

**Part 2A of Form ADV: CCM Opportunistic Advisors, LLC - *Brochure***

**Item 1 - Cover Page**

March 22, 2013

CCM Opportunistic Advisors, LLC  
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Phone - (713) 243-3206

This Brochure provides information about the qualifications and business practices of CCM Opportunistic Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (713) 243-3206. 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.

CCM Opportunistic Advisors, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain an investment adviser.

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

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## **Item 2 - Material Changes**

CCM Opportunistic Advisors, LLC (the “Adviser”) is providing this annual update to the “Brochure” for the fiscal year ended December 31, 2012. The only material changes to report from the Brochure on file with the United States Securities and Exchange Commission (“SEC”) dated January 2012 are (i) change to the portfolio review persons in in Item 13; (ii) the update of the Adviser’s assets under management in Item 4; and (iii) a general update to the structure of the Brochure disclosures.

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Currently, our Brochure may be requested by contacting Sean Nimmo, the Adviser’s Chief Compliance Officer, at (713) 243-3206 or [smn@ccmgrp.com](mailto:smn@ccmgrp.com).

Additional information about the Adviser is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

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#### Item 4 - Advisory Business

- A. The Adviser is a Texas limited liability company and has its principal place of business in Houston, Texas. The Adviser provides investment advisory services to private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments and other institutions (the “Funds”).<sup>1</sup>

The Adviser was formed in 2010. The Advisor is owned Alfred John Knapp, Jr., Mr. Knapp’s family trust, certain employees of the Advisor, and CCM Strategic Partners, LLC.

- B. The Adviser seeks to achieve a rate of return (net of fees and expenses), primarily through capital gains, that exceeds the rate of return generated by conventional investments in the public equity markets primarily through the use of a “multi-manager” investment approach. The Adviser intends to achieve this objective allocating a majority of a Fund’s capital among various third-party portfolio managers (“Investment Advisers”). The Adviser also intends to invest a portion of Fund capital directly in public and privately traded domestic and foreign stocks, bonds, and other securities or assets, including derivative instruments, U.S. treasuries and cash or cash equivalents (the “Direct Investments”).
- C. While each of its Funds will follow the general strategy stated above, the Adviser may tailor the specific advisory services with respect to each Fund based on the particular investment objectives and strategies described in the applicable Fund’s confidential offering memorandum and governing documents (referred to collectively as “Offering Documents”).

**All discussion of the Funds in this Brochure, including but not limited to their investments, the strategies used in managing the Funds, and conflicts of interest faced by the Adviser in connection with the management of the Funds are qualified in their entirety by reference to each Fund’s respective Offering Documents.**

- D. The Adviser does not participate in wrap fee programs.
- E. As of December 31, 2012, the Adviser managed \$11,726,158 in discretionary assets. The Adviser does not currently manage assets on a non-discretionary basis.

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<sup>1</sup> As an SEC-registered investment adviser, the Adviser owes a fiduciary duty to all of its clients. In 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the fund itself and not an investor in the fund.

## Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is compensated in connection with providing advisory services to the current Fund it advises. The Adviser may enter into different fee arrangements on a Fund by Fund basis.

*Sub-Advisory Arrangements.* The Adviser and the Fund's general partner (the "General Partner"), which is an affiliate of the Adviser, intend to be compensated for their services to the Fund by negotiating lower management fees and performance compensation for the Fund when entering into Sub-Advisory Arrangements (as such term is defined in Item 8 below) and charging a management fee and performance allocation at the Fund level relating to each Sub-Advisory Arrangement up to a maximum amount of either (i) the difference between the Investment Adviser's standard compensation terms and the negotiated fees/allocation to be paid by the Fund, or (ii) the difference between a two percent (2%) management fee on net assets and twenty percent (20%) net profit incentive compensation and the negotiated fees/allocation to be paid by the Fund (the foregoing compensation arrangements, collectively, "Investment Compensation Arrangements").

With respect to any Investment Adviser, "Standard Compensation Terms" means the terms that such Investment Adviser offers to third party investors in a commingled investment vehicle or standardized separate account platform for the same or substantially similar investment strategy as that being considered by the Fund. An Investment Adviser's Standard Compensation Terms may exceed a two percent (2%) management fee on net assets and a twenty percent (20%) net profit incentive fee/allocation.

Any performance allocation taken at the Fund level with respect to an Investment Compensation Arrangement will only be taken if the applicable Investment Adviser is entitled to a performance allocation/fee in respect of that Sub-Advisory Arrangement. The performance allocations in respect of Investment Compensation Arrangements will be calculated and taken on an Investment Adviser by Investment Adviser basis and will not be aggregated with or offset by one another; furthermore, these performance allocations will be debited against the capital account of each limited partner of the Fund (each, a "Limited Partner") and simultaneously credited to the capital account of the General Partner as of the end of each fiscal year (or such other times as incentive compensation may be due to an Investment Adviser) and will not offset the performance allocations made to the General Partner with respect to Direct Investments.

The General Partner and the Adviser will be entitled to Investment Compensation Arrangements regardless of (i) the aggregate performance of all Sub-Advisory Arrangements; (ii) the overall performance of the Fund; or (iii) whether or not the General Partner is entitled to a performance allocation with respect to Direct Investments.

*Direct Investments.* The Adviser will not receive any management fees with respect to the Direct Investments. The General Partner is entitled to an annual performance-based allocation at the end of each year of twenty percent (20%) of the Fund's annual net profits on Direct Investments, but only to the extent that such profits exceed any losses related to Direct Investments carried forward from prior years, based on a "high water mark" formula. Profits on Direct Investments are calculated net of Fund expenses plus any expenses specially allocated to Direct Investments.

## Item 5 – Fees and Compensation (continued)

*Organizational Expenses.* The Fund bears the expenses of the organization of the Fund and the offering of Fund interests (including legal and accounting fees, printing costs, travel, “blue sky” filing fees and expenses and out-of-pocket expenses) as well as costs associated with the organization of the General Partner and the Adviser incurred prior to the commencement of the Fund’s operations. The organizational expenses borne by the Fund are described in more detail in the Fund’s Offering Documents.

*Direct Expenses of the Fund.* The Fund bears all costs and expenses related to its investment program, including the compensation of Investment Advisers, other costs associated with specific investment transactions effected, or positions held, for the Fund’s account, including all fees and costs of, and incidental to, entering into the Sub-Advisory Arrangements (which may include the purchase and sale of interests in Investment Vehicles (as such term is defined in Item 8 below)). Operating expenses of the Fund may also include costs relating to conducting due diligence on the Investment Advisers and, to the extent applicable, on prospective Investment Vehicles; all trading related expenses with respect to Direct Investments; investment-related research; expenses related to proxies, underwriting and private placements; brokerage commissions; interest on debt 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 operation and administration of the Fund. Such expenses include financing, compliance, operations, accounting, tax, audit and legal expenses, fees paid to the Fund’s administrator, costs of any litigation or investigation involving the Fund’s activities, costs associated with reporting and providing information to existing and prospective Limited Partners and insurance (including a reasonably allocated portion of the premiums for any directors’ and officers’ or errors and omissions coverage purchased by the General Partner or the Adviser and that would offset some portion of the Fund’s indemnity obligations). The direct expenses borne by the Fund are described in more detail in the Fund’s Offering Documents.

### Miscellaneous

The Adviser, at its own discretion, may grant waivers of the management fees and performance allocation to principals and employees of the Adviser and its affiliates, as well as their related family members.

The Adviser may agree with certain investors to a variation of the terms set forth in the Fund’s Offering Documents, including different management fees and performance allocations.

**Investors should be aware and understand that the Adviser’s primary investment strategy creates a significant conflict of interest for the Fund and the Adviser.** The investment strategy of the Fund is to invest with Investment Advisers that the Adviser believes offer attractive investment opportunities. However, the Adviser will typically only cause the Fund to invest with Investment Advisers if the Adviser is able to successfully structure the desired compensation arrangements. This creates a conflict of interest because the Adviser will have incentive to invest only with those Investment Advisers that are willing to enter into such arrangements, which necessarily excludes investment opportunities with managers that are not willing to do so, even if these later investment opportunities are attractive. While the Adviser will attempt to negotiate more favorable terms for the Fund as

## **Item 5 – Fees and Compensation (continued)**

compared to other investors or clients of an Investment Adviser, this may also require the Fund to agree to certain terms that may be less favorable (for example, the Fund may get more favorable fees, but agree to a longer lock-up period). The Adviser will negotiate these terms in good faith, but will take into consideration not only the interests of the Fund, but also the related compensation arrangements of the General Partner and the Adviser. There is no guarantee that the Adviser will be able to agree to more favorable terms with Investment Advisers and may enter into Sub-Advisory Arrangements on standard terms if the Adviser so determines.

Lower fees for comparable services may be available from other sources.

- B. Management fees and performance allocations are paid/allocated as indicated in Item 5.A. above.
- C. The Fund will incur brokerage and other transaction costs. Item 12 of this brochure discusses how the Adviser selects brokers and determines the reasonableness of their compensation. The direct expenses borne by the Fund are described in more full detail in the Fund's Offering Documents
- D. Management fees paid under the Investment Compensation Arrangements are payable quarterly in advance. Since investors are not permitted to withdraw their investment in the Fund more frequently than annually, refunds of management fees are not available to Fund investors.
- E. Other than as described above, neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, an affiliate of the Adviser receives a performance allocation from the current Fund. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all of its advisory clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.



**Item 7 - Types of Clients**

As mentioned in Item 4, the Adviser provides investment advisory services to private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments, and other institutions.

The minimum investment in the current Fund is \$1,000,000, although the Adviser may accept investments in a lesser amount at its sole discretion.

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

### **A. Investment Objective**

The Adviser's investment objective is to achieve a rate of return (net of fees and expenses), primarily through capital gains, that exceeds the rate of return generated by conventional investments in the public equity markets primarily through the use of a "multi-manager" investment approach. To achieve this objective, the Adviser intends to allocate the majority of the Fund's investment assets to Investment Advisers. The Adviser will have the right to remove and replace the Investment Advisers or any successor Investment Adviser at any time in its discretion.

### **Investment Overview**

#### *Investments with Investment Advisers*

The Adviser will pursue its objective by allocating a majority of the Fund's capital among various Investment Advisers. The Adviser intends to structure the majority of such arrangements as sub-advisory relationships, with each Investment Adviser managing a portion of the Fund's portfolio directly through an account established at the Fund's prime broker (each such arrangement, a "Managed Account Relationship"). The Adviser will seek to establish Managed Account Relationships to allow the Fund to benefit from complete transparency over the assets and improved liquidity over the account being managed. To the extent the Adviser is not able to negotiate a Managed Account Relationship with a particular Investment Adviser, the Adviser may cause the Fund to invest in a single-investor fund, co-mingled private investment partnership, or other investment structure managed by the Investment Adviser (each, an "Investment Vehicle" and, together with the Managed Account Relationships, the "Sub-Advisory Arrangements").

The Adviser seeks to identify independent "niche" Investment Advisers with whom the Fund will invest, either through Managed Account Relationships or through Investment Vehicles. The Adviser will seek maximum transparency to understand overall market exposure, and therefore generally prefers to structure the Fund's investments as separately managed accounts or single-investor funds. The Adviser intends to allocate to a variety of Investment Advisers, including those that are considered emerging managers, which generally have less than \$1 billion in assets under management. Initially, the focus will be on Investment Advisers who invest in small and mid-cap companies, both in the US and in other markets, including developing markets.

The selection process of the Investment Advisers is key to the Fund's success. The first criteria evaluated by the Adviser are the character and integrity of the Investment Adviser and its personnel. Other criteria are the experience, discipline, performance and style of the Investment Adviser. The Adviser will seek to avoid those Investment Advisers that do not offer an acceptable level of transparency. As noted above, the Adviser prefers to structure the Fund's investments through separate accounts or single-investor funds managed by these emerging managers, as compared to co-mingled investment vehicles. While the Investment Advisers will each have their own style and discipline, the Adviser places an emphasis on the concentration of each individual portfolio. The Fund will only invest in Investment Vehicles that provide an annual audit by a nationally or internationally recognized auditing firm.

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

In addition to selecting the Investment Advisers, the Adviser will periodically rebalance the Fund's portfolio of Sub-Advisory Arrangements taking care to reduce exposure in those styles that the Adviser believes have outperformed over a period of time, and adding exposure to those sectors which have underperformed. While the Adviser seeks to reduce risk and increase returns, it may fail to do so. However, the Adviser does not intend to allocate more than twenty percent (20%) of the Fund's assets (measured at the time of investment) to any one Investment Adviser.

The Adviser intends to implement a value-oriented investment strategy that relies on detailed, security-specific fundamental research. Critical to this investment strategy is the identification of a meaningful expectations gap that exists between the market price of a security and what the Adviser's research indicates is the likely or probabilistic outcome over the investment time horizon.

### **Direct Investments**

The Adviser will also direct a portion of the Fund's assets in Direct Investments that the Adviser believes are undervalued or otherwise present an attractive investment opportunity. The Fund's Direct Investments may be made in order to increase the net asset value of the Fund or to hedge against investments made with the Investment Advisers.

The Adviser has no particular preference in choosing from the investment categories for Direct Investments. In addition, the Adviser does not have a particular percentage breakdown of asset types it is aiming for the Direct Investments portfolio.

The Adviser will continuously search for investment opportunities among those believed to have the highest after-tax returns measured by risk and reward, while always limiting the Fund to investment alternatives understood by the Adviser. The Adviser will make investments when it believes these opportunities are prevalent. When opportunities are not as prevalent, the Fund's assets dedicated to Direct Investments will be invested in cash and cash equivalents. The Adviser may concentrate the Fund's assets investment in Direct Investments in relatively few securities, but the Adviser does not limit its investment objective to a thesis of pure concentration.

In general, the Adviser seeks to identify, through in-depth research and analysis, investment opportunities that are undervalued in the market or otherwise present an attractive investment opportunity. The Adviser relies primarily on fundamental analysis to identify investment opportunities using a bottom-up approach.

The Adviser will focus on, among other items, understanding the underlying business of each investment, whether equity or debt, the terms by which the investment is governed and the price paid. When researching a business, the Adviser will analyze everything that encompasses the business – from its products and people to its customers and competitors. The Adviser also believes that the terms of each investment should be understood and taken into account before Fund capital is invested. Lastly, the Adviser firmly believes that a significant portion of the success of any investment operation stems from paying the correct price for each asset purchased.

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

The Adviser believes that in certain situations, leverage, derivatives and other forms of hedging are necessary for the success of the Fund's investments in Direct Investments and Sub-Advisory Arrangements. However, the Adviser will attempt to mitigate risk through strong research and thorough analysis.

**The investment objectives and methods summarized above represent the Adviser's current intentions. Depending on conditions and trends in the securities markets and the economy in general, the Adviser may pursue any objectives, employ any investment techniques or purchase any type of security that it considers appropriate and in the best interests of the Funds. The foregoing discussion includes and is based upon numerous assumptions and opinions of the Adviser concerning world financial markets and other matters, the accuracy of which cannot be assured. There can be no assurance that the Adviser's investment strategy will achieve profitable results.**

- B. The Adviser's investment strategy involves a high degree of business and financial risk that can result in substantial losses and is suitable only for investors prepared to bear such risk. The risks factors below are not intended to be exhaustive. Prospective investors should carefully review the risks described in the applicable Fund's Offering Documents:

*Limited Operating History.* The Adviser has a limited operating history for prospective investors to evaluate prior to making an investment in a Fund.

*Market Risks.* The achievement of the Adviser's investment objectives is not assured and will depend upon factors beyond the control of the Adviser and the Investment Advisers with which the Fund is invested, which factors are unpredictable at this time and can materially and adversely affect the success of the Fund. Such factors include, but are not limited to, general economic conditions at the international, national, state and local level, inflation, an increase or decrease in interest rates, the federal budget deficit or trade deficits, a change in the political environment or applicable laws or regulations, a change in the general perceptions or psychology of investors, natural disasters and international conflicts. These factors, and other factors not listed, can cause the rise and fall of common stock prices of particular issuers or throughout entire financial markets. Some market conditions may favor growth stocks or stocks of small companies, while other conditions may favor value stocks or stocks of larger companies.

*Risks of Securities Activities.* All securities investing and trading activities risk the loss of capital. Although the Adviser will attempt to moderate these risks, no assurance can be given that the Fund's investment activities will be successful. Despite a strict due diligence procedure used to select and monitor the individual Investment Advisers with which the assets of the Fund are invested, there can be no assurance that the past performance information will be indicative of how such Investment Advisers will perform (either in terms of profitability or correlation) in the future. Upon a withdrawal of interests or the liquidation of the Fund, investors may receive less than the amount invested. To the extent that a portfolio of the Fund is concentrated in securities of a single issuer or issuers in a single industry, the risk of any investment decision made by the Investment Adviser of such portfolio is increased.

*Dependence on Management and Investment Advisers.* The success of the Fund is dependent upon the ability of the Adviser, who has the exclusive right to manage the business of the

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

**Fund.** The success of the Fund also depends upon the abilities of the Investment Advisers. Pursuant to the agreements entered into with each Investment Adviser, such Investment Adviser will have full and complete discretion and authority to invest and reinvest a portion of the Fund's assets. While each Investment Adviser has substantial experience in managing portfolios of securities of the types in which the Fund intends to invest, there is no assurance that its future performance will be as successful as its past performance. In addition, the performance of each Investment Adviser will be dependent on certain key personnel of such Investment Adviser. If some or all of such personnel resign from such Investment Adviser, or otherwise become unavailable to manage the Fund's investments, such Investment Adviser's performance could be adversely affected.

**Industry Competition.** The securities industry and the varied strategies and techniques to be employed by the Adviser are extremely competitive and each involves a degree of risk. The Adviser will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

**Investment Authority.** Substantially all decisions with respect to the management of the Funds are made by the Adviser. A Fund's investors have no right or power to take part in the management of the Fund. In the event of the withdrawal or bankruptcy of the Adviser, generally the Funds will be liquidated.

**Control over Investment Advisers.** The Adviser will invest with Investment Advisers that the Adviser believes will generally, and in the aggregate, manage consistent with the Fund's investment objective and strategy. The Adviser does not control the Investment Advisers, however, and there can be no assurances that an Investment Adviser will manage the Fund's assets in a manner consistent with the Fund's investment objective and strategy.

**Diversification.** Because the 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 Investment Advisers.

**Valuations.** From time to time, certain situations affecting the valuation of a Fund's 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 Fund, 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 Adviser is not required to make retroactive adjustments to prior subscription or withdrawal transactions or Management Fees or Performance Allocations based on subsequent valuation data.

**Withdrawal Restrictions.** There are severe restrictions on withdrawals from the Funds (which may be settled in securities rather than cash) and on transfers of Fund interests. The prior written consent of a Fund's General Partner, an affiliate of the Adviser, is required for a transfer of an interest in the Fund. Because of the restrictions on withdrawals and transfers, an investment in a Fund is a relatively illiquid investment and involves a high degree of risk. A subscription for Fund interests should be considered only by persons financially able to maintain their investment and who can accept a loss of all of their investment.

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

*Leverage.* Subject to applicable margin and other limitations, the Adviser may cause a Fund to 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 Fund's portfolio would be amplified. Interest on borrowings will be a portfolio expense of the Fund and will affect the operating results of the Fund. Also, the Fund could potentially create leverage via the use of instruments such as options and other derivative instruments

*Illiquidity.* The investments made by the Adviser on behalf of the Funds may be illiquid, and consequently the Adviser may not be able to sell such investments at prices that reflect the Adviser's assessment of their value or the amount paid for such investments. 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 Adviser and other factors. Furthermore, the nature of the investments made by the Adviser on behalf of the Funds, especially those in financially distressed companies, may require a long holding period prior to profitability.

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

*Short Sales.* The Adviser may enter a Fund into transactions, known as "short sales," in which the Fund sells a security it does not own in anticipation of a market decline in the market value of the security. Short sales by a 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 Adviser may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Adviser 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.

*Turnover.* The Adviser may invest on the basis of short-term market considerations. The portfolio turnover rate of these investments may be significant, potentially involving substantial brokerage commissions and fees. Neither the Adviser nor the Principals will receive a portion of such commissions and fees.

- C. Investments by a Fund in the securities and financial instruments utilized by the Adviser involve a high degree of business and financial risk that can result in substantial losses and is suitable only for investors prepared to bear such risk. The risks factors below are not intended to be exhaustive. Prospective investors should carefully review the risks described in the applicable Client's Offering Documents.

*Sub-Advisory Arrangements.* Although the Adviser will receive information from each Investment Adviser regarding its investment performance and investment strategy, the Adviser may have little or no means of independently verifying this information. An Investment Adviser may use proprietary investment strategies that are not fully disclosed to the Adviser, which may involve risks under some market conditions that are not anticipated

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

by the Adviser. The performance of the Fund largely depends on the success of the Adviser in selecting Investment Advisers for investment by the Fund and the allocation and reallocation of Fund assets among those Investment Advisers. Past results of Investment Advisers selected by the Adviser are not necessarily indicative of future performance. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

*Unspecified Investments.* The Adviser intends to primarily invest Fund assets with Investment Advisers which pursue a speculative investment policy. Investments with these Investment Advisers generally fall in the category commonly known as “hedge funds” or “alternative investments.” Some investments may also be made with Investment Advisers whose investment strategies involve trading in commodities futures and options, currencies and currency contracts or financial instruments. Thus, such Investment Advisers employ specific investment and trading techniques such as investments in options, use of futures or short sales of securities. The Adviser will seek to achieve risk diversification by selecting Investment Advisers with different investment styles or that invest in different areas. Nonetheless, there are only very limited constraints on the investment strategies and techniques that can be employed by the Investment Advisers. Furthermore, each Investment Adviser with which the Fund invests has its own investment policy as set forth in a prospectus, confidential offering memorandum or investment management agreement for the account or Investment Vehicle managed by that Investment Adviser.

*Forward Contracts.* The Adviser may enter a Fund into forward contracts for the trading of certain investments, such as currencies and precious metals, with U.S. and foreign banks and currency and precious metals dealers and counterparties. A forward contract is a contractual obligation to buy or sell a specified quantity of a commodity at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract. Banks and dealers act as principals in such markets. None of the SEC, the Commodity Futures Trading Commission, or banking authorities regulate trading in forward contracts on currencies, and foreign banks are not regulated by any U.S. governmental agency. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and that at which they are prepared to sell. A Fund will absorb the “bid-ask” spread incorporated into the price of forward contracts.

*Smaller Capitalization Issuers.* The Fund may invest in smaller capitalization companies. Investments in smaller capitalization companies often involve significantly greater risks than the securities of larger, better-known companies because they may lack the management expertise, financial resources, product diversification and competitive strengths of larger companies. The prices of the securities of smaller companies may be subject to more abrupt or erratic market movements than larger, more established companies, as these securities typically are traded in lower volume and the issuers typically are more subject to changes in earnings and prospects. In addition, when selling large positions in small capitalization securities, the seller may have to sell holdings at discounts from quoted prices or may have to make a series of small sales over a period of time.

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

*Distressed Securities.* Certain of the companies in whose securities the Adviser may invest Fund assets may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. The Fund's investment in any instrument may not be subject to any minimum credit standard and a significant portion of the obligations and preferred stock in which the Fund may invest may be less than investment grade, which may result in the Fund experiencing greater risks than it would if investing in higher rated instruments.

*Investments in PIPEs.* The Adviser may invest the Fund in PIPE transactions. A PIPE transaction is a private placement of either newly issued shares of common stock (or debt or equity securities convertible into shares of common stock) or shares of common stock held by selling stockholders (or a combination of primary and secondary shares) of an already-public company that is made to accredited investors usually through a placement agent. Investors in a "traditional" PIPE transaction commit to purchase a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the SEC's preparedness to declare effective a resale registration statement covering the resale from time to time of the shares sold in the private placement. Investors in a "non-traditional" PIPE transaction commit to purchase a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the issuer's preparedness to file with the SEC within a specified period of time a resale registration statement covering the resale from time to time of the shares sold in the private placement. In such a transaction, the shares purchased by the investor are restricted, or unable to be sold or transferred from anywhere from six months to a year, depending on whether the investor is affiliated with the issuer and whether or not the issuer complies with current public information requirements. The Fund may invest in non-traditional PIPE transactions. While it is standard in a PIPE transaction to obtain registration rights, under certain circumstances the Fund may enter into a PIPE transaction in which it will not receive registration rights in connection with their investment. These factors may affect the ability of the Adviser to liquidate the Fund's positions in PIPEs.

*Repurchase and Reverse Repurchase Agreements.* Repurchase and reverse repurchase agreements involve a sale or purchase of a security by the Fund to or from a bank or securities dealer and the Fund's simultaneous agreement to repurchase or sell the security for a fixed price (reflecting a market rate of interest) on a specific date. These transactions involve a risk that the other party to a repurchase or reverse repurchase agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the Fund. Repurchase and reverse repurchase transactions are a form of leverage that may also increase the volatility of the Fund's investment portfolio.

*Purchasing Initial Public Offerings.* The Fund may purchase securities of companies in initial public offerings or shortly after those offerings are complete. Special risks associated with these securities may include a limited number of shares available for trading, lack of a trading history, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. The



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

limited number of shares available for trading in some initial public offerings may make it more difficult for the Fund to buy or sell significant amounts of shares without an unfavorable effect on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or near-term prospects of achieving revenues or operating income.

*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 the 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.

*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 the Funds are maintained) and the various foreign currencies in which the Funds’ 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.

*Foreign Currency Transactions.* The Adviser may engage in foreign currency transactions for a variety of purposes, including to “lock in” the U.S. dollar value, between trade and settlement date, of a security the Fund has agreed to buy or sell, or to hedge the U.S. dollar value of securities the Fund already owns. The Adviser may also engage in foreign currency transactions for non-hedging purposes to generate returns.

Foreign currency transactions may involve, for example, the purchase of foreign currencies for U.S. dollars or the maintenance of short positions in foreign currencies. Foreign currency transactions may involve the Fund agreeing to exchange an amount of a currency it does not

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

currently own for another currency at a future date. The Fund would typically engage in such a transaction in anticipation of a decline in the value of the currency it sells relative to the currency that the Fund has contracted to receive in the exchange. The Adviser's or an Investment Adviser's success in these transactions will depend principally on its ability to predict accurately the future exchange rates between foreign currencies and the U.S. dollar.

*Emerging Markets.* Investing in emerging markets or lesser-developed countries involves additional risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of securities markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economies; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of the Fund's securities and cash with non-U.S. brokers and securities depositories.

*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.

*Futures.* Engaging in transactions in futures contracts involves risk of loss to the Fund that could adversely affect the value of the Fund's net assets. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. Many futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. Futures contract prices could move to the limit for several consecutive trading days with little or no trading, preventing prompt liquidation of futures positions and potentially subjecting the Fund to substantial losses. Successful use of futures also is subject to the Adviser's or an Investment Adviser's ability to predict correctly movements in the direction of the relevant market, and, to the extent the transaction is entered into for hedging purposes, to determine the appropriate

**Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss (continued)**

correlation between the transaction being hedged and the price movements of the futures contract.

**Investing in securities involves risk of loss that prospective investors should be prepared to bear. There can be no assurance that a Fund's objective will be achieved or that the investment strategies the Adviser employs will be successful. Investors must be prepared to lose all or substantially all of their investment. The past performance of the Adviser is not indicative of its future performance.**

**For a more complete description of the risks associated with investing with the Adviser, investors should refer to the relevant Offering Documents for each Fund.**

**Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of adviser's management.

There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory services or the integrity of management.

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

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, two employees of the Adviser, Sean Nimmo and J. Abbott Sprague, are registered representatives of Mid-Continent Securities Advisors, Ltd., a registered broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. As noted in Item 5, the General Partner of the Fund is an affiliate of the Adviser. Since the General Partner is entitled to receive the Performance Allocation from the Fund, this may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted in Item 11, the Adviser has adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser is required to make investment decisions for the Fund in a manner that is consistent with its fiduciary duties to the Fund.

Additionally, the Adviser is affiliated with another SEC-registered investment adviser, Chilton Capital Management, LLC (“Chilton”). Chilton provides investment advisory services to separately managed accounts. This affiliation may cause a conflict of interest to the extent that an investment opportunity is appropriate for both the separately managed account strategies and the Fund due to the incentive to allocate attractive opportunities to the Fund which pays performance fees. This conflict only exists with respect to the Fund’s Direct Investments as the Investment Advisers are not aware of investment opportunities being considered for the separately managed accounts.

The Adviser does not have any other relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to the Funds.

- D. As noted in Item 5, the Adviser’s investment strategy for the Fund is to invest with Investment Advisers that the Adviser believes offer attractive investment opportunities. However, the Adviser will typically only cause the Fund to invest with Investment Advisers if the Adviser is able to successfully structure the desired compensation arrangements. This creates a conflict of interest because the Adviser will have incentive to invest only with those Investment Advisers that are willing to enter into such arrangements, which necessarily excludes investment opportunities with managers that are not willing to do so, even if these later investment opportunities are attractive. While the Adviser will attempt to negotiate more favorable terms for the Fund as compared to other investors or clients of an Investment Adviser, this may also require the Fund to agree to certain terms that may be less favorable. The Adviser will negotiate these terms in good faith, but will take into consideration not only the interests of the Fund, but also the related compensation arrangements of the General Partner and the Adviser. There is no guarantee that the Adviser will be able to agree to more favorable terms with Investment Advisers and may enter into Sub-Advisory Arrangements on standard terms if the Adviser so determines.

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

- A. The Adviser has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the "Code"). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is 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. The Adviser prohibits personal trading on certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an IPO or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

While the Adviser rarely has access to non-public information relating to public companies, as part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non- public information, and, therefore, may not trade on the basis of that information.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

- B. Affiliates of the Adviser serve as the General Partners to the Funds, which issue partnership interests to third party investors. Other than with respect to these structures, neither the Adviser nor any of its related persons recommend to the Funds, or buy or sell for Funds, investments in which the Adviser or any related persons have a material financial interest.
- C. The principal of the Adviser has made significant capital commitment to the Fund. Such amounts may be invested pro rata with the limited partners of the Fund in all Fund portfolio investments. Other than this investment in the Fund, neither the Adviser nor any of its related persons invest in the same or related securities that either the Adviser or its related persons recommend to the Fund.
- D. Neither the Adviser nor any related person recommends investments to the Funds, or makes investments for the Funds, at or about the same time that the Adviser or its related persons buys or sells the same investments for their own account.

## Item 12 - Brokerage Practices

- A. The Adviser has complete discretion to determine, subject to each Fund's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries use in effecting the transactions for the Funds, and the commission rates to be paid for such transactions.

*Brokerage.* The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of the Funds. The Adviser seeks to obtain "best execution" from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause a Fund to enter into arrangements pursuant to which the Fund pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by a Fund may be cleared through, and the Fund's investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser's agreement with each Fund, the Adviser generally will use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of investor referrals when selecting broker-dealers to execute transactions.

The Adviser does not permit clients to direct brokerage to a specified broker-dealer. All brokerage transactions will be executed through the broker-dealers selected by the Adviser.

*Soft Dollars.* The Adviser or its affiliates may receive from a Fund's broker-dealers products and services in addition to brokerage services.

A portion of the commissions generated on a Fund's brokerage transactions may generate "soft dollar" credits that the Adviser is authorized to use to pay for research and other non-research related services and products used by the Adviser or its affiliates. The Adviser may enter into "soft dollar" arrangements with one or more broker-dealers whereby the Adviser will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although the Adviser will use the research and services in making investment decisions for the applicable Fund, the Adviser may use such research or services for other Funds and the applicable Fund will generally pay more than the lowest available commissions for execution of these transactions. The Adviser may also enter into "soft dollar" arrangements to cover Fund expenses or costs and expenses of the Adviser to the extent such arrangements are permitted by law.

The Adviser has authority to use "soft dollar" credits generated by a Fund's securities transactions to pay for expenses that might otherwise have been borne by the Adviser. This may give the Adviser an incentive to select brokers or dealers for Fund transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Funds.

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of

## **Item 12 – Brokerage Practices (continued)**

1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

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).

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the Adviser and the Funds, because a Fund may pay for such products and services that are not exclusively for the benefit of the Fund and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including Management Fees paid by a Fund), the Adviser’s use of “soft-dollars” would tend to increase the Adviser’s profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for the Funds. The Funds’ Offering Documents specifically authorize these practices to the fullest extent permitted by law.

- B. When managing multiple Funds with similar investment strategies, the Adviser generally will attempt to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for the Funds.



**Item 13 - Review of Accounts**

- A. The Adviser reviews the Fund portfolio on a daily basis relating to, among other factors, position sizes; sector, asset class and company-specific exposure levels; borrowing thresholds; and Investment Adviser investment strategy compliance. Principals of the Adviser are actively involved in the daily monitoring of the Funds' portfolios and the Sub-Managers and are responsible for portfolio review.
- B. See Item 13.A. above.
- C. The Adviser provides Fund investors with audited annual financial statements, quarterly unaudited performance reports, and all tax information relating to their investments in each the Fund necessary for U.S. federal income tax purposes.

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

- A. The Adviser does not currently receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Funds.
- B. The Adviser does not currently compensate any person for client referrals.

**Item 15 - Custody**

The Adviser may be deemed under Rule 206(4)-2 of the Advisers Act to have custody of the assets of the Funds by virtue of the common control of the Adviser and the General Partner of each Fund. All assets and securities of the Funds are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

**Item 16 - Investment Discretion**

The Adviser exercises discretion in managing the investments of each Fund based on the Fund's particular investment objectives, policies and strategies disclosed in its Offering Documents.

The Adviser contractually assumes discretionary authority over the assets of each Fund under an investment management agreement entered into among the Adviser, the Fund and the Fund's General Partner or other controlling entity.

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

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Fund, are voted to further the best interest of that Fund. The policy establishes a mechanism to address any conflicts of interests between the Adviser and the Funds. Further, the policy establishes how a Fund's underlying investors may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of the Funds and their investors and is consistent with the investment philosophy as set forth in the relevant Fund Offering Documents.

If a proxy vote creates a material conflict between the interests of the Adviser and a Fund, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Fund's best interest and was not the product of the conflict.

The Adviser maintains records of (i) all proxy votes that are made on behalf of the Funds; (ii) all written requests from each Fund's underlying investors regarding voting history; and (iii) all responses (written and oral) to investors' requests. Such records are available to each Fund's underlying investors upon request.

**Item 18 - Financial Information**

- A. The Adviser does not require or solicit prepayment of more than \$1,200, six months or more in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.