmost care be taken in making and implementing investment decisions on behalf of client accounts. To the extent that any errors occur, they are to be (a)

corrected as soon as practicable, (b) reported to Grandmaster's management, and (c) scrutinized carefully with a view toward implementing procedures to prevent or reduce future errors, if necessary. Where the error is due to ordinary negligence in the normal course of business by Grandmaster or its employees, losses are absorbed by the client; where the error has occurred as a result of gross negligence or gross misconduct by an employee or associate of Grandmaster, the client will be fully compensated for any loss suffered as a result of the error. Where the error results in a 'profit', or net gain to the client, the client will receive the benefit.

### **Cross Transactions**

Grandmaster may not cause a Client Account to effect "cross" transactions with another Client Account (i.e., buy and sell securities from and to each other).

### **Soft Dollars**

Grandmaster may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide to the Client Accounts, Grandmaster or the General Partner. Selecting a Transacting Party in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars." This is common in the professional management of securities portfolios. Grandmaster expects to acquire services or products with the Client Accounts' soft dollars.

A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as Grandmaster) of soft dollars generated by securities transactions to pay for various expenses but provides a safe harbor from breach of fiduciary duty claims if certain conditions and requirements are met. Under the safe harbor, soft dollars may be used to acquire "research" and "brokerage" services and products for which the Fund would not otherwise be required to pay. Services or products generally constitute "research" under Section 28(e) if they constitute advice, analyses or reports any of which express reasoning or knowledge as to the value of or investing in or trading securities, or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent Grandmaster uses them for lawful and appropriate assistance in making investment decisions for the Fund and Grandmaster's other clients. "Brokerage" services and products are those used to effect portfolio transactions for Grandmaster's Client Accounts or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting clearing or settling transactions) or regulatorily required in connection with transactions. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited. Section 28(e) only protects commissions or commission equivalents on transactions in securities; markups and markdowns on many principal transactions, commissions paid to futures commission merchants on transactions in futures contracts, and compensation from transactions in swaps or other derivative instruments are not protected.

***Conflict of Interest.*** Because many services and products Grandmaster may receive from Transacting Parties may benefit Grandmaster, Grandmaster's interests in allocating the Client Accounts' securities transactional business may conflict with the Client Accounts'. For example, Grandmaster may have an incentive, in order to induce brokers and dealers to provide it with services or benefits to, among other things, cause the Fund to: (i) pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products; (ii) place more trades than would be optimal for the Client Accounts' investment strategy; (iii) use broker-dealers that do not obtain for the Fund the best possible price on portfolio transactions; and (iv) use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions. The Investment Management Agreement authorizes Grandmaster to use the Client Accounts' soft dollars for a wide range of purposes, notwithstanding the conflicts of interest those uses may involve. The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. Grandmaster may or may not use other clients' soft dollars to pay for services and products the Fund pays for and, if it does, that use may not be in proportion to account size, transaction volume, or uses of those services and products. Grandmaster may use Fund soft dollars to buy products or services that benefit Grandmaster and/or other clients of Grandmaster.

***“Research and Brokerage.”*** The types of “research” Grandmaster may receive from Transacting Parties include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems (to the extent used to assist in making investment decisions), quotation services; and other products or services that may enhance Grandmaster's investment decision-making. “Brokerage” services and products (beyond typical execution services) include (but are not limited to): computer systems and facilities (including hardware) used for such things as communicating orders and settlement related information electronically to executing Transacting Parties and the Prime Broker, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions. Grandmaster may use Fund soft dollars for “mixed use” products and services—products and services that are used in part for research or brokerage purposes and in part for other purposes. Even where Grandmaster's use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), Grandmaster may have a conflict of interest in connection with that use because it might otherwise have to pay cash for those services and products and it may have an incentive to use Transacting Parties who provide those services and products more than it otherwise would.

***Other Services and Products.*** Grandmaster has no formal arrangement with any party to use soft dollars to acquire services and products that provide benefits solely to Grandmaster and that does not qualify as research or brokerage, and/or to pay expenses otherwise payable by Grandmaster. However, certain services provided to the Fund may contain so-called “mixed-use items” – items that benefit both clients and Grandmaster. Grandmaster attempts to value the portions of these mixed-use items it benefits from, and pays for those portions directly. However, to the extent the value of any such benefit is deemed to exceed payments made by Grandmaster, the difference could be considered soft dollars used outside the parameters of the safe harbor. Some examples of these

products and services include order management systems consisting of safe harbor-eligible brokerage such as trading software used to route orders, and ineligible post-trade services such as recordkeeping, client reporting or portfolio management software. Grandmaster will have a conflict of interest to the extent these services are paid for by Transacting Parties; it will have all the incentives described above (including to use those Transacting Parties regardless of whether using them would otherwise be in the Client Accounts' best interests, to pay higher compensation and to effect more transactions than otherwise optimal).

***Referrals of Investors and Advisory Clients – Capital Introduction.*** Grandmaster may, out of its own assets or revenues, make payments to persons that provide various investor relations and related services to Grandmaster and/or the Fund, including introducing investors to the Fund. In addition, Grandmaster may consider capital introduction services among the many criteria in its selection of counterparties. Some of the brokers, dealers, swap dealers and other financial counterparties and intermediaries to which Grandmaster directs a portion of the Client Accounts' portfolio transaction business may provide investor relations, consulting and capital introduction services to Grandmaster and may introduce investors to the Fund or for other investment funds managed by Grandmaster, and may also introduce prospective investment advisory clients to Grandmaster.

***Procedures.*** Brokers and dealers from which Grandmaster obtains “soft dollar” services or products generally establish “credits” based on past transactional business, which may be used to pay or reimburse Grandmaster for specified expenses. In some cases the process is less formal; a broker or dealer simply may suggest a level of future business that would fully compensate the broker or dealer for services or products it provides. The Client Accounts' actual transactional business with a broker or dealer may be less than the suggested level but can—and often will—exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because the Client Accounts' investment activities generate aggregate commissions in excess of the levels of future business suggested by all brokers and dealers who provide services and products. And it may be in part because those brokers and dealers may also provide superior execution and may therefore be most appropriate for particular transactions. Grandmaster may ask a broker or dealer who is executing a transaction for several accounts managed by Grandmaster (see the discussion below regarding aggregation of orders) to “step out” of a portion of the transaction in favor of a broker or dealer who has provided or is willing to provide products or services for “soft dollars.” That is, the executing broker or dealer will allow a portion of the overall commissions or other compensation to be paid to the “soft-dollar” broker-dealer. This assists Grandmaster in acquiring products and services with “soft dollars” while providing the benefits of aggregated transactions as described below. It may result in the Fund paying additional commissions or other transaction compensation to the broker or dealer to whom a Client Account's portion of an aggregated transaction is “stepped out” and therefore incurring higher transaction costs for that transaction than do other clients of Grandmaster who are buying or selling the same security at the same time.

These procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage.

### **Item 13 - Review of Accounts**

All accounts are reviewed periodically by Patrick Wolff for overall adherence with the investment philosophy employed by Grandmaster and the Client Accounts' strategy. Account holdings will also be reviewed at any time changing market conditions warrant.

Grandmaster provides investors in the Client Accounts with monthly investor account statements and Client Account performance updates, and annual reports that will include audited financial statements of each Client Account as of the end of each fiscal year.

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

Other than as described under "Brokerage Practices" above, Grandmaster does not receive any benefits from third parties for providing investment advice or other advisory services to **its clients, nor does Grandmaster or any of its related persons directly or indirectly compensate any third party for client referrals.**

### **Item 15 - Custody**

All assets of the Client Accounts (cash, securities and other assets) are held in the custody of unaffiliated broker-dealers or banks. However, Grandmaster, as the general partner of the Master Fund and managing member of the US Fund, is deemed to have custody over the assets of those Client Accounts. That is because the general partner of a partnership or managing member of the US Fund has broad authority to take possession of the Client Account's assets. Grandmaster generally also has the ability to instruct the custodian to deduct fees directly from these Client Accounts, which the SEC also considers to be a form of "custody." Grandmaster employs various safeguards to balance its "custodial" powers. For example, a reputable, PCAOB-registered independent accountant performs an annual audit of each Client Account's financial statements.<sup>1</sup> All investors receive these audited financial statements, prepared in accordance with U.S. Generally Accepted Accounting Principles, within 120 days of the end of the relevant Funds' fiscal year. In addition, the Client Accounts employ an independent third-party administrator, which calculates management fees and other compensation, and prepares and sends monthly statements to investors. Grandmaster only has trading authority with respect to the SMA, and does not have a full power of attorney.

The Client Accounts obtain custodial, clearing, settlement and related services through what is known as a "prime brokerage" arrangement. Under that arrangement, the prime brokerage firms retained by the Fund (the "Prime Brokers") maintain custody of the Client Accounts' assets (either directly or through their clearing brokerage firms), provide margin credit and locate securities to borrow or to facilitate short sales, and provide related services, but allows the Client Accounts to use other broker-dealers to execute transactions. This permits Grandmaster to compare execution quality and commission rates, while maintaining a minimum number of custodial relationships. By using the prime brokerage firms, the Client Accounts may avoid paying custodial fees that banks charge other

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<sup>1</sup> PCAOB is the Public Company Accounting Oversight Board, a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

institutional investors. The Prime Brokers are compensated through interest on credit balances, margin borrowings, stock loans and brokerage commissions. Under such an arrangement, the Prime Brokers, among other things, (i) arrange for the receipt and delivery of securities bought, sold, borrowed, and lent; (ii) make and receive payments for securities; (iii) maintain custody of cash and securities; (iv) deliver cash to the Client Accounts' bank accounts; (v) tender securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (vi) provide detailed portfolio and related reports.

Grandmaster's Prime Brokers are Goldman, Sachs & Co. and Credit Suisse Securities (USA) LLC. Grandmaster may change its Prime Brokers, engage additional Prime Brokers, alter the terms of its prime brokerage arrangements with any Prime Broker, or make alternative arrangements to receive the services currently provided by the Prime Brokers, all in its absolute discretion.

#### **Item 16 - Investment Discretion**

Grandmaster has full trading and investment discretion over the Client Accounts. (Grandmaster has additional broad powers with respect to the Master Fund (As its general partner and the U.S. Fund as its managing member.) The Client Accounts grant Grandmaster that discretion through the execution of an investment management agreement or similar contract.

Generally, Client Account investors have no ability to modify a Client Account's investment strategy. They must, therefore, carefully read the Client Account's confidential offering memorandum to understand the investment strategy and risks involved.

#### **Item 17 - Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended, Grandmaster has adopted policies and procedures that address generally the guidelines it expects to follow in the exercise of its voting authority over proxies it receives from time to time on behalf of its clients. Grandmaster will generally seek to vote proxies in a way that maximizes the value of its clients' assets. Grandmaster will consider a number of factors to determine whether exercising the clients' voting rights as to its securities is in the relevant clients' best interest, such as whether the securities are being held for a short or long period of time.

When voting a proxy, Grandmaster will generally follow its voting guidelines. Grandmaster attempts to identify conflicts of interest that may arise in the proxy decision making process. If a material conflict of interest over proxy voting arises between Grandmaster and a client, Grandmaster will seek to resolve the conflict and vote the proxies in a manner that is in the relevant clients' collective best interests. Grandmaster will provide, upon request, a copy of those policies and procedures and/or information concerning its voting record on account proxy matters.

#### **Item 18 - Financial Information**

Grandmaster is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients. Grandmaster will not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

Grandmaster has not been the subject of a bankruptcy petition.

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

Not applicable.