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# FORM ADV, PART 2A: FIRM BROCHURE

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**130 East 59th Street, 12th Floor  
New York, New York 10022  
Phone: 1-646-735-3455**

This brochure provides information about the qualifications and business practices of Gapstow Capital Partners, L.P. ("Gapstow" or "the Firm"). Additional information about Gapstow also is available on the United States Securities and Exchange Commission's (the "SEC") website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). If you have any questions about the contents of this brochure, please contact us at 1-646-735-3465.

Gapstow is a registered investment adviser with the U.S. Securities and Exchange Commission. Registration of an investment adviser does not imply that the firm or any of its principals or employees possesses a particular level of skill or training in investment advisory or any other line of business. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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**Item 2: Material Changes**

Gapstow Capital Partners was registered with the Securities and Exchange Commission on June 22, 2011. Since the filing of its last Form ADV on March 20, 2012, the following material changes have taken place:

1. Due to changes in the Commodities Exchange Act which became effective in 2012, the firm became a member of the National Futures Association and registered with the Commodity Futures Trading Commission as a commodity pool operator on January 1, 2013.
2. Ryan Loch, the firm's Fund Controller, was promoted to Chief Financial Officer in January 2013.

**Item 3: Table of Contents**

Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	4
Item 6: Performance-Based Fees and Side-by-Side Management .....	4
Item 7: Types of Clients .....	5
Item 8: Methods of Analysis, Investments Strategies and Risk of Loss .....	5
Item 9: Disciplinary Information .....	7
Item 10: Other Financial Industry Activities and Affiliations .....	7
Item 11: Participation or Interest in Client Transactions, Code of Ethics, and Personal Trading .....	7
Item 12: Brokerage Practices .....	8
Item 13: Review of Accounts .....	9
Item 14: Client Referrals and Other Compensation .....	9
Item 15: Custody .....	9
Item 16: Investment Discretion .....	9
Item 17: Voting Client Securities .....	10
Item 18: Financial Information .....	10

## Item 4: Advisory Business

Gapstow primarily provides investment advisory services to pooled private investment vehicles ("the Funds"), including offshore funds generally organized as Cayman corporations or limited partnerships and domestic funds generally organized as Delaware limited partnerships. The Funds are considered "multi-manager funds" or "funds of funds" because they typically make investments in other investment vehicles that are advised by investment managers who, in turn, invest in underlying securities. For some of its Funds, Gapstow also has the authority to provide investment advice on a limited set of direct investments or co-investments in securities.

Gapstow has full discretion in all investment decisions made on behalf of the Funds. Investment advice is provided directly to the funds according to each fund's particular investment objectives and not individually to the Fund's investors.

As of January 31, 2013, the firm manages US\$700,951,821 of regulatory assets for twelve accounts, on a discretionary basis.

Gapstow is a limited partnership organized under the laws of New York in December 2010. In January 2011, Gapstow was assigned all of the investment management duties of Christopher J. Acito & Associates LLC, which had been advising pooled investment vehicles since June 2009. In January 2011, Christopher J. Acito & Associates, LLC became the General Partner to Gapstow. Christopher J. Acito is the 100% owner of the General Partner and sole limited partner of Gapstow Capital Partners L.P.

## Item 5: Fees and Compensation

Gapstow offers investment advisory services for a percentage of assets under management (or, with some of the Funds which it advises, on committed capital), as well as performance-based fees or accruals.

For its investment advisory services provided to the Funds, Gapstow receives a fixed management fee equal to 1.00% to 1.50% per annum of the net assets of each Fund, or, in some cases, of the capital committed to the Fund, payable monthly to Gapstow in advance.

Fund investors will indirectly bear the expenses charged by the Funds and underlying funds. These expenses vary, but typically include such items as management and performance fees, organizational costs, custody arrangements, fund-related research, administration, accounting, auditing, legal counsel, and other operational expenses.

Each Fund sets forth its specific fee and expense structure (including how and when fees and expenses are calculated, charged, and paid) in each its offering memorandum provided to each prospective investor prior to investment in such Funds. In accordance with these documents, the fees may be waived or reduced for any investor, principal, employee or related persons at the sole discretion of the directors or general partners of the Funds.

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

For some Funds, in addition to management fees, Gapstow may be entitled to performance-based fees, typically a percentage of net capital gains or capital appreciation earned, between 0% and 30% annually. For other Funds, a related entity may be entitled to a performance allocation ranging from 0% to 15% of total capital appreciation.

The fact that Gapstow receives performance-based compensation may create an incentive for the Firm to make investments on behalf of clients that are more risky or more speculative than would be the case in the absence of such compensation. In addition, this performance-based compensation received is based primarily on

realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that clients may never realize.

The structure and calculation of performance-based compensation may vary for each of the Gapstow Funds. This fact may create an incentive for Gapstow to favor certain accounts. Gapstow attempts to address this potential conflict of interest by maintaining allocation policies and procedures designed to ensure that clients are treated fairly.

To the extent within its control, Gapstow will not favor itself over a client and will act in a manner it believes is fair and equitable to its clients.

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

Gapstow acts exclusively as an investment adviser to the Funds. Investment advice is provided directly to the Funds and not individually to the investors in the Funds. Gapstow currently has no other clients besides the Funds.

The Funds are offered to “accredited investors”, as that term is defined under Regulation D of the Securities Act of 1933, and not the general public. Funds may also require that investors be “qualified purchasers”, as that term is defined under the Investment Company Act of 1940.

In addition, the prospective investors of each Gapstow Fund must meet certain eligibility and minimum investment requirements, as set forth in each Fund’s offering memorandum (along with any relevant supplements and subscription documents). Investors are required to make various representations and warranties, including those regarding their eligibility to invest in the Funds, as a condition of acceptance of their subscriptions. The minimum initial investment in the Funds ranges from US\$500,000 to US\$5,000,000, although the directors and general partners of the Funds may waive the minimum investment amounts at their sole discretion.

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

### Methods of Analysis and Investment Strategies

Gapstow creates portfolios of underlying funds in accordance with each Fund’s objectives and restrictions. The investment managers to each of the underlying funds employ a wide range of hedge fund, real estate, and private equity investment strategies. Although the firm uses multiple methods to identify underlying managers and strategies appropriate for its Funds, the primary method of identification is through professional and personal relationships of the Gapstow team, which include investors, consultants, prime brokers, service providers, and other industry contacts.

Once identified as prospective investments, Gapstow uses quantitative and qualitative analyses in evaluating funds and managers for eventual inclusion in the Funds’ portfolios:

- Quantitative factors include an assessment of a manager’s performance on both an absolute basis and relative to various benchmarks and peer groups.
- Qualitative factors include a review and assessment of the skills of the investment team and the quality of the manager’s operational infrastructure, the manager’s incentive scheme, and its business strategy. To develop these opinions, Gapstow performs detailed due diligence by using fundamental methods, such as multiple in-person meetings with fund managers, background checks, service provider verification calls, and reference checks.

In addition, Gapstow assesses the appropriateness of the investment vehicle itself by reviewing offering documents, limited partnership agreements, audited financials, and other documents.

At times, Gapstow may advise certain Funds on direct investments in securities. To date, these investments have focused on private equity-like investments in smaller financial services companies, primarily U.S. community banks and a direct participation in the subordinated notes in a CLO underwriting. Gapstow conducts a detailed analysis of each potential investment, which includes financial modeling, outside legal counsel review of all deal documents, business assessments, detailed interviews with key personnel, and background and reference checks.

In the future, Gapstow may implement other manager reviews or criteria and may modify existing practices.

### Material Risks

The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Funds' investments. This summary does not attempt to describe all of the risks associated with investments in the Funds. Each Fund's offering memorandum contains a more detailed description of the risks associated with an investment in such Funds.

Investment in funds of funds entails a significant degree of risk and is suitable only for experienced and sophisticated investors. A potential investor should only invest if able to withstand a total loss of investment and if able to accept the limited liquidity of the investment. Return of capital and realization of gains may not occur for several years after the initial investment and may never occur at all. Distributions are unpredictable and may occur earlier or later than expected or not at all.

Gapstow may not be able to achieve the investment objectives mandated by the Funds' offering memoranda and investors may not receive a return of their investments of any kind. Nor is there any assurance that past results will be or can be duplicated.

*Full Discretion to the Advisor.* Because of the full discretionary authority granted to Gapstow in making investments in underlying funds, the investor must rely solely on Gapstow's ability to identify and structure such investments according to the conditions stipulated in the Funds' offering memoranda.

*Market Risks.* Gapstow's Funds may be sensitive to economic and market risks, such as general downswings in the overall economy or in specific industries or geographies. Factors affecting economic conditions include inflation rates, credit market uncertainty, capital market instability, currency devaluation, exchange rate fluctuations, industry conditions, competition, technological developments, domestic and worldwide political, military and diplomatic events and trends and innumerable other factors, none of which will be in Gapstow's control and all of which can substantially and adversely affect the Funds' prospects.

*Underlying Fund Manager Risk.* Although Gapstow will seek to select underlying fund managers who act with the highest level of integrity, the investment selection process cannot ensure that selected managers will perform as desired. Gapstow has no control over the day-to-day operations of any of its selected managers and therefore may have limited insight into a manager engaging in unreported risks, investment style drift, or even regulatory breach or fraud. The underlying funds may also be susceptible to operational risks, such as counterparty insolvency, service provider error, and settlement failures. Gapstow is dependent on portfolio managers and their administrators for relevant net asset value reporting.

*Limited Transferability.* A limited market exists for the sale of Gapstow Funds and the transferability of such investments is restricted; investors may never be able to transfer their interests.

*Leverage.* Some of the Gapstow Funds have the ability to employ for short term financing by using a line of credit facility. The underlying funds have been granted the authority to do so per their offering memoranda. While leverage presents potential opportunities for increasing total return, it also has the effect of magnifying losses.

*Non-Controlling Investments.* A limited number of the Funds may hold a non-controlling interest in portfolio companies and may co-invest with third parties through joint ventures and other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial difficulties resulting in a negative impact on investments, have economic or business interests or goals which are inconsistent with those of the Fund, or be in a position to take or block action in a manner contrary to a Fund's investment objectives.

*Foreign Investments.* The Funds are expected to make investments in multiple countries and currencies, which may give rise to risks of loss associated with currency exchange, local economic and political risks, and the risk of adverse changes to tax matters.

*Legal, Tax and other Regulatory Risks.* Legal, tax and regulatory changes, as well as judicial decisions, could adversely affect Gapstow, its affiliates or any of its Funds. Such changes may affect the value of the Funds' investments or the ability of the Funds to implement their strategies. The effects of any regulatory changes or developments on the Funds may substantially and adversely affect the manner in which the Funds are managed.

## **Item 9: Disciplinary Information**

Gapstow and its employees have never been subject to any disciplinary action in any jurisdiction, whether criminal, civil, administrative or regulatory.

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

Gapstow and its employees do not have any relationships or arrangements with other financial service companies that pose material conflicts of interest.

Gapstow, its employees, or a related entity may serve as the general partner or director to one or more Funds. Certain employees may hold advisory board or corporate board seats related to the Funds' underlying investments; such individuals do not receive direct compensation for such service.

From time to time, the firm may cause a Fund to invest all or a portion of its assets in another Gapstow managed investment vehicle, but only if such investments are made on a basis that does not involve the payment of an additional layer of fees to the firm.

Due to changes in the Commodities Exchange Act which became effective in 2012, the firm became a member of the National Futures Association and registered with the Commodity Futures Trading Commission as a commodity pool operator on January 1, 2013.

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

Gapstow's Code of Ethics is designed to comply with the requirements under the Investment Advisers Act of 1940, Rule 204A-1. Among other things, the Code of Ethics (i) requires that employees comply with federal securities laws, (ii) requires that employees submit to Gapstow reports containing their personal securities holdings and transactions in reportable securities and that the firm reviews such reports, (iii) prohibits employees from trading securities on the firm's "Watch List" for their personal accounts, (iv) requires employees to obtain pre-approval of certain personal investments and (v) contains policies and procedures

designed to prevent the misuse of material, non-public information. Annually, employees of the firm are required to certify their compliance with the Code of Ethics. A copy of Gapstow's Code of Ethics is available to clients or prospective clients upon request.

Gapstow, its employees, affiliates or related persons may invest directly in any one, some or all of its Funds, causing a potential conflict in that they could cause Gapstow to make different investment decisions had they not had such financial ownership interests. Further, the fact that Gapstow charges fees based on a percentage of assets under management may create an incentive on the part of Gapstow to raise or otherwise increase assets to a higher level than would have been the case if the Firm were receiving a lower or no management fee. The fact that Gapstow receives performance-based fees may create an incentive to make investments that are more risky or more speculative than would be the case in the absence of such compensation.

Additionally, Gapstow, its employees, affiliates or related persons may have conflicts of interest in allocating their time and activities among advisory clients, in allocating investments among advisory clients, and in effecting transactions between advisory clients, including those where the firm, its principals and employees may have a greater financial interest. Gapstow may give advice to or take action for one client that differs from other clients.

Gapstow, its employees, affiliates or their related persons may buy, sell or otherwise invest in securities for their own accounts that they also recommend to advisory clients, including doing so at or about the same time a client recommendation is made. Each employee's transaction is separately identified and made strictly in accordance with Gapstow's Code of Ethics, which requires prior, written approval from the Chief Compliance Officer before execution. Such transactions will be denied if there is a risk of a conflict with adverse consequences to Gapstow's Funds.

Gapstow or an affiliate may engage in principal transactions with the Funds, but this has not occurred to date. However, Gapstow must determine that the principal transaction is in the best interest of the participating Fund. Gapstow will conduct all principal transactions according to the disclosure and client consent requirements of the Advisers Act.

Gapstow also may cause a transaction to be effected between a client and another client advised by it or any of its affiliates, i.e. a "cross trade." Cross trades will be conducted in accordance with Gapstow's fiduciary responsibility to each participating Fund and must be in the best interest of each participating Fund.

## **Item 12: Brokerage Practices**

As funds of funds, the Funds typically do not engage in direct investment transactions involving broker/dealers; subscriptions and redemptions are placed directly with the underlying funds.

However, the Funds may invest directly in U.S. Treasury bills, money market funds or similar financial instruments through a broker/dealer for cash management purposes. Such orders are executed independently for each Fund. When selecting the Funds' brokerage accounts for these investments, Gapstow will consider the financial stability, reputation, execution capabilities and reasonableness of commissions charged for the value of the brokerage services provided.

Gapstow will use its best judgment to ensure an equitable allocation of investment opportunities among its Funds. When it is determined that it would be appropriate for more than one of the Funds to participate in an investment opportunity, the Firm will seek to allocate the investment opportunity equitably, taking into account factors including, but not limited to:

- the relative amounts of available capital for new investments;



- the size, liquidity and anticipated duration of the proposed investment;
- the extent to which the applicable investment opportunity fits within the Fund's overall investment program;
- the relative portfolio positions of the Funds for which participation in the applicable investment opportunity is appropriate;
- the contractual provisions applicable to a specific Fund, including the allocation principles set forth in the offering documents of particular Funds; and,
- the impact of the proposed investment on overall portfolio design, construction, risk management and exposure.

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

Gapstow's Investment Committee makes investment decisions for the Funds. The Investment Committee consists of six members including: the Chief Investment Officer, the Head of Manager Research, the Head of Risk Management, a Senior Investment Analyst, two Investment Analysts and the Chief Operating Officer. The Investment Committee is responsible for (i) sourcing and evaluating an investment's merits and risks before approving the investment by the Gapstow Funds; (ii) assessing the macro-economic environment; (iii) developing overall investment themes; and (iv) monitoring the performance and risk of each portfolio, both on a formal and informal basis. The Investment Committee constructs portfolios consistent with the investment objectives and constraints set forth in each Fund's offering memorandum. The Chief Financial Officer approves the net asset values of each of the Funds, as computed by the Funds' administrator, before distribution to the Funds investors.

Investors in the Funds receive unaudited reports, which include performance data and details regarding investment strategies, applicable financial markets, and portfolio outlook. Depending on the Fund, these reports are sent monthly or quarterly. Investors in the Funds are also provided with annual, audited year-end financial statements within 180 days after the end of the applicable Fund's fiscal year.

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

Gapstow may enter into compensation arrangements with third-party solicitors for new advisory business. Any solicitation agreements will comply with Rule 206(4)-3 of the Advisors Act.

### **Item 15: Custody**

Under the "custody rule" within the Advisers Act, the firm is deemed to have custody of the underlying funds and securities of its Funds, even though neither it nor its affiliates physically hold such funds or securities and the accounts holding these underlying funds and securities are not registered in Gapstow's name nor in the names of any of its affiliates.

However, the Firm is exempt from certain provisions of the rule because it undertakes to deliver to investors within 180 days after the end of the fiscal year financial statements that are prepared in accordance with U.S. generally accepted accounting principles and which are audited by an independent public accountant registered with and subject to regular inspection by the Public Accounting Company Oversight Board.

Although not required, the Funds maintain custody accounts with qualified custodian banks.

### **Item 16: Investment Discretion**

Subject to the guidelines set forth in the Funds' offering documents, Gapstow has full discretion to select the underlying funds in which each Fund will invest, to determine the amount invested in such funds, and to

rebalance the investments made among these funds. Gapstow also has full discretion to select direct investment opportunities for each Fund. These decisions are based upon Gapstow's evaluation of the performance of the underlying managers or securities, their fit within each portfolio, the overall objectives of the Funds, the economic outlook, and other factors.

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

As an advisor to funds of funds, Gapstow typically does not have voting authority over and responsibility for securities held by the underlying funds. Should Gapstow ever have an obligation to make a proxy vote, Gapstow has adopted policies and procedures designed to ensure that it will vote proxies in the best interests of the Funds. The procedures require Gapstow to identify and address conflicts of interest between the Firm and its related persons and its Funds. If a material conflict of interest exists, Gapstow will determine whether voting in accordance with the guidelines set forth in the procedures is in the best interests of the Funds or whether taking some other action may be more appropriate.

Should a vote be required, Gapstow will likely vote in favor of routine corporate housekeeping proposals where no corporate governance issues are implicated, including the election of directors. For all other proposals, Gapstow will make a best efforts attempt to determine whether a proposal is in the best interests of the Funds.

Clients may request a copy of the Firm's proxy voting policies and procedures and information about how their securities were voted by contacting Gapstow's Chief Compliance Officer.

### **Item 18: Financial Information**

Gapstow is not aware of any financial condition reasonably likely to impair its ability to meet contractual and fiduciary commitments its clients. Neither Gapstow nor any of its related entities has ever filed for bankruptcy.