

**Brochure**  
(Part 2A of Form ADV)

**MERESTONE CAPITAL MANAGEMENT LLC**  
**125 High Street**  
**High Street Tower 28**  
**Boston, MA 02110**  
**Tel: (617) 854-6611**  
**Fax: (617) 367-1538**

This brochure provides information about the qualifications and business practices of Merestone Capital Management LLC (“Merestone Capital” or the “Adviser”). If you have any questions about the contents of this brochure, please contact Andrew St. Pierre at (617) 854-6611 or [astpierre@merestonepartners.com](mailto:astpierre@merestonepartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Merestone Capital Management LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

March 22, 2013

**Item 2: Material Changes**

---

## Annual Update

Since the initial release of the brochure dated February 14, 2012, the material change to this brochure is that the Adviser changed its name from GID Securities LLC to Merestone Capital Management LLC.

### **Item 3: Table of Contents**

Item 2: Material Changes .....	<b>Error! Bookmark not defined.</b>
Item 3: Table of Contents .....	2
Item 4: Advisory Business .....	<b>Error! Bookmark not defined.</b>
Item 5: Fees and Compensation .....	<b>Error! Bookmark not defined.</b>
Item 6: Performance-Based Fees and Side-By-Side Management .....	5
Item 7: Types of Clients .....	5
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9: Disciplinary Information .....	23
Item 10: Other Financial Industry Activities and Affiliations .....	23
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	24
Item 12: Brokerage Practices .....	25
Item 13: Review of Accounts .....	26
Item 14: Client Referrals and Other Compensation .....	27
Item 15: Custody .....	27
Item 16: Investment Discretion .....	27
Item 17: Voting Client Securities .....	27
Item 18: Financial Information .....	28

#### **Item 4: Advisory Business**

##### **A: Firm Description**

Merestone Capital Management LLC, a Delaware limited liability company formed in October 2005, is wholly owned by GID Hedge Fund Holdings LLC, a Delaware limited liability company. GID Hedge Fund Holdings LLC is principally owned by Windsor Advisers Securities LLC, a Delaware limited liability company, Andrew St. Pierre and John Garofalo.

---

##### **B: Types of Advisory Services**

Merestone Capital currently provides investment advisory services and portfolio management on a discretionary basis to private pooled investment vehicles (collectively, the “Funds”) and a separately managed account.

---

##### **C: Custom Advisory Services**

Merestone Capital can tailor its advisory services to the individual needs of clients who, under certain circumstances, may impose restrictions on investing in certain securities or types of securities or on amounts of leverage allowed.

---

##### **D: Wrap Fee Programs**

Merestone Capital does not participate in any wrap fee programs.

---

##### **E: Client Assets Under Management**

As of February 28, 2013 Merestone Capital has approximately \$180 million in regulatory assets under management. Merestone Capital does not currently manage any assets on a non-discretionary basis.

## **Item 5: Fees and Compensation**

### **A. Description**

Merestone Capital may receive compensation in two forms on assets under management: First, for its investment management and administrative services to its Funds, it typically receives a management fee payable quarterly in arrears with respect to each Fund investor equal on an annual basis to 1.50% of the investor's investment. Second, on an annual basis, each Fund investor will be debited, and the Fund's general partner will be credited, as a performance-based allocation, with 20% of the amount by which the net profit (both realized and unrealized) allocable to the investor increases subject to the investor's high water mark. Fees are generally not negotiable.

Put more plainly, Merestone Capital generally charges fees according to a 1.5%/20% schedule where 1.5% equals the management fee, accounted for monthly and charged quarterly, in arrears, and 20% equals the general partner's allocation of net profit (above any high water mark that must be exceeded before any allocable profits to the general partner can be calculated). Merestone Capital advises a client where it receives only a performance-based allocation. Merestone Capital also advises a client where it receives only an assets-based management fee.

---

### **B: Fee Billing**

Management fees are deducted from client's assets on a quarterly basis in arrears. Performance fees/allocations are deducted from clients' assets at the end of the applicable fiscal year in arrears and are subject to a high water mark. Management fees are prorated for any period that is less than a full quarter.

---

### **C: Other Fees and Expenses**

Each Fund managed by Merestone Capital pays its direct operating expenses which include, among other things: brokerage commissions, borrowing charges on securities sold short, custodial fees, database subscriptions and investment data, legal, accounting and audit fees and expenses, tax-preparation fees, governmental fees and taxes, bookkeeping and other professional fees, travel and travel-related expenses in connection with the Fund's activities, costs of Fund reporting, costs of Fund governance activities (such as obtaining partner consents if and when necessary and appropriate), costs and expenses associated with negotiating and entering into contracts and arrangements in the ordinary course of the Fund's business, costs and expenses of third party administrators retained for Fund purposes, costs and premiums of any fidelity and performance bonds and general partner liability and errors and omission insurance coverage, extraordinary expenses of the Fund such as litigation costs, and all other reasonable expenses related to the operation of the Fund and/or the purchase, sale or transmittal of Fund assets.

---

### **D: Fees In Arrears**

Clients who pay management fees have management fees deducted quarterly in arrears.

---

E: Securities Compensation

Not applicable.

---

**Item 6: Performance-Based Fees and Side-By-Side Management****Sharing of Capital Gains**

All unaffiliated investors in Funds managed by Merestone Capital currently pay Merestone Capital or its related person a performance fee/allocation. Merestone Capital currently charges some clients both a management fee and a performance fee/allocation and some clients only a performance-based fee. In one instance, Merestone Capital charges only an asset-based management fee. For the client that is only charged performance-based fees, significantly tighter leverage constraints are imposed. In addition, Merestone Capital has implemented an allocation policy to address any potential conflicts of interests in this arrangement. There is potential conflict of interest in any investment adviser receiving a performance-based fee/allocation in that it could cause the investment adviser to invest more aggressively in riskier securities than in the absence of this performance-based fee/allocation.

---

**Item 7: Types of Clients****Description**

Merestone Capital currently provides advisory services and portfolio management on a discretionary basis to private pooled investment vehicles and a separately managed account.

**Account Minimums**

In general, the Funds have minimum initial investments of \$500,000 and minimum subsequent investments of \$250,000, although Merestone Capital or its related person may accept subscriptions for lesser amounts. All of the limited partners/shareholders in the Funds must be “accredited investors,” as defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”) and “qualified clients,” as defined in Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

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

---

### **A. Methods of Analysis and Investment Strategies**

#### **Investment Objective:**

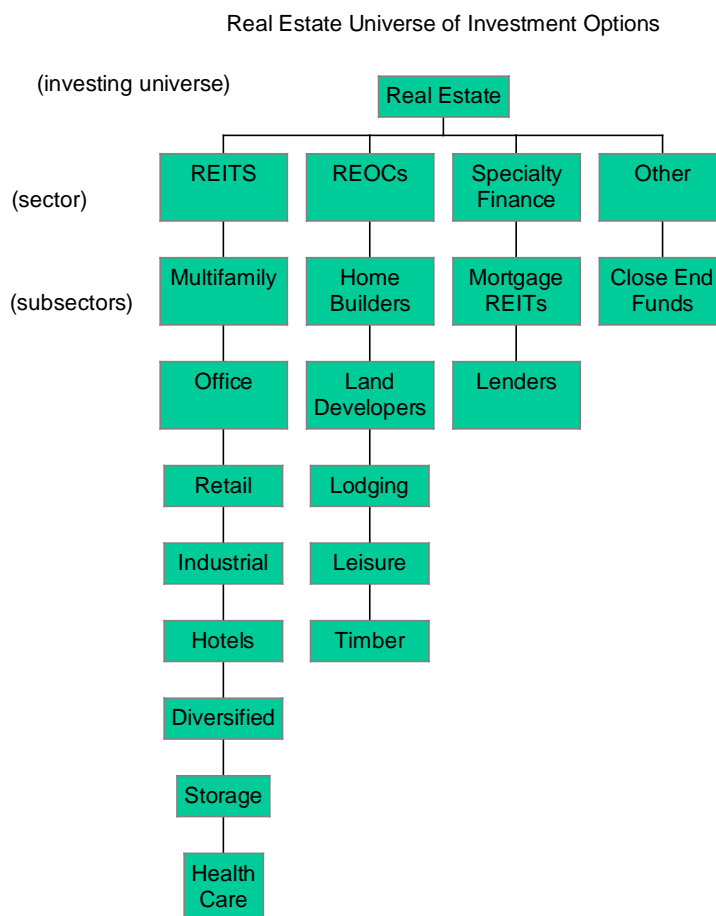
Merestone Capital's investment objective is to achieve consistent and attractive, absolute returns in combination with lower-than-average volatility.

#### **Overview:**

Merestone Capital seeks to achieve its investment objective primarily through a strategy employing long and short positions in publicly-traded securities, including, but not limited to, equity securities, preferred stocks, corporate debt and government debt, convertible securities, warrants, stock purchase rights, depositary receipts, shares of ETFs and other types of investment companies and other related instruments of Real Estate Companies (as defined below). Clients' net portfolio exposure (long exposure minus short exposure) is generally expected to be long-biased but will vary depending upon the Adviser's assessment of market conditions and general direction of the real estate market and the availability of attractive investment opportunities. The Adviser will typically use a combination of bottoms-up and top-down approaches in investing client assets in Real Estate Companies that the Adviser believes offer the greatest potential total return in the prevailing market and economic contexts.

While it is expected that the Adviser will primarily use a long/short strategy in managing client portfolios, the Adviser may from time-to-time utilize other strategies to seek to take advantage of relative pricing inefficiencies that can occur in the real estate-related sectors of the market. Accordingly, client assets will at times be managed more akin to macro, multi-strategy funds. By applying multiple trading strategies to the real estate-related sectors of the market, the Adviser hopes to have the maximum flexibility to invest opportunistically, albeit within reasonable leverage constraints.

A "Real Estate Company," as defined by the Adviser, means a company, regardless of form of organization, that derives a substantial portion (which may be less than a majority) of its total revenues from the real estate-related sectors of the market or whose securities have directional sensitivity to trends in real estate. Real Estate Companies include, but are not limited to, real estate investment trusts ("REITs"), real estate operating companies ("REOCs"), homebuilders, materials companies, hotel operators, mortgage finance companies, insurers, and closed-end investment companies, indexed mutual funds and exchange traded funds ("ETFs") that invest in real estate securities. The following table illustrates the real estate sectors and types of Real Estate Companies in which the Funds may invest.



Merestone Capital may invest in Real Estate Companies of any market capitalization. However, it does not anticipate investing more than 10% of clients' assets in securities that may be illiquid due to that security's low trading volume relative to the size of the portfolio's holdings of that security.

While the portfolios will invest primarily in securities issued by Real Estate Companies located in the U.S. or whose securities are traded on a U.S. securities exchange, the portfolios may strategically target international markets.

The portfolios may also invest in derivative instruments in lieu of investing directly in a security or instrument to seek to generate gains, or for hedging purposes.

#### **Benchmark Indices:**

Merestone Capital's benchmark indices for comparative purposes are:

- the S&P 500 Index;
- the MSCI US REIT Index for the U.S. component of the Adviser's portfolios; and



- the FTSE EPRA/NAREIT Global Real Estate Index for the non-U.S. component (if any) of the Adviser's portfolios.

The Adviser's portfolios and portfolio characteristics may be substantially different from these benchmark indices. The S&P 500 Index is a stock market index containing the stocks of 500 large-capitalization companies, most of which are based in the U.S. The MSCI US REIT Index is a free float adjusted, market capitalization-weighted index representing approximately 85% of the U.S. REIT universe. The REITs eligible for inclusion in the MSCI US REIT Index are included in the MSCI US Investable Market 2500 Index, with certain exceptions for mortgage REITs and specialized REITs. The MSCI US Investable Market 2500 Index represents the investable universe of 2,500 companies in the U.S. equity market and is the aggregation of the MSCI US Large Cap 300, MSCI US Mid Cap 450 and MSCI US Small Cap 1750 Indices. The FTSE EPRA/NAREIT Global Real Estate Index is a market capitalization-weighted index consisting of real estate companies and REITs from developed markets whose floats are larger than \$100 million and derive more than half of their revenue from property-related activities.

#### **Investment Philosophy:**

Merestone Capital strives to use an analytically rigorous approach in the attempt to identify investments in Real Estate Companies. For long investments, the Adviser will use its analytical process to identify Real Estate Companies that it believes represent fundamentally and strategically sound businesses and are trading at significantly discounted valuations. Short positions will be undertaken for investment gain and for hedging of portfolio risk. The Adviser seeks to sell short shares of Real Estate Companies that the Adviser believes are overvalued, have deteriorating business fundamentals, or weak competitive positions. The Adviser will focus on a selection process driven by fundamental proprietary analysis of sectors, economic regions, and individual markets across a range of industries generally thought to define the real estate market. The Adviser espouses a value approach to research; recognizing that any fundamental, research-driven approach must also recognize and apply relevant top-down macro analyses of interest rates, economic trends and exogenous risk. The portfolios will normally attempt to ameliorate industry and marketplace risk by being diversified across various markets and by investing in securities that may also provide a high level of current income, and its ability and willingness to hold exposures to Real Estate Companies across the capital stack - which is to say, in the form of equity, preferred stock and debt – is a critical component of its investment philosophy.

#### **Investment Policies:**

**Types of Investments.** The portfolios will invest primarily in publicly-traded securities in the U.S. and other markets. These securities are expected principally to be in the form of common stocks but may include preferred stocks, corporate and government debt, convertible securities, warrants, stock purchase rights, depositary receipts, shares of ETFs and other types of investment companies and other related securities.

Just as critical as the types of assets in which the portfolios may invest are those assets in which the portfolios generally will not invest. The portfolios generally do not make significant investments in:

- Blind pools (as opposed to funds that will continue to invest but which have substantial investments at the time of a Fund's direct or indirect investment);
- Direct investments in real estate; and
- Direct investments in raw land.

**Restricted and Illiquid Securities.** The Adviser monitors closely the portfolios' overall portfolio liquidity and expects that the portfolios will consist primarily of liquid securities. The Adviser does not intend to focus on investing in equity securities of private issuers, however, the Funds may from time to time invest in equity securities that may be illiquid due to that security's low trading volume relative to the size of the portfolios' holdings of that security. The portfolios currently do not anticipate investing more than 10% of their respective assets in such securities. The portfolios may also from time-to-time invest in non-registered securities issued by publicly traded issuers, including securities issued in reliance upon Rule 144A and Regulation S under the Securities Act. Non-registered securities may be purchased directly from the issuer or from institutional investors who originally acquired such securities in "private placements" pursuant to exemptions from registration under the Securities Act. Restricted securities are subject to legal restrictions on resale and, therefore, may be illiquid, difficult to value and subject to wide fluctuations in value. Accordingly, the portfolios will make such investments only when, in the Adviser's judgment, the potential returns are high enough to compensate for such limited liquidity.

**Leverage and Exposure.** The degree of leverage (long exposure plus short exposure) and of net exposure (long exposure minus short exposure) within each portfolio at any given time will be a function of the Adviser's assessment of macro conditions and general direction of the market for real estate, as determined through the use of proprietary forecasting tools, and the availability of attractive investment opportunities.

The Adviser intends to use leverage to increase the potential for gain from the Adviser's securities selection process. Merestone Partners LP, a Delaware limited partnership (the "Merestone U.S. Fund"), is not subject to any specific limitations on the amount of borrowings or other forms of leverage that the Adviser may employ. The Adviser currently expects that the Merestone U.S. Fund's portfolio gross portfolio exposure (long exposure plus short exposure divided by equity) will generally not exceed 300%. The Adviser also currently expects that the Merestone U.S. Fund's portfolio's gross long exposure range will generally be 75-200% and gross short exposure range will generally be 0-100%, but may from time to time fall outside of these ranges. The Adviser will employ risk management techniques and will deleverage the portfolios when the Adviser believes that market conditions require deleveraging. Any use of leverage, however, exposes client assets to increased risk of loss.

Net portfolio exposure is a measure of how much risk a portfolio has to the general direction of the stock market. The Adviser currently anticipates that, under normal market conditions, the Merestone U.S. Fund's portfolio's net portfolio exposure will

generally range between 50% and 125% – with the level of net portfolio exposure driven by the Adviser’s ideas concerning the number and size of individual long and short positions that the portfolios should hold, and the Adviser’s convictions in those ideas. The Adviser may operate within a broader range of exposures given the specific market environment for particular long or short opportunities, including the possibility of being net short. Within different sectors of the real estate market and different countries, the portfolios may be net long or net short to a greater degree, with the market exposure for each sector and/or country varying depending on the Adviser’s outlook. The Adviser anticipates that its judgment as to which sectors and/or countries should have net long and net short exposures could be a significant factor in the portfolios’ performance.

**Short Positions and Portfolio Hedging.** As noted above, the Adviser expects that under normal market conditions, the Merestone U.S. Fund’s portfolio may maintain a short position (e.g., gross short exposure will generally range between 0-100%). The size of the short position will depend on the availability of attractive short investments as well as on the Adviser’s view of overall real estate market conditions. Short positions are independently viewed by the Adviser as profit opportunities for the portfolios as well as tools for risk management and for ameliorating overall volatility in the Funds. The Adviser may use a variety of hedging mechanisms, in addition to selling securities short.

**Diversification.** Although it is anticipated that, under normal market conditions, the portfolios will generally be comprised of a mix of long and short positions, the portfolios do not have fixed guidelines for diversification of its portfolio holdings by issuer, industry or country. It is anticipated, for example, that a Fund’s top ten positions may at times represent over 50% of its net assets. Each portfolio therefore can be viewed as reserving the right to have a highly concentrated portfolio. While individual long positions will typically represent 10% or less of each portfolio’s net assets and individual short positions will typically represent 5%, or less, the Adviser is not bound by any specific individual long or short position limits.

**Non-U.S. Securities; Currency Exposure.** The Funds will normally invest across the capital stack in securities issued by Real Estate Companies located in the U.S. or whose securities are traded on a U.S. securities exchange. However, the Funds may strategically target international markets and may invest up to 50% of their respective assets in companies located outside of the U.S. or whose securities are not traded on a U.S. securities exchange. The Funds will not invest more than 15% of their respective assets in emerging market countries. Currently, the Adviser expects that the portfolios’ non-U.S. investments, to the extent present, will be in one or more of the United Kingdom, Continental Europe (including emerging Eastern European markets), Canada, Australia, Japan, Singapore, Hong Kong as well as potentially emerging markets such as Malaysia, Thailand, India, Philippines, and Taiwan and China.

Because the Funds may invest in securities denominated in the currencies of a variety of developed and emerging market countries, currency fluctuations may, unless hedged, impact the performance in U.S. dollar terms of their portfolios of non-U.S. dollar-denominated securities. As such, the Funds may experience a decline or increase in the value, in U.S. dollar terms, due to fluctuations in currency exchange rates. The Adviser currently does not intend to seek to hedge currency exposure in the portfolios, although it may do so from time to time. This means that under normal circumstances, if a Fund has

exposure to securities of non-US issuers, those investments are typically held in the currency of the country of issuance.

**Portfolio Turnover.** It is expected that the Funds' annual portfolio turnover rate for positions held long will generally be between 50% and 100%, although the actual turnover rates may be higher or lower during any given year. The Adviser regularly monitors the portfolios and may make adjustments if it believes that market conditions warrant such action or as a result of changes in the Adviser's risk tolerance or to take advantage of short-term tactical trading opportunities.

**Exercise of Management or Control.** Although the Funds do not expect to make investments in Real Estate Companies for the purpose of exercising control over their management, there are no restrictions regarding the percentage or amount of voting securities of an issuer that the portfolios are permitted to acquire.

**Uninvested Assets.** Client assets not invested in securities or other instruments or deposited as margin or paid as premiums generally will be invested in money market instruments, including, without limitation, U.S. Treasury notes and bills, certificates of deposit, commercial paper, broker balances, bankers' acceptances, repurchase agreements or mutual funds that invest in such securities. Under normal market conditions, the Funds do not expect to have a substantial portion of their assets invested in money market instruments.

**Derivative Instruments and Other Investments and Strategies.** The Adviser may use options, forward contracts, swaps and futures and other derivatives (such as total return swaps, contracts for difference swaps, and other synthetic products) to implement the portfolios' investment strategies. The Adviser may employ active portfolio management strategies both as a hedge and to seek to produce additional income or capital appreciation.

The Adviser may also engage in a wide range of transactions designed to enhance the portfolios' return, such as securities lending and repurchase agreements. Except as described here, the portfolios are not limited with respect to the types of investment strategies they may employ or the markets or instruments in which they may invest. The Adviser may engage in any such investment practices without prior notice to or approval by clients.

Compliance with the portfolios' policies and restrictions is determined at the time of investment. If a limit is subsequently exceeded for reasons beyond the control of the Adviser (e.g., as a result of changes in market value) or as a result of capital withdrawals, the Adviser will take such action as it considers appropriate but need not sell any security.

**Master-Feeder Structure.** Each Fund may in the future invest all or substantially all of its assets through a "master fund/feeder fund" structure in a master fund that has the same investment objective, policies and strategies as the original Fund.

## **B. and C. Material Risks for Investment Strategies and Other Risk Factors.**

Investing with Merestone Capital involves a high degree of risk and is suitable only for persons having substantial financial resources who understand the long-term nature, the consequences of, and the risks associated with the investment. Some of those risks are summarized in the following descriptions. Investors should carefully consider all the risks discussed below and should consult their own legal, tax, and financial advisers about these risks and an investment with Merestone Capital. Investing in securities involves risk of loss that clients should be prepared to bear. An investor may lose money on its investment that is managed by Merestone Capital. Clients should refer to the offering documents for the Funds for a more detailed discussion of risks.

### **Concentration in the Real Estate Industry and Risks of Securities Linked to the Real Estate Market**

The Adviser will concentrate its investments in the real estate industry. As such, the Funds will be affected disproportionately by events affecting the real estate industry as compared with collective investment vehicles that diversify their assets among different industries. Investors should invest in the Funds only if they are willing to accept the risks associated with an investment in the real estate industry. An investment in a Fund should only be a component of an investor's diversified portfolio of investments. The Funds invest in real estate indirectly through securities issued by real estate companies, including REITs. Although the values of the securities of real estate companies and REITs reflect the perceived operating values of these companies and do not always move in tandem with the prices of real estate assets, because of each Fund's policy of indirect investments in real estate and concentration in the securities of companies in the real estate industry, each Fund is subject to risks associated with the direct ownership of real estate. These risks include:

- declines in the value of real estate;
- general and local economic conditions;
- unavailability of mortgage funds;
- overbuilding;
- extended vacancies of properties;
- increased competition;
- increases in property taxes and operating expenses;
- changes in zoning laws;
- losses due to costs of cleaning up environmental problems and contamination;
- limitations on, or unavailability of, insurance on economic terms;
- liability to third parties for damages resulting from environmental problems;
- casualty or condemnation losses;
- limitations on rents;
- changes in neighborhood values and the appeal of properties to tenants;

- changes in valuation due to the impact of terrorist incidents on a particular property or area, or on a segment of the economy;
- changes in interest rates; and
- legal, cultural or technological developments.

As a result of these factors, the value of the Funds' assets may change at different rates compared to the value of investments in a mix of different industries. The performance of the Funds will also depend on the general condition of the economy. An economic downturn could have a material adverse effect on the real estate markets and on the real estate companies in which the Funds invest, which in turn could result in the Funds not achieving their investment objectives.

Real property investments are subject to varying types and degrees of risk. The returns available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., Americans with Disabilities Act and tax laws), quality of management, interest rate levels and the availability of financing.

If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of a real estate company to make payments of any interest and principal on its debt securities, and its ability to pay dividends, will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants.

The performance of the economy in each of the regions in which the real estate owned by a real estate company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, certain real estate valuations, including residential real estate values, are influenced by market sentiments, which can change rapidly and could result in a sharp downward adjustment from current valuation levels.

In addition, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company may also have joint venture investments in certain of its properties, and consequently its ability to control decisions relating to such properties may be limited.

Real property investments are also subject to risks that are specific to the investment sector or type of property in which the real estate companies are investing. A partial listing of some of the specific risks that can affect particular property types is included in the "Risks" section of the offering documents of the Funds managed by the Adviser.

**Insurance Issues.** Certain real estate companies may have disclosed in connection with the issuance of their securities that they carry comprehensive liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, such insurance

is not uniform among real estate companies. Moreover, there are certain types of extraordinary losses that may be uninsurable or not economically insurable. Substantial increases in certain insurance premiums since the terrorist attacks of September 11, 2001 may cause some real estate companies to reduce their coverage. Certain of the properties may be located in areas that are subject to earthquake activity for which insurance may not be maintained. If a property sustains damage as a result of an earthquake, even if the real estate company maintains earthquake insurance, it may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. A massive earthquake or other event could threaten the financial viability of some insurance companies. It may be difficult or impossible to find commercial insurance against certain types of losses, such as those stemming from floods or mold damage. If any type of uninsured loss occurs, the real estate company could lose its investment in, and anticipated profits and cash flows from, a number of properties, which would adversely impact the Funds' investment performance.

**Financial Leverage.** Real estate companies, including REITs, may be highly leveraged, and financial covenants may affect the ability of those companies to operate effectively. Real estate companies are subject to risks normally associated with debt financing. If the principal payments of a real estate company's debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the real estate company's cash flow may not be sufficient to repay all maturing debt outstanding.

In addition, a real estate company's obligation to comply with covenants contained in agreements with its lenders, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict the real estate company's range of operating activity. A real estate company may therefore be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions that may be beneficial to the operation of the real estate company.

**Environmental Risks.** In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a real estate company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as governmental fines and liabilities for injuries to persons and property and other costs. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such real estate company, and, as a result, the amount available to make distributions on its shares could be reduced.

**Small- and Mid-Capitalization Issuers.** Even the larger real estate companies tend to be small- to mid-sized companies in relation to the equity markets as a whole. Investing in the securities of companies with small- or mid-capitalization can involve greater risk and the possibility of greater portfolio price volatility than is typically associated with equity investments in larger, more established issuers. Historically, stocks of small- or mid-capitalization companies and recently organized companies

have been more volatile in price than those of the larger market capitalization companies. Among the reasons for greater price volatility of the stocks of these small- or mid-sized companies is the lower degree of liquidity in the markets for such stocks. Further, small- or mid-sized companies and unseasoned companies may have limited product lines, markets or financial resources, and they may depend upon a limited or less experienced management group. The securities of small-capitalization companies may be traded only on the over the counter markets or on a regional securities exchange and may not be traded daily or in the volume typical of trading on a national securities exchange. Accordingly, real estate company shares can be more volatile than, and at times will perform differently from, large company shares.

**Tax and Related Issues.** REITs are subject to highly technical and complex provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). It is possible that a Fund may invest in a real estate company that purports or intends to be a REIT but fails to qualify for treatment as such under the Code. In the event of any such unexpected failure, the real estate company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. A REIT also could possibly fail to maintain its exemption from registration under the Investment Company Act, which also could adversely affect its operations. In the event of a default by a borrower or lessee, a REIT may experience delays in enforcing its rights as a creditor or lessor and may incur substantial costs associated with protecting its investments. There is a risk that future changes in U.S. tax laws may affect the tax treatment of REITs and their stockholders.

A REIT that satisfies a minimum distribution requirement for a taxable year is not required to pay federal income tax on its income and realized capital gains for that year that it distributes to its stockholders. A REIT also must make annual distributions to avoid a non-deductible 4% federal excise tax on certain undistributed real estate investment trust taxable income and capital gain net income. REITs generally make distributions to avoid the imposition of federal income and excise taxes in December each year (or make distributions in January that are treated for federal income tax purposes as made on the preceding December 31). Those distributions will be included in the Fund’s income and realized gains, respectively, on the ex-distribution date, even though some part thereof may represent a return of the Fund’s investment in the REIT(s) that distributed them.

**Risks Associated with Investments in Securities Generally.** Any investment in securities carries certain market risks. In addition to the factors discussed elsewhere in this Brochure, investments by the Funds may decline in value for any number of reasons over which the Funds may have no control, including changes in the overall market for equity and/or debt securities, and factors pertaining to particular portfolio securities, such as management, the market for the issuer’s products or services, sources of supply, technological changes within the issuer’s industry, the availability of additional capital and labor, general economic conditions, political conditions and other similar conditions. The value of the Funds’ investments will fluctuate, and there is no assurance that they will achieve their investment objective. If the securities held long do not increase in value as anticipated, a Fund may sell them without a gain or at a loss. The profit (or loss) derived from a Fund’s investment



transactions consists of the price differential between the price of the securities purchased and the value ultimately realized from their disposition, plus any dividends or interest received during the period that the securities are held, less transaction costs (consisting mainly of brokerage commissions). If the securities held long (or held short) do not increase (or decrease) in value as anticipated, the Funds may sell (or, in the case of a short position, buy to cover) them without a gain or at a loss. It is possible that the Funds' long positions will decline in value at the same time that the value of the securities sold short increases, thereby increasing the potential for loss. It is also possible that the Adviser will misjudge the effect a particular security will have on exposure to market risk or that the particular combination of securities held long and those sold short will fail to insulate the Funds from general equity market risk as anticipated. Also, to the extent that the Adviser determines not to evenly balance the portfolios between long and short positions, the Funds will be subject to increased market risks.

**Highly Volatile Markets.** The prices of financial instruments in which the Funds may invest can be highly volatile. Price movements of equity and other securities and instruments in which the Funds' assets are invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of government, and national and international political and economic events and policies. The Funds are also subject to the risk of failure of any of the exchanges on which their positions trade or the failure of the clearinghouses.

**Investment Program.** The Funds' investment program is considered speculative, as there can be no assurance that the Adviser's assessments of the short-term or long-term prospects of investments will prove accurate. A number of investment techniques which may be used regularly or from time to time by the Funds, such as purchasing and selling put and call options, and trading in futures and other derivatives, are all considered speculative and inherently risky investment practices. The use of a combination of these techniques may increase the level of risk that would result from the individual use of one such technique. An investor may lose money and a Fund may underperform other investments if the results of the Adviser's investment strategy prove to be unsuccessful.

**Short Sales of Securities.** Each Fund may, as part of its investment strategy, engage in short sales of securities. This technique involves the sale of securities not owned by a Fund generally in the expectation of being able to repurchase the same securities at a lower price at a later date. To complete a short sale, a Fund must borrow the security sold short to make a delivery to the buyer and then replace the security borrowed by purchasing it at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was initially sold by the Fund. Until the security is replaced, the Fund is required to pay to the lender any dividends or interest that accrued during the period of the loan. To borrow the security, the Funds also may be required to pay a premium. No assurance can be given that securities necessary to cover a short position will be available for purchase. When a Fund effects a short sale, it may be obligated to leave the proceeds thereof with the broker and also deposit with the broker an amount of cash or other securities

(subject to requirements of applicable law) that is sufficient under any applicable margin or similar regulations to collateralize its obligation to replace the borrowed securities that have been sold. In certain circumstances, short sales can increase substantially the impact of adverse price movements on a Fund's portfolio. A short sale of a security involves a theoretically unlimited loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A Fund will incur a loss on a short position if the price of the securities involved increases between the date of the short sale and the date on which the Fund "covers" its position by purchasing the securities to replace those borrowed. A Fund will realize a gain if the securities decline in price between those dates. Any gain will be decreased, and any loss will be increased, by the transaction costs incurred in connection with the short sale.

**Leverage.** The Funds may, in the sole and absolute discretion of the Adviser, utilize leverage by borrowing to purchase securities. The Merestone U.S. Fund is not subject to any specific limitations on borrowing or other forms of leverage other than those imposed by applicable law or regulation. Leveraging the Funds creates an opportunity for increased net income or capital appreciation but, at the same time, creates special risk considerations. Leveraging will generally exaggerate the effect on the net asset value (NAV) of any increase or decrease in the market value of a Fund's investments. Although the principal amount of borrowings underlying any leverage will be fixed, the Fund's assets may change in value during the time the borrowing is outstanding. Because any decline in value of a Fund's investments will be borne entirely by the Fund (and, thus, by the Fund's investors) and not by those persons providing the leverage to the Fund, the effect of leverage in a declining market would be a greater decrease in the value of the Fund's portfolio investments than if the Fund wasn't leveraged. Leveraging will also create interest expenses for the Funds, which can exceed the investment return from the borrowed funds. To the extent the investment return derived from securities purchased with borrowed funds exceeds the interest a Fund will have to pay, the Fund's investment return will be greater than if leverage were not used. Conversely, if the investment return from the assets acquired with borrowed funds is not sufficient to cover the cost of leverage, the investment return of a Fund will be less than if leverage were not used. Leverage may include borrowing and also the use of margin. Other borrowings take the form of, or are embedded in, margined option premiums, repurchase agreements, or bank or dealer credit lines. There can be no assurance that the Funds will be able to maintain adequate financing arrangements under all market circumstances.

As a general matter, the banks and dealers that provide financing to the Fund can apply discretionary margin, haircut, financing and valuation policies, or impose other credit limitations or restrictions, whether due to market circumstances or government regulation or judicial action. Such application or losses may result in large margin calls, loss of financing, forced liquidations of positions at disadvantageous prices, termination of repurchase agreements, and cross defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly or by multiple market participants simultaneously. The imposition of any such limitations or restrictions could compel a

Fund to liquidate all or part of its portfolio at disadvantageous prices, perhaps leading to a loss of the Fund's equity.

The use of leverage may also result in the recognition of "unrelated business taxable income" for tax-exempt investors in the Funds.

**Risks of Investing in High Yield Debt Securities.** The Funds may invest in higher yielding (and, therefore, higher risk) debt securities. Such securities may be rated below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market prices of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. It is likely that a major economic recession or an environment characterized by a shortage of liquidity could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn or liquidity squeeze could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

**Investments in Non-U.S. Issuers.** The Funds may invest up to 50% of their assets in issuers located in countries outside the United States, including the United Kingdom, Continental Europe (including emerging Eastern European markets), Canada, Australia, Japan, Singapore, Hong Kong as well as potentially emerging markets such as Malaysia, Thailand, India, Philippines, and Taiwan and China. Investments in such securities are particularly speculative. Investing in foreign securities involves certain risks not involved in domestic investments, including, but not limited to:

- future foreign economic, financial, political and social developments;
- different legal systems;
- the possible imposition of exchange controls or other foreign governmental laws or restrictions;
- less governmental supervision;
- regulation changes;
- changes in currency exchange rates;
- less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices;
- high and volatile rates of inflation;
- fluctuating interest rates;
- lower trading volume in foreign securities markets;
- less liquidity and more volatility in securities of some companies;

- different accounting, auditing and financial record-keeping standards and requirements; and
- dividend income the Funds receive from foreign securities may not be eligible for the special tax treatment applicable to qualified income.

Investments in foreign securities will expose the Funds to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or in which the issuers are located. Certain countries in which the Funds may invest, especially emerging market countries, have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates that are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of:

- the possibility of expropriation of assets;
- confiscatory taxation;
- difficulty in obtaining or enforcing a court judgment;
- economic, political or social instability; and
- diplomatic developments that could affect investments in those countries.

Individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as:

- growth of gross domestic product;
- rates of inflation;
- capital reinvestment;
- resources;
- self-sufficiency; and
- balance of payments position.

Certain investments in Foreign Securities also may be subject to withholding and other foreign taxes, which may also apply to capital gains in some countries, and such taxes will decrease the net return on such investments as compared to the Funds' investments in domestic companies.

**Risks of Investing in Emerging Markets.** The Funds may invest up to 15% of their total assets in foreign securities of companies domiciled in so-called “emerging markets” (or lesser developed countries). Generally, many of the risks described above under “Investments in Non-U.S. Issuers” are heightened to the extent that the issuers are located in emerging markets. Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the

imposition of restrictions on foreign investment, the lack of hedging instruments, and on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates and corresponding currency devaluations have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries.

As a result of these potential risks, the Adviser may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Funds may invest in countries in which foreign investors, including the Adviser, have had no or limited prior experience.

**Currency.** Each Fund may invest its assets in instruments quoted or denominated in currencies other than the U.S. dollar or the price of which is determined with reference to currencies other than the U.S. dollar. The Funds will, however, value their securities and other assets in U.S. dollars. Each Fund may engage in foreign currency transactions. Although it may, the Adviser currently does not expect to seek to hedge the currency exposure inherent in the Funds' investments in non-U.S. dollar denominated securities. To the extent un-hedged or if a hedge proves unsuccessful, the value of the Funds' assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Funds' investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which a Fund makes its investments will reduce the effect of increases and magnify the effect of decline in the values of a Fund's securities denominated in currencies of their local markets. Conversely, a decline in the value of the U.S. dollar will have the opposite effect on the Fund's non-U.S. dollar securities. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, changes in interest rates and other factors. Currency exchange rates can also be affected by intervention, or the failure to intervene, by foreign governments or central banks, or by currency controls or political developments in the United States and abroad.

**Lending of Portfolio Securities.** The Funds may lend portfolio securities to third parties. By doing so, the Funds attempt to increase income through the receipt of interest on the loan. The Funds could experience losses if the institution with which they have engaged in a portfolio loan transaction breaches its agreement with the Funds. In the event of the bankruptcy of the other party to the securities loan, the Funds could experience delays in recovering the loaned securities.

**Risks of Futures and Other Derivatives.** The Funds may, but are not required to, utilize various investment strategies to seek to hedge market risks (such as broad or specific equity market or stock movements) or to enhance potential gain. Techniques and instruments used by the Funds may change over time as new instruments and strategies are developed or regulatory changes occur.

In the course of pursuing their investment objective, the Funds may purchase and sell (write) exchange-listed and over-the-counter covered and uncovered put and call options on securities, indices and other financial instruments; purchase and sell financial futures contracts and options thereon; and purchase or sell instruments that incorporate the characteristics of the foregoing instruments and other esoteric instruments that may be developed in the future (collectively, all the above are called “Derivatives”). Derivatives may be used to seek to protect against possible changes in the market value of securities held by or to be purchased for a Fund’s portfolio, resulting from securities markets, interest rate or currency exchange rate fluctuations; to seek to protect a Fund’s unrealized gains in the value of portfolio securities; to facilitate the sale of such securities for investment purposes; or to establish a position in the derivatives markets as a temporary substitute for purchasing or selling particular securities. Derivatives may also be used for non-hedging purposes to seek financial gain.

The Funds’ ability to utilize Derivatives successfully will depend on the Adviser’s ability to predict pertinent market, interest rate and currency exchange rate movements, which cannot be assured. The Funds will comply with applicable regulatory requirements when implementing these strategies, techniques and instruments.

Derivatives involve a number of risks including possible default by the other party to the transaction, illiquidity and, to the extent the Adviser’s view of certain market movements is incorrect, the risk that the use of such Derivatives could result in losses greater than if they had not been used. The writing of put and call options may result in losses to a Fund, force the purchase or sale, respectively, of portfolio securities at inopportune times or for prices higher than (in the case of purchases due to the exercise of put options) or lower than (in the case of sales due to the exercise of call options) current market values, limit the amount of appreciation a Fund can realize on its investments or cause a Fund to hold a security it might otherwise sell or sell a security it might otherwise hold.

The seller (writer) of a call option that is covered (e.g., the writer holds the underlying security) gives up the opportunity during the period of the call option for gain on the underlying security above the exercise price of the call option. The writer of a call option that is uncovered assumes the risk of a theoretically unlimited increase in the price of the security that could result in an inability to discharge its obligation upon exercise of the option or a theoretically unlimited loss. The buyer of a call option assumes the risk of losing its investment in the call option.

The seller (writer) of a put option that is covered (e.g., the writer has placed cash or liquid securities in a segregated account to fulfill the obligation undertaken) assumes the risk during the term of the put option of a decline in the market price of the

underlying security below the exercise price of the put option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The writer of an uncovered put option will, upon exercise, be required to buy the security at the option price, which may be significantly higher than the then current market price. The buyer of a put option assumes the risk of losing his investment in the put option.

The use of futures and options on futures entails certain other risks. Futures markets are highly volatile, and the use of futures may increase the volatility of the value of a Fund’s portfolio investments. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio positions of a Fund creates the possibility that losses on the derivative instrument may be greater than gains in the value of such Fund’s positions. The writing of options could significantly increase a Fund’s portfolio turnover rate and associated brokerage commissions or spreads. In addition, futures and options markets may not be liquid in all circumstances, and certain over-the-counter options may have no markets. As a result, in certain markets, a Fund might not be able to close out a transaction without incurring substantial losses. Losses resulting from the use of Derivatives could reduce the value of a Fund’s portfolio investments, and the net result may be less favorable than if the Derivatives had not been utilized. Although the use of futures and options transactions for hedging should tend to minimize the risk of loss due to a decline in the value of the position, at the same time, such transactions can limit any potential gain that might result from an increase in value of such position.

**Investment in Illiquid Securities.** An amount equal to up to ten percent (determined at cost at the time of investment) of all capital in a Fund may be invested in securities for which there are not a significant trading market or no market at all. Such investments may be illiquid and involve a high degree of business and financial risk that can result in substantial losses to the Funds. Because of the absence of active or regulated trading markets for these illiquid investments, and because of the difficulties in determining market values accurately, it may take the Funds longer to be able to liquidate these positions (if they can be liquidated) than would be the case for more liquid securities. The prices realized on the resale of illiquid securities could be less than those originally paid by the Funds. Further, companies whose securities are not publicly listed may not be subject to public disclosure and other investor protection requirements applicable to issuers of publicly traded securities.

**Lack of Diversification Requirements.** Unlike some investment funds that, as a matter of investment policy, diversify portfolio holdings so that no more than a fixed percentage of their assets are invested in any one industry or group of industries, the Funds are not subject to fixed guidelines for diversification of investments and will concentrate their investments in the real estate industry. Since each Fund’s portfolio is concentrated in securities issued by companies in the real estate industry, the value of its portfolio will be disproportionately affected by events affecting that industry. In addition, these companies may fall out of favor with investors, causing that Fund to

lose money or underperform the stock market or funds concentrated in other industries. Concentration of investments in an industry may also increase the volatility of the value of the Funds' portfolio investments.

**Investment in Investment Companies.** Each Fund may from time to time invest a portion of its assets in investment companies, such as ETFs and closed-end investment companies. The investors will indirectly bear the Funds' proportionate share of any management fees and other expenses paid by such investment companies in which the Funds invest in addition to the management fee, performance allocation and other fees paid by the Funds.

**Allocation of Opportunities.** Merestone Capital manages both privately offered pooled investment vehicles and a managed account on behalf of a pooled investment vehicle. Though the Funds and the account share a focus in real estate-related securities, they have significantly different rules regarding leverage and trading guidelines. The Funds and the account may, on occasion, trade in the same securities. The Adviser may, but is not required to, enter particular trades simultaneously, depending upon the liquidity of the securities, volume trading in the market and the return objective pertinent to the entity for which the trade is being executed. The Adviser will at all times follow the allocation policies and procedures as detailed in Merestone Capital's compliance manual.

#### **Item 9: Disciplinary Information**

---

##### Legal and Disciplinary

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Merestone Capital's advisory business or the integrity of its management persons.

A: Not applicable.

B: Not applicable.

C: Not applicable.

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

---

A: Broker-Dealer

Not applicable.

B: Financial Industry Activities

Not applicable.

C: Affiliations

1. Not applicable.



2. Merestone Capital is the investment manager for Merestone Partners LP, a Delaware limited partnership (the “Merestone U.S. Fund”), and Merestone Partners (Overseas) Ltd, a Cayman Islands limited company. Merestone Partners GP LLC is the general partner to the Fund (the “General Partner”) and GID Hedge Fund Holdings LLC is the managing member of the general partner.
3. Not applicable.
4. Not applicable.
5. Not applicable.
6. Not applicable.
7. Not applicable.
8. Not applicable.
9. Not applicable.
10. Not applicable.
11. Merestone Capital is a sponsor/syndicator of the Delaware limited partnership Merestone Partners LP.

D: Compensation for Referrals

Not applicable.

---

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

---

##### **A. Code of Ethics**

Merestone Capital has adopted, and its members and employees have committed, to a Code of Ethics that is available for review by clients and prospective clients upon request. Each access person of Merestone Capital must read, sign and deliver a certificate of compliance with the Code of Ethics and may only effect a personal securities transaction by pre-approving the transaction with Merestone Capital’s Chief Compliance Officer. Furthermore, each access person of Merestone Capital shall provide either quarterly securities transaction reports or, alternatively, have copies of all account statements or broker trade confirmations related to personal securities transactions in which such person or any member of his or her immediate family has a direct or indirect beneficial ownership interest sent directly to Merestone’s Chief Compliance Officer within 30 days of each quarter end.

---

#### B. Participation or Interest in Client Transactions

Merestone Capital's related person, Merestone Partners GP LLC, a Delaware limited liability company (the "General Partner"), is the general partner of the Merestone U.S. Fund. GID Hedge Fund Holdings LLC, a Delaware limited liability company, wholly owns Merestone Capital and partially owns the General Partner. There is potential conflict of interest in this arrangement since the General Partner is generally entitled to 20% of the net profits of the Merestone U.S. Fund, which could encourage Merestone Capital to invest more aggressively in riskier securities than in the absence of this performance allocation. Merestone Capital addresses any potential conflicts in this arrangement by fully disclosing this arrangement to its clients, having each investor in all Funds acknowledge that each is aware of such conflicts of interests, and ensuring that any investments in the Merestone U.S. Fund by Merestone Capital and its access persons are pre-cleared by Merestone Capital's Chief Compliance Officer.

---

#### C. Participation or Interest in Client Transactions

See response to Item 11.B above.

---

#### D. Participation or Interest in Client Transactions

See response to Item 11.B above.

---

### **Item 12: Brokerage Practices**

---

#### A. Selecting Brokerage Firms

In selecting brokers and dealers to effect portfolio transactions for the Funds, the Adviser will generally seek best execution after considering such factors as the ability of the brokers to effect the transactions and the brokers' facilities, reliability and financial responsibility; other factors, such as clearance, settlement, error correction capabilities, availability of securities to borrow for short sales, the brokers' willingness to commit capital, and the brokers' historical record of making markets for particular securities all can contribute to the selection process. The Adviser need not, however, solicit competitive bids and the Adviser does not have an obligation to seek the lowest available commission cost.

---

##### 1. Research and Other Soft Dollar Benefits

The Adviser may use "soft dollars" to pay for research and execution products or services that fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), research and execution services obtained with soft dollars generated by securities transactions by a client may be used by the Adviser to service accounts other than the client generating such soft dollar credits. As of the date of this filing, the Adviser receives services paid for by "soft dollars" and has entered into a commission accrual system managed by its prime broker and allocates soft dollar payments in return for research products that fall within the safe harbor of Section 28(e). Merestone Capital intends to use any research products obtained with soft dollars for the benefit of all of its clients.

---

---

2. Brokerage for Client Referrals

- a. Not applicable.
  - b. Not applicable.
- 

3. Directed Brokerage

- a. Not applicable.
  - b. Not applicable.
- 

B. Aggregation

Merestone Capital generally does not aggregate the purchase or sale of securities for various client accounts since its principal clients have investment constraints that vary sufficiently to make such aggregation not always appropriate to the particular client's specific strategy. Non-aggregated trades in the same security are likely to be executed at different prices, dependent on the date, time and prevailing market conditions at the time of execution, potentially benefitting one client relative to a different client.

---

**Item 13: Review of Accounts**

---

A. Periodic Reviews

Andrew St. Pierre, Merestone Capital's President and Chief Compliance Officer, reviews the investments and performance of the Adviser's clients on a weekly basis.

---

B. Review Triggers

Significant changes in applicable laws, new investment information affecting the investments or markets that a client is exposed to, or changes in the strategic or tactical focus of the client can all cause the need for a review more frequently than weekly.

---

C. Regular Reports

Following the end of each calendar year, the Merestone U.S. Fund's auditor prepares, for delivery by the General Partner to each limited partner in the Merestone U.S. Fund, an audited financial statement of the Merestone U.S. Fund's operations, the Merestone U.S. Fund's tax return and Schedule K-1s for the partners to use for income tax filing. Each limited partner also receives monthly summaries (unaudited) of the Merestone U.S. Fund's performance along with the Adviser's market commentary. Each shareholder in the Merestone Offshore Fund receives monthly commentary and monthly summaries (unaudited) of the Merestone Offshore Fund's performance as well as an audited financial statement of the Merestone Offshore Fund's operations.

---

---

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

---

**A. Referrals**

Not applicable.

---

**B. Other Compensation**

Not applicable.

---

---

**Item 15: Custody**

---

Not applicable.

---

**Item 16: Investment Discretion**

---

**Discretionary Authority for Trading**

Merestone Capital accepts discretionary authority to manage investment accounts on behalf of its clients. Under these arrangements, Merestone Capital has the authority to determine, without obtaining specific client consent, the investments to be bought or sold, and the amount of the investments to be bought and sold on behalf of clients. Except per the sub-advisory agreement between Merestone Capital and Prelude Opportunity Fund, LP, clients do not place any limitations on this discretionary authority.

---

**Assumption of Authority**

As part of Merestone Capital assuming discretionary authority for its Funds and an investor investing in a Fund, the investor signs a limited power of attorney by execution of the limited partnership agreement/subscription agreement for such Fund.

---

---

**Item 17: Voting Client Securities**

---

**A. Proxy Voting**

Merestone Capital has policies and procedures reasonably designed to ensure it complies with the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act and which reflect the Adviser's commitment to vote all client securities, if any, for which it exercises voting authority in a manner consistent with the best interests of its clients. The Adviser has engaged its Funds' administrator Partnership Financial Consulting, PC to collect, analyze, vote and record votes under the supervision of the Chief Compliance Officer and in adherence to the Adviser's proxy

voting policies and procedures as described in the Adviser's compliance manual/code of ethics.

In cases where the Adviser believes that a material conflict of interest may arise due to business, personal or family relationships of the Adviser and if that conflict is deemed material, the Adviser will take such steps as necessary to ensure that its voting decision is based on the best interests of the client.

Clients may obtain copies of the Adviser's proxy voting policies and procedures and also obtain information as to the voting of a specific proxy by making a written request to the Chief Compliance Officer.

B. Not applicable.

---

**Item 18: Financial Information**

---

A. Balance Sheet

Merestone Capital has not provided a balance sheet because Merestone Capital does not require or solicit prepayment of more than \$1,200 in fees per client, six (6) months or more in advance.

---

B. Financial Condition

Merestone Capital does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients.

---

C. Bankruptcy Petition

Merestone Capital has not been the subject of a bankruptcy petition at any time during the past ten years.