

# CRESTWOOD CAPITAL MANAGEMENT<sup>®</sup>, L.P.

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## FORM ADV, PART 2A BROCHURE

March 20, 2013

This brochure provides information about the qualifications and business practices of Crestwood Capital Management, L.P.\* If you have any questions about the contents of this brochure, please contact us at (212) 612-3040 or via e-mail at [info@crestwoodcap.com](mailto:info@crestwoodcap.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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Crestwood Capital Management, L.P. or any person associated with Crestwood Capital Management, L.P. has achieved a certain level of skill or training.

Additional information about Crestwood Capital Management, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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\* Crestwood<sup>®</sup> and Crestwood Capital Management<sup>®</sup> are registered trademarks of Crestwood Capital Management, L.P.

## **Item 2 - Material Changes**

Crestwood has no material changes to report since the Brochure that was prepared in February of 2012. We encourage all recipients of this Brochure to read it carefully in its entirety.

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## **Item 4 – Advisory Business**

### **Description of the Firm**

Crestwood Capital Management, L.P. (“Crestwood”) is a privately owned limited partnership organized under the laws of the state of Delaware, with its principal place of business in New York, New York. Crestwood began providing investment advisory services in 2009. Michael Weisberg and Amit Mehta each own or control 49.5% of Crestwood, with Crestwood Capital Management, LLC owning the remaining 1%. Michael Weisberg and Amit Mehta each own or control 50% of Crestwood Capital Management, LLC. Mr. Mehta’s interest in Crestwood and Crestwood Capital Management, LLC is indirect, though Aravi Capital, L.P., which is more than 75% owned, and 100% controlled, by Mr. Mehta. Crestwood serves as the investment manager to several private investment partnerships and companies. From 1995, when he launched the first Crestwood Fund, and prior to its acquisition by ING Group, N.V. and/or its affiliates (“ING”) in 1997, Mr. Weisberg was a managing director at Furman Selz and was the Portfolio Manager of the Crestwood Funds. Mr. Mehta joined ING in 2002 and became co-Portfolio Manager, with Mr. Weisberg, of the Crestwood Funds in 2005. Effective July 1, 2009, Crestwood replaced ING as the investment adviser and/or management company of the Crestwood Funds. At that time, Mr. Weisberg and Mr. Mehta ceased to be employees of ING. Crestwood does not participate in wrap fee programs.

### **Advisory Services Offered**

Crestwood serves as the investment manager or adviser to several private investment partnerships or companies, each of which is exempt from registration with the Securities and Exchange Commission (each a “Fund” or a “client” and together the “Funds” or the “clients”). Crestwood provides investment management services tailored to the specific investment guidelines set forth in the confidential private placement memoranda of each of the Funds. Subject to these investment guidelines, Crestwood has complete discretion and authority to manage the assets of the Funds. Crestwood is authorized to make all investment decisions, buy and sell securities, issue instructions to custodians, select broker-dealers to execute securities transactions and vote proxies and make similar decisions, except that Crestwood generally does not pursue or commence class action litigation on behalf of the Funds. Underlying investors in the Crestwood Funds do not have the ability to impose restrictions on investing in certain securities or types of securities. Crestwood offers and sells interests in the Funds in private transactions solely to accredited investors and qualified clients or qualified purchasers, as the case may be, and certain employees of Crestwood and/or its affiliates.

### **The Crestwood Funds**

Each of the Crestwood Funds is managed using the same long-short equity global growth strategy. Investment performance is dependent upon the selection of long investments that outperform the market and short investments that underperform the market. While

the confidential private placement memoranda for each of the Funds give Crestwood broad discretion with respect to the types of securities it may purchase, Crestwood will purchase and sell primarily equity and equity-related securities in global markets. Crestwood may also invest in preferred stocks, convertible securities, warrants, commodities, options (including covered and uncovered puts and calls and over-the-counter options), futures and other derivative instruments, bonds and other fixed income securities, foreign currencies, private securities and money market instruments. Crestwood also engages in short selling, margin trading, hedging and other investment strategies for each Fund. There are no predetermined limits on the relative amount of Fund assets that may be invested long or short. The relative level of long and short positions depends upon Crestwood's evaluation of the relative attractiveness of investment opportunities, perception of general market direction and other factors. Generally, each Fund's long portfolio will be less than 150% of its net assets and the short portfolio will be less than 100% of its net assets, but Crestwood can, from time to time, exceed these levels. Performance is primarily driven by the relative performance of our long and short investments rather than the performance of the markets.

Crestwood manages a U.S. domiciled and a British Virgin Islands domiciled Fund, each open only to investment by accredited investors and qualified purchasers. Both Crestwood Partners and Crestwood International (as each Fund is defined immediately below) seek to attain their investment objectives by investing substantially all of their assets in a British Virgin Islands based master fund, through a master feeder structure. Crestwood Partners and Crestwood International are referred to as the "Feeder Funds." The British Virgin Islands master fund has the same investment objective and strategy as each of its feeder funds. Crestwood also manages a U.S. domiciled Fund, open only to accredited investors and qualified clients, that utilizes the same investment strategy.

The Crestwood Funds are set forth below:

Crestwood Capital Partners, L.P.\* ("Crestwood Partners")  
Crestwood Capital International, Ltd. ("Crestwood International")  
Crestwood Capital Master Fund, Ltd. ("Crestwood Master Fund")  
Crestwood Capital Partners II, L.P. ("Crestwood Partners II")

Except to the extent prohibited by law, each Fund generally invests in the same securities. Investment trades are generally allocated among the Funds to achieve holdings that are proportional to their respective net asset values. As a result of this sharing of investments, the efforts of the members of Crestwood's investment and trading teams are focused on one set of investment decisions.

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\* Crestwood Capital Partners, L.P.<sup>®</sup>, Crestwood Capital International, Ltd.<sup>®</sup>, Crestwood Capital Master Fund, Ltd.<sup>®</sup>, and Crestwood Capital Partners II, L.P.<sup>®</sup> are registered trademarks of Crestwood Capital Management, L.P.

## **Assets under Management**

As of December 31, 2012 Crestwood managed, on a discretionary basis, client assets totaling \$1,076.1 million. Crestwood does not manage client assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

### **Management Fees**

Each Fund, other than the Crestwood Master Fund, pays Crestwood a management fee that is calculated as a percentage of assets under management by Crestwood. Management fees for each Fund are set out in detail in the confidential private placement memorandum for that Fund. Fees are payable quarterly in advance based on the quarter-end asset value as of the first business day of the calendar quarter. Each underlying investor in a Fund pays the Fund the portion of the fee attributable to that investor's holdings in the Fund. The management fee paid to Crestwood is equal to 1.5% per year, or 0.375% per quarter. Fees paid in advance are not refundable. While the Crestwood Master Fund does not charge its own management fees, Crestwood, for administrative convenience, may elect to charge the management fees associated with the other Funds at the Master Fund level.

### **Performance-Based Compensation**

At the end of each fiscal year, each Fund, other than the Crestwood Master Fund, also makes, to an affiliate of Crestwood, a performance-based allocation equal to a percentage of the net profits allocated to each investor in the Fund in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended ("Advisers Act"). With respect to Class A Shares of Crestwood International and One Year Lock-Up Interests of Crestwood Partners and Crestwood Partners II (as each such term is defined below), the performance allocation is equal to 20% and with respect to Class B Shares of Crestwood International and Three Year Lock-Up Interests of Crestwood Partners and Crestwood Partners II (as each such term is defined below) the performance allocation is equal to 17.5% of the net profits of the Fund and is paid to Crestwood Capital Group, LLC, an affiliate of Crestwood, which serves as the general partner to Crestwood Partners and Crestwood Partners II. Crestwood makes the performance allocation pro rata from the account of each underlying Fund investor in the amount attributable to that investor's holdings in the applicable Fund. The performance allocation is subject to a high water mark. This means that no performance allocation is made unless the value of Fund assets has increased since the prior allocation, adjusted for capital withdrawals and contributions. If a Fund terminates its investment management agreement, or an underlying investor withdraws its assets from the Fund, fees will be allocated on a pro rata basis. While the Crestwood Master Fund does not receive a Performance Allocation attributable to assets invested in the Master Fund, Crestwood, for administrative convenience, may elect to allocate the Performance Allocation associated with the other Feeder Funds at the Master Fund level.

## **Fee Differential**

In extremely limited circumstances, certain underlying investors in the Funds may pay lower fees or have other unique arrangements such as the waiver or rebate of fees, provided that the Fund is not harmed. For example, Crestwood employees do not pay the management fee and are not subject to the performance allocation. In addition, investors in a Fund may have specially tailored arrangements with respect to their investment in a Fund. These arrangements could create preferences or priorities for certain investors in the Funds as compared to other investors. Crestwood may enter into these arrangements without the consent of, or notice to, other Fund investors, and these arrangements may not be available to all investors in the Funds.

## **Early Withdrawal and Related Charges**

Any capital contribution that is withdrawn from a Fund before the completion of the investor's commitment period is subject to an early withdrawal fee, which may be waived in Crestwood's discretion or the discretion of one of its affiliates, as set out in detail in the Funds' confidential private placement memoranda.

Class A shares ("Class A Shares") and Class B shares ("Class B Shares") in Crestwood International are subject to a one year and a consecutive three year commitment period, respectively. Crestwood Partners and Crestwood Partners II each offer interests that are subject to a one year commitment period (the "One Year Lock-Up Interests") and a consecutive three year commitment period (the "Consecutive Three Year Lock-Up Interests"). Investors owning Class A Shares or One Year Lock-Up Interests, as applicable, who withdraw a capital contribution prior to the end of the one year period will pay an early withdrawal fee of 2% of the amount withdrawn. Investors owning Class B Shares or Consecutive Three Year Lock-Up Interests who withdraw a capital contribution prior to the end of a three year period generally will pay an early withdrawal fee of between 3% and 6% of the amount withdrawn, depending on the number of years left prior to the expiration of the commitment period, and whether the investment is subject to an initial or a renewal three year commitment period. Investments made by Crestwood employees are not subject to any commitment period.

The Master Fund receives, as income, all early withdrawal charges associated with early withdrawals of One Year Lock-Up Interests or Class A Shares from Crestwood Partners and Crestwood International, respectively. A portion of such early withdrawal charges associated with early withdrawals of Three Year Lock-Up Interests or Class B Shares from Crestwood Partners and Crestwood International, respectively, is paid to Crestwood rather than the Master Fund. Early withdrawal fees associated with early withdrawals from Crestwood Partners II are retained by the Fund, except that a portion of such early withdrawal fees associated with early withdrawals of Three Year Lock-Up Interests is paid to Crestwood. For the purposes of determining the amount of the withdrawal, contributions are treated on a first in first out basis.

## **Other Fees**

All fees paid to Crestwood are separate from fees related to brokerage commissions, transaction fees, audit, legal and administrative fees and other related costs and expenses which may be incurred by a Fund (including Crestwood's costs for legal expenses related to the management of the Funds), regulatory and compliance expenses (including, but not limited to, expenses related to all regulatory filings, *e.g.*, Schedule 13F, Schedule 13D, Schedule 13G and Form PF). The Funds will also incur other charges imposed by custodians, brokers, and other third parties, such as custodial fees, transaction related expenses, transfer taxes, wire transfer and other fees. Such charges, fees and commissions are exclusive of and in addition to Crestwood's fees. Crestwood does not receive a portion of these other commissions, fees and costs. (Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.)

Crestwood's investment management agreement with each of the Funds generally provides that the Fund will indemnify and not hold Crestwood and/or its affiliates liable for certain expenses, losses and claims that may arise in connection with the performance of its duties (including management of the Fund's investments and execution of investment trades), provided that such persons' conduct has not breached certain specified standards of conduct. That is, the relevant actions must have been taken in good faith and cannot have involved willful misconduct, gross negligence, a reckless disregard of its duties, a violation of federal or state securities laws or criminal wrongdoing.

## **Billing Method**

The Funds' administrator deducts from the account of each investor in each Fund the quarterly management fee, pro rated if the account was opened during that quarter. The Funds' administrator deducts from the account of each investor in each Fund the annual performance allocation, if applicable.

## **Termination of Advisory Services**

The investment management agreement between Crestwood and each Fund is renewed automatically for one (1) year terms (computed from each January 1), unless terminated in accordance with its provisions, by providing at least sixty (60) days written notice of termination.

## **Other Compensation**

None of Crestwood's employees receives compensation for the sale of securities or other investment products.

## **ERISA Clients**

Crestwood may be deemed to be a fiduciary under the Employee Retirement Income and Securities Act ("ERISA") to any of its Funds and any underlying investors in such Funds

that are employee benefit plans or individual retirement accounts if the Fund is deemed to hold “plan assets.” Any assets subject to ERISA that are deemed to be “plan assets” are subject to specific rules and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation and the prohibition of certain transactions. In order to avoid causing assets of any of the Funds to be deemed “plan assets,” Crestwood restricts the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests in each Fund.

### **Valuation and Pricing**

Unless specifically provided otherwise in a Fund’s confidential private placement memorandum, Crestwood typically uses available pricing services or sources to determine the market value of a Fund’s portfolio. Crestwood may rely on various services from outside vendors for information such as pricing, ratings, and other relevant factors. While these vendors are generally reliable, from time to time information they provide may be inaccurate or stale, which may affect the pricing and categorization of portfolio holdings. While most of the Funds’ holdings are liquid securities, from time to time, Crestwood may need to determine a price for a portfolio holding using “fair value” pricing methods. In these situations, Crestwood elicits input from its valuation committee, which is comprised of at least three members including one portfolio manager, to determine what it believes to be a representative or “fair” price for the holding. These determinations may involve a significant amount of judgment and in some cases may not result in an accurate price. A conflict of interest exists in valuing the Funds’ investments because Crestwood has an incentive to value the portfolio aggressively in order to improve performance, attract new underlying investors to the Funds and increase the performance allocations. The Funds may hold securities or instruments that have no trading market or are otherwise difficult to value. For these types of securities, Crestwood may determine the third party it believes will provide the most reliable price quotations.

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

The Crestwood Funds are subject to a performance-based allocation (that is an allocation based on a share of capital gains on or capital appreciation of Fund assets). Please refer to the “Performance Allocation” section (Item 5) of this Form ADV for additional information. Crestwood does not manage any accounts other than the Funds so it has no clients who are subject to any other type of fee. As such, the potential conflicts of interest related to managing accounts that charge performance-based fees alongside accounts that do not charge performance-based fees do not apply to Crestwood.

As a result of the performance-based fee, Crestwood may have an incentive to make investments that are riskier or more speculative than it otherwise might make in the absence of compensation based on the performance of the Funds. Crestwood has policies and procedures in place related to the allocation of investments and investment opportunities. (See Item 12 of this ADV.) If Crestwood determines that an investment or

trading opportunity is appropriate for more than one Fund, then Crestwood allocates such investment or trading opportunity among the Funds in a manner it determines, exercising its judgment in good faith, to be fair and equitable, taking into consideration all allocations among such Funds taken as a whole. Crestwood is not required to provide every investment opportunity to every Fund.

## **Item 7 – Types of Clients**

Crestwood offers its investment advisory services only to private investment funds that are exempt from the Investment Company Act of 1940, as amended. Please refer to Item 4 of this ADV for a list of such Fund clients. Investors in the Funds must be sophisticated investors and are generally:

- high net worth individuals;
- pension and profit sharing plans;
- charitable organizations and/or foundations;
- corporations, partnerships, LLCs or other businesses; and
- trusts

In order to qualify for investment in Crestwood Partners and Crestwood International, underlying investors in those Funds must certify that they are “accredited investors” and “qualified purchasers” (as defined by law). In order to qualify for investment in Crestwood Partners II, underlying investors must certify that they are “accredited investors” and “qualified clients” (as defined by law). Underlying investors in Crestwood Partners and Crestwood International typically must invest a minimum of \$1 million, subject to reduction by Crestwood. Underlying investors in Crestwood Partners II typically must invest a minimum of \$500,000, subject to reduction by Crestwood. Crestwood reserves the right to reject any investment in whole or in part.

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

### **Methods of Analysis**

Crestwood manages the portfolios of the Funds in accordance with the investment strategy described in the confidential private placement memorandum for each Fund. The investment strategies and risks set forth below are summaries, and are not intended to be a complete statement of the investment strategies and related risks applicable to an investment in the Funds. Investors should review the complete private placement memorandum for each Fund and other governing documents for a complete statement of the strategy and risks related to each Fund.

Crestwood uses the following methods of analysis in formulating investment advice and/or managing its Funds’ assets:

*Fundamental Analysis:* Crestwood attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry

conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis is the primary foundation of Crestwood's research efforts.

*Qualitative Analysis:* Crestwood subjectively evaluates non-quantifiable factors such as the quality of management, labor relations, and strength of research and development factors not readily subject to measurement, in an attempt to predict changes to share price based on that data. Qualitative analysis is important to the formulation of Crestwood's investment strategies. However, Crestwood's subjective judgments may prove incorrect.

*Risks for all forms of analysis:* The securities analysis methods that Crestwood uses all rely on the assumption that the companies whose securities Crestwood purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities are providing accurate and unbiased data. While Crestwood is alert to indications that data may be incorrect, there is always a risk that Crestwood's analysis may be compromised by inaccurate or misleading information.

## **Investment Strategies**

Crestwood uses the following strategies in managing Funds' assets, consistent with the investment objectives and risk tolerance stated in the confidential private placement memorandum for each Fund, among other considerations:

*Long-Term Purchases:* Crestwood purchases securities with the idea of holding them in the Fund's account for a year or longer. Typically Crestwood uses this strategy when:

- it believes the securities to be currently undervalued; and/or
- it wants exposure to a particular asset class over time, regardless of the current projection for the asset class.

A risk in long-term purchase strategy is that by holding the security for this length of time, Crestwood may not take advantage of short-term gains that could be profitable to a Fund. Moreover, if Crestwood's predictions are incorrect, a security may decline sharply in value before Crestwood makes the decision to sell.

*Short-Term Purchases:* When utilizing this strategy, Crestwood purchases securities with the idea of selling them within a relatively short time (typically a year or less). Crestwood does this in an attempt to take advantage of conditions that Crestwood believes will soon result in a price swing in the securities purchased.

*Trading:* Crestwood purchases securities with the idea of selling them very quickly (typically within thirty (30) days or less). Crestwood does this in an attempt to take advantage of predictions of brief price swings.

*Short Sales:* Crestwood borrows shares of a stock for the Fund's portfolio from someone who owns the stock on a promise to replace the shares on a future date. These borrowed shares are then sold. On a future date, Crestwood buys the same stock and returns the shares to the original owner. Crestwood engages in short selling based on its determination that the stock will go down in price after it has borrowed the shares. If Crestwood is correct and the stock price has gone down since the shares were purchased from the original owner, the Fund account will realize the profit. If Crestwood is incorrect and the stock price has gone up since it bought the shares, the Fund account will suffer the loss. Because the theoretical price increase is unlimited, a short sale involves the risk of a theoretically unlimited loss.

*Margin Transactions:* Crestwood will purchase securities for its Funds' portfolios with money borrowed from the Funds' brokerage account. This allows the Funds to buy more stock than the Funds would be able to with the cash that is available, and allows Crestwood to purchase new or additional securities for the Funds without selling other holdings.

*Options:* Crestwood may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or a bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- a call gives Crestwood the right to buy an asset at a certain price within a specific period of time. Crestwood will buy a call if it has determined that the stock price will increase substantially before the option expires.
- a put gives Crestwood the right to sell an asset at a certain price within a specific period of time. Crestwood will buy a put if it has determined that the price of the stock will fall before the option expires.

Crestwood uses options to speculate on the possibility of a sharp price swing. Crestwood also uses options to "hedge" a purchase of the underlying security; in other words Crestwood will use an option purchase to limit the potential upside and downside of a security that has been purchased for the Fund's portfolio.

Crestwood may also use "covered calls," in which it sells an option on a security owned by the Fund. In this strategy, the Fund receives a fee for making the option available, and the person purchasing the option has the right to buy the security from the Fund at an agreed upon price.

Crestwood may also use a "spreading strategy," in which it purchases two (2) or more option contracts (for example, a call option that the Fund buys and a call option that the Fund sells) for the same underlying security. This effectively puts the Fund on both sides of the market, but with the ability to vary price, time and other factors.

*Fixed Income Transactions:* While the Funds trade primarily in equity and equity-like securities, the confidential private placement memorandum for each Fund does provide Crestwood with the flexibility to invest in fixed income and hybrid securities, which can include a wide array of debt instruments, including investment grade debt, government securities, corporate debt, money market instruments, non-investment grade (or high yield) debt and others. To varying degrees, depending on the particular instruments, fixed income securities are subject to interest rate, credit and liquidity risks, among others.

As Portfolio Managers of each of the Funds, Michael Weisberg and Amit Mehta have final authority over all portfolio decisions for all Funds. Mr. Weisberg and Mr. Mehta are responsible for portfolio activities, including sizing of positions, the resulting allocation of capital among sectors and the maintenance of targeted gross and net exposures.

### **Risk of Loss**

*General Risk of Loss Statement:* As with any investments, investing in securities involves a risk of loss. Future returns are not guaranteed and the Fund may lose money on investments. The securities markets are volatile and clients should consider carefully the amount of risk and/or loss they are willing to bear. Crestwood in no way guarantees performance, and at any time, the value of assets invested may fluctuate and be worth less than the amount originally invested. A client Fund should only invest assets it will not need for current purposes and that can be invested on a long-term basis. These risks apply to underlying investors in the Funds as well.

*Selection of Securities:* Because the Funds invest primarily in publicly-traded equity securities, Crestwood believes that the primary risk of loss is associated with securities selection. The price of a company's stock could decline or underperform for many reasons, including, among others, poor management, financial problems or business challenges. If a company declares bankruptcy or becomes insolvent, its stock could become worthless. Crestwood attempts to minimize this risk through the construction of the Fund's portfolios. While certain other risks associated with investing in the Funds are set forth below, the list is not intended to be exhaustive. For more details on investment risk, please refer to the appropriate confidential private placement memorandum for each Fund.

*Convertible Securities:* Convertible securities are securities that are convertible into or exercisable for common stock at a stated price or rate. Convertible securities are subject to the usual risks associated with debt securities, such as interest rate and credit risk. In addition, because convertible securities react to changes in the value of the stocks into which they convert, they are subject to market risk.

*Currency:* To the extent that a Fund invests directly in foreign currencies or in securities denominated in or that trade in foreign (non-U.S. currencies), it is subject to the risk that

those currencies will decline in value relative to the U.S. dollar, or in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged.

*Derivative Instruments:* Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect which may increase volatility and reduce returns.

*Foreign Investments:* Investing in foreign (non-U.S.) securities may result in more rapid and extreme changes in value than an investment exclusively in securities of U.S. companies due to smaller markets, differing reporting, accounting and auditing standards, and nationalization, expropriation or confiscatory taxation, foreign currency fluctuations, currency blockage, or political changes or diplomatic developments.

*Liquidity:* If a security is illiquid, Crestwood might be unable to sell the security at a time when desired, and the security could have the effect of decreasing the overall level of a Fund's liquidity. Further, the lack of an established secondary market may make it more difficult to value illiquid securities, which could vary from the amount realized upon disposition. Crestwood may make investments that become less liquid in response to market developments or adverse investor perception. A Fund could lose money if it cannot sell a security at the time and price that would be most beneficial.

*Market:* Stock prices are volatile and are affected by the real or perceived impacts of such factors as economic conditions and political events. The stock market tends to be cyclical, with periods when stock prices generally rise and periods where stock prices generally decline. Any given stock market segment may remain out of favor with investors for a short or long period of time, and stocks as an asset class may underperform bonds or other asset classes during some periods.

*Market Capitalization:* Stocks fall into three broad market capitalization categories – large, mid and small. Investing in primarily one category carries the risk that, due to current market conditions, that category may be out of favor with investors. If valuations of large-capitalization companies appear to be greatly out of proportion to the valuations of mid- or small-capitalization companies, investors may migrate to the stocks of mid- and small-sized companies causing an investment in these companies to increase in value more rapidly than an investment in larger, fully-valued companies. Investing in mid- and small-capitalized companies may be subject to special risks associated with narrower product lines, more limited financial resources, smaller management groups, and a more limited trading market for their stock as compared to other larger companies. As a result, stocks of mid and small sized companies may decline significantly in market downturns.

*Turnover/Frequent Trading:* A change in the securities held by a Fund is known as “portfolio turnover.” Higher portfolio turnover is a result of frequent trading and involves correspondingly greater expenses to a Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments

in other securities. Such sales may also represent tax risk. The trading costs and tax risk associated with portfolio turnover may adversely affect a Fund's performance. The use of futures or other forward settling derivatives may result in the appearance of higher portfolio turnover as positions are "rolled forward" in order to maintain a specific exposure. Accordingly, portfolio turnover rates may vary based on how such rates are calculated.

*Emerging Markets:* The Funds may invest in emerging market debt or equity. These markets are often in developing countries and tend to be more volatile and risky than more established trading markets. In addition, the instruments and investments of emerging markets often carry higher credit and/or company risks.

*Evolving and New Investment Approaches:* Crestwood's investment approach and trading techniques are continually evolving. Crestwood is not restricted in developing or incubating new strategies or approaches and may deploy the Funds' capital in accordance with such new strategies and approaches, even if Crestwood has limited experience in the type of markets or instruments involved. The strategies and approaches developed by Crestwood may not be successful and the resources devoted to the implementation of new approaches or strategies may diminish the effectiveness of Crestwood's implementation of its established approaches or strategies.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose whether there are any legal or disciplinary events that would be material to a client's or a prospective client's evaluation of Crestwood or the integrity of Crestwood's management. Crestwood has no history of any reportable disciplinary action.

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

Crestwood has a material business relationship with Crestwood Capital Group, LLC, which serves as the general partner to Crestwood Partners and Crestwood Partners II. Crestwood Capital Group, LLC is not a registered investment adviser.

As discussed in response to Items 4 and 7 above, Crestwood manages the assets of several hedge funds. We do not believe that the contemporaneous management of the Crestwood Funds causes a conflict of interest because they share the same investment strategies, and allocations are made based on principles described in Item 4.

Both Amit Mehta and Michael Weisberg, the principals of Crestwood, and some Crestwood employees, have assets invested in one or more of the Funds.

Crestwood also has an agreement with ING Alternative Asset Management LLC ("ING IM"), which is a registered investment adviser, pursuant to which Crestwood outsources its trading function for exchange-listed securities to ING IM. ING IM provides Crestwood with trading and related support services, including, among other things,

execution of transactions, access to meetings with various financial institutions and other information sources, and access to securities offerings. Under the terms of the agreement between Crestwood and ING IM, ING IM has the discretion to select broker-dealers or counterparties to execute orders for the Funds and to place trades on behalf of the Funds, subject to ING IM's compliance with its own allocation and trading policies and Crestwood's review and oversight. (See Item 12 for a more detailed description of the relationship with ING IM.)

Neither Crestwood nor any of its management persons are registered or have an application pending to register as a broker-dealer or as registered representative of a broker-dealer. Neither Crestwood nor any of its management persons are registered or have an application pending as a futures commission merchant, commodity pool operator or commodity trading advisor, or as an associated person of any of the foregoing.

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

As an investment manager to various Funds, Crestwood may give advice, or take action or refrain from taking action, any of which may differ from advice given, action taken or not taken or the timing of any action for any other Fund. Further, Crestwood may recommend or effect transactions on behalf of the Funds in securities which it or any of its affiliated persons may buy or sell for their own accounts. Crestwood is not a broker-dealer and does not act as a principal or broker in connection with Fund transactions. Crestwood, and persons related to Crestwood, including its officers, directors and employees, may buy, sell, or have a financial interest in securities recommended to the Funds either by investing directly in the Funds managed by Crestwood or otherwise, through independent transactions in personal accounts subject to Crestwood's Code of Ethics described below.

Crestwood has adopted a Code of Ethics in an effort to avoid potential conflicts of interest and the inappropriate use of material non-public information, and to ensure the propriety of its employees' and clients' trading activities. The Code of Ethics is distributed to each employee at the time of hire and employees receive annual training in issues related to the Code of Ethics. The Code is based on the principle that officers, directors and other Crestwood personnel owe a fiduciary duty to Crestwood's clients and must place the interests of Crestwood's clients above their own.

Crestwood's Code of Ethics prohibits any employee or the immediate family member of any employee from buying or selling any publicly-traded equity security that is held in a Fund portfolio. We believe that this prohibition effectively addresses the material potential conflict of interest with the Funds that may arise as a result of personal trading by our employees. In addition, subject to certain exceptions (e.g., U.S. government securities, open-ended investment companies, etc.), all employees must pre-clear all securities transactions in their personal accounts or the accounts of immediate family members.

The Code of Ethics also prohibits any employee or their immediate family member from participating in initial public offerings (“IPO”s) or from purchasing or selling the same security for a gain within a specified time period. Crestwood also maintains a blackout period during which it will not authorize the sale of securities being sold by the Funds. The Code further requires employees to surrender profits from “short-swing” trading (purchase and sale of the same security or its equivalent within a thirty (30) day period).

Employees are required to provide Crestwood with a complete report of their securities holdings at the time they are hired. Employees also provide Crestwood with duplicate copies of trade confirmations and account statements for all of their brokerage accounts. Employees are also required to provide quarterly transaction and annual securities holdings reports. Most types of securities are subject to these reporting requirements.

In order to ensure that Crestwood employees do not buy or sell securities at the same time as the Funds, employees are prohibited from trading in securities held by the Funds. This prohibition remains in effect until at least seven (7) days after the Funds have exited the position. Crestwood also maintains various Restricted Trading Lists (each a “Restricted List”). The Funds may be permitted to execute transactions in securities on a Restricted List unless Crestwood or any Crestwood employee is in possession of material non-public information concerning the security. Employees and their immediate family members are prohibited from trading in securities on any Restricted List. Securities that will be placed on a Restricted List include any:

- securities with whose issuer Crestwood or any of its employees is affiliated;
- securities of an issuer with whom any Fund investor has disclosed an affiliation;
- or
- any other security at the discretion of the Chief Compliance Officer.

The placement of a security on a Restricted List restricts personal trading in the securities of the issuer unless Crestwood’s Chief Compliance Officer grants an exception, which must occur before any otherwise prohibited activity is initiated. Securities are generally kept on the Restricted List until the reason for placement on the list no longer applies.

The Code also prohibits employees from serving on the boards of public companies under any circumstances, and from maintaining other outside affiliations without prior approval.

It is possible that Crestwood employees may own securities that are subsequently purchased for or recommended to a Fund. It is possible that Crestwood may purchase or recommend publicly issued securities for its Funds which were previously acquired by its employees. From time to time, conditions may arise in which shares may be purchased or sold for Funds that are already owned by employees of the firm. In such cases, to the extent that Crestwood deems the transaction to be advisable for a Fund, no security may be bought or sold by a Crestwood employee until the Fund transaction has been completed.

The Code establishes sanctions if its requirements are violated, up to and including dismissal from employment. Employees are required to certify annually that they have complied with the Code of Ethics.

The foregoing is only a summary of the provisions of the Code and is qualified in its entirety by the detailed provisions appearing in the full text of the Code. A copy of the Code of Ethics may be obtained by contacting Crestwood's Chief Compliance Officer at 599 Lexington Avenue, 39<sup>th</sup> Floor, New York, NY 10022.

Crestwood treats as confidential all information provided by the underlying investors in the Funds. Such confidential information will not be disclosed to any non-affiliated third party, except as permitted by clients or as required by law.

From time to time, Crestwood may come into possession of material non-public information, which, if disclosed, might affect an investor's decision to buy, sell or hold a security. This may occur, for example, where an affiliated person is a director or officer of a company, the stock of which may be held by a Fund. In the event that Crestwood does come into possession of material non-public information, it will be unable to use this information for the benefit of the Funds. Thus, Crestwood's possession of this information may cause a Fund to retain a security position or be unable to engage in a transaction in that position until such time as the information is made public.

## **Item 12 – Brokerage Practices**

Crestwood outsources its trading function for exchange-listed securities to ING IM for a fee that is borne by Crestwood. Under the terms of the agreement between ING IM and Crestwood, ING IM has the discretion to select broker-dealers or counterparties to execute orders for the Funds and to place trades on behalf of the Funds, subject to ING IM's compliance with its own allocation and trading policies and Crestwood's review and oversight. Notwithstanding the foregoing, Crestwood may direct ING IM to execute portfolio transactions with certain approved broker-dealers or counterparties that provide Crestwood with brokerage and research services pursuant to Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act"). Under certain circumstances Crestwood may elect to direct transactions to broker-dealers it selects, for example, during after hours trading.

Crestwood has no ability to direct trades or to otherwise influence the decisions made by ING IM regarding which brokers to select for trade execution in connection with any particular trade. However, Crestwood does participate in ING IM's broker vote process under which portfolio management teams rate broker-dealers that supply them with brokerage and research services. As a result, Crestwood may indirectly influence the broker-dealers that ING IM selects for brokerage transactions. Pursuant to a written agreement between Crestwood and ING IM, ING IM has agreed to comply with its own allocation and trading policies, including those policies and procedures regarding best execution and trade aggregation, in executing trades for the Master Fund and Crestwood Partners II.

The outsourced trading function may raise potential conflicts of interest because ING IM will have access to trading information regarding the Funds. However, the ING IM employees that are responsible for trading on behalf of the Funds are subject to ING IM Code of Ethics and related brokerage policies and procedures that restrict access to client information to a “need to know basis,” including information about trading activity in the Crestwood Funds, and generally restricts such ING IM employees from trading in securities that Crestwood purchases or sells on behalf of its Funds during a specified period of time.

#### Brokerage Selection and Best Execution

Under the terms of its own policies and procedures, ING IM is obligated to seek best execution for its customers, including the Crestwood Funds. Best execution generally means lowest transaction cost (commission) for brokerage services rendered combined with best market price in order to minimize total purchase cost or maximize total sales proceeds. Other brokerage and trading services may be considered in analyzing execution practices including but not limited to the promptness of execution, quality of research provided, confidentiality of trading activity, clearance and settlement, order positioning and financial stability.

ING IM is contractually obligated to execute securities transactions for the Crestwood Funds in such a manner that a Funds’ net cost or proceeds in each transaction is the most favorable under the circumstances. ING IM’s best execution policy applies to all transactions in all instruments, regardless of the Fund. ING IM is not required to seek competitive bids and does not have an obligation to seek the lowest available commission cost. Thus, in any transaction, a Fund may pay commissions to a broker in an amount greater than an amount another broker might charge.

In selecting a counterparty and market through which to effect a trade, and in determining whether a transaction represents the best execution, ING IM is permitted to consider a range of quantitative and qualitative factors, including but not limited to the following:

#### **Counterparty Considerations**

- Access to liquidity;
- Execution efficiency;
- Capital utilization;
- Clearance and settlement capabilities;
- Reasonableness of commission rate or spread; and
- Financial responsibility.

## Market Considerations

- Size and type of transaction;
- Characteristics of the market(s) in which the security may be traded; and
- Nature of post-trade settlement, custody and foreign exchange structures.

Crestwood enters into derivative product contracts, for example, swaps and Pnotes, directly with counterparties and may in the future trade other securities for the benefit of the Funds directly without using the services of ING IM. Crestwood has relationships with multiple counterparties so that it can select the counterparty it believes will be best for each transaction. In making this decision on a transaction by transaction basis, Crestwood will consider, among other things, market conditions, and the counterparties' creditworthiness, financial strength, market breadth, reputation, and willingness to negotiate fair and reasonable terms.

Crestwood has entered into certain prime brokerage arrangements on behalf of the Funds that are designed to allow trading with multiple brokers while centralizing clearance and custody through prime brokers. Under these arrangements, ING places trades through accounts with different executing brokers in the name of one of the Funds' prime brokers for the benefit of Crestwood's Funds. Crestwood directs delivery of funds or securities to a prime broker who is responsible for custody, clearance and settlement services including matching trades with executing brokers and delivering account confirmations and statements.

Prime brokers may, as an incident to their services to Crestwood (and not for any additional compensation), sponsor conferences or seminars or provide "capital introduction services" in which consultants and prospective institutional investors may be introduced to Crestwood or the Funds managed by Crestwood, consistent with applicable private offering restrictions.

Brokers-dealers that execute trades on behalf of the Crestwood Funds may refer investors to the Crestwood Funds or engage in other customary services or transactions with Crestwood. From time to time, broker-dealers also provide incidental consulting services and other advice with respect to Crestwood's operations and/or other matters on a formal or informal basis. The provision of such services or advice may not be subject to formal agreements and may not be compensated, depending on the extent of the services provided. While Crestwood currently only selects broker-dealers to execute its swap transactions, as set forth above, provision of services, including client referrals, could provide Crestwood with an incentive to select the respective broker-dealer for client transactions without regard to best execution. In addition, some broker-dealers may recommend that Crestwood be invited to make presentations and proposals for potential underlying investors' business, which could raise a conflict of interest. Crestwood will, however, provide compensation that it considers to be arm's length in any situation where such services have material value and will not allocate brokerage transactions to a provider of such services as compensation for client referrals or other services.

## Research and Other Soft Dollar Benefits

Under Section 28(e) an investment adviser is generally deemed to have acted lawfully and in a manner consistent with its fiduciary duties under federal and state law, if the adviser determines in good faith that the commissions charged by a broker-dealer are reasonable in relation to the value of the brokerage and research products or services provided by such broker. Section 28(e) covers research products and services that provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision making responsibilities, without regard to whether the research products or services benefit the account bearing the commission charge.

“Soft dollar” expenses paid by brokers may include items which would be properly chargeable to the Funds directly. Payment of costs through “soft dollars” may benefit Crestwood by relieving it of costs that it would otherwise have to bear because Crestwood does not have to produce or pay for the research, products or services. Receipt of this benefit may create an incentive for Crestwood to select a broker based on its interest in receiving the benefit rather than a Fund’s interest in receiving best execution.

Crestwood has entered into arrangements with brokers serving the Funds providing for the use of commissions or “soft dollars” to pay the costs of certain research products or services which fall within the safe harbor created by Section 28(e). The research and other benefits Crestwood has obtained through the use of soft dollars includes market quotes, industry research, and an industry research aggregator service. Such services are obtained from multiple vendors including Bloomberg LP and Reuters. As noted above, the outsourced trading services provided by ING IM are paid by Crestwood in hard dollars. However, Crestwood also uses soft dollars to compensate ING IM or its affiliates for providing access to meetings with various financial institutions and other information sources, as well as for facilitating access to various sources of information and research by certain broker-dealers that receive commissions for executing transactions on behalf of the Crestwood Funds. A large share of the Crestwood Funds’ trades may be placed with these particular broker-dealers.

If an expense relates to a function that would generally qualify for soft dollar payment (e.g. client research), as well as a function which does not (e.g., Crestwood administrative functions), Crestwood will make a good faith allocation of the cost between qualifying and non-qualifying functions to determine the portion that may be paid for with soft dollars. The allocation process will attempt to take into account the principal functions or benefits of the item involved, but will not attempt to measure de minimis or occasional non-qualified usage or usage of a de minimis value. It is therefore possible that payments associated with such non-qualified usage or payments made in error could benefit Crestwood, but it is not expected that such payments would be material in amount.

In any instance in which Crestwood enters into a soft dollar arrangement, a Fund may pay commissions to the relevant broker which are greater than the amount another broker may charge, but Crestwood will only do so if it determines in good faith that such amount

of commissions is reasonable in relation to the value of all property, products and services provided by such broker.

Crestwood is not required to, and may not, allocate the benefits provided with a particular soft dollar expenditure to a particular Fund. Because the Crestwood Funds share virtually all investments in common, they will likely also share many of the soft dollar benefits derived from their collective trading. The benefits derived from any particular Fund, however, may not be proportional to the costs incurred.

The use of client commissions for soft dollar services is subject to certain policies and procedures designed to ensure that services obtained with commissions are used for appropriate purposes, such as assisting in the investment decision-making process. These processes include pre-approval and documentation of soft dollar services, including mixed-use services. Crestwood periodically monitors and evaluates the quality and performance as well as execution capabilities of firms which provide research and brokerage services.

### **Trade Aggregation and Allocation Policies**

Crestwood seeks to allocate investment opportunities among the Funds in a fair and equitable manner, over time. Although Crestwood seeks to allocate investment opportunities in a manner that it believes to be in the best interest of its Funds, there can be no assurance that a particular investment opportunity will be allocated in a particular manner. Each Crestwood Fund bears any costs associated with special limitations (e.g., investment or trading restrictions) associated with that particular Fund. Generally allocations are determined by the Crestwood portfolio managers in accordance with these policies. Allocations are determined prior to a trade and documented on trade date.

In the case where ING IM executes similar trades on behalf of the Crestwood Funds and other clients of ING IM, trades placed with ING IM for the Funds may be aggregated with the trades of other clients of ING IM. ING IM has contractually agreed to follow its own trade aggregation policies and procedures when trading on behalf of the Crestwood Funds. In the absence of legal or other limitations, ING IM typically aggregates investment trades and allocates them among participating accounts (including the clients of ING IM and the Crestwood Funds) on a pro rata basis among participating accounts, based on initial order size.

### **IPO Allocations**

According to its policies and procedures, ING IM generally allocates IPOs and new issues as well as other public offerings on the basis of pre-established criteria across those eligible accounts seeking to purchase the securities (including the other clients of ING IM and the Crestwood Funds) and for which the securities are appropriate. ING IM generally allocates IPOs and new issues on a pro rata basis among participating accounts. Eligible Fund investors may receive a greater allocation of profits and losses related to such IPOs and new issues based upon their percentage share of IPO eligible assets within the Fund.

### **Item 13 – Review of Accounts**

Crestwood's Portfolio Managers review Fund accounts on a regular basis for appropriateness of holdings and transactions in light of the Funds' investment strategy. Cash and position reports are checked on a regular basis by Crestwood's Chief Operating Officer, who also serves as Crestwood's Chief Compliance Officer. The financial statements for each Fund are audited annually by an independent certified public accountant.

Crestwood makes available to the underlying investors in the Funds, via email or on a password protected website, unaudited monthly and quarterly written reports. These reports set forth the performance of the investor and other financial data and information. Crestwood also provides investors with a copy of the Fund's audited financial report and the information necessary for investors to complete their annual federal income tax return, as applicable. Crestwood also responds to periodic requests by Fund investors to value their investments and to provide certain additional information.

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

Crestwood employees attend conferences at which employees may be given gifts and/or trinkets that are less than \$50 in value. Employees may also receive gifts or similar items including entertainment from other professionals, as long as they are less than \$250 in value per gift or instance and less than \$1,000 per donor per year. The receipt of these gifts could create the incentive for Crestwood to refer business to these professionals when it may not be in the Fund's best interest to do so. However, employees are required to report all such gifts and Crestwood conducts a periodic review to ensure that business is not being referred to a third party as a result of improper gift giving.

As discussed above (see Items 10 and 12) for a fee, Crestwood receives trading and related support services from ING IM, including, among other things, execution of transactions, access to meetings with various financial institutions and other information sources, and access to securities offerings.

### **Item 15 – Custody**

To the extent Crestwood is deemed to have custody of client funds or securities under the Advisers Act, Crestwood is relying on the private fund exemption which requires an independent public accountant to send audited financial statements to the underlying investors within one hundred twenty (120) days after the end of the fiscal year.

### **Item 16 – Investment Discretion**

Crestwood's fiduciary duty requires it to give investment advice that is suitable and appropriate to each Fund, and to have an adequate basis in fact for its investment

recommendations. Crestwood has been granted discretionary authority to manage the securities accounts of the Funds pursuant to an investment management agreement entered into with each Fund. Pursuant to this grant of discretionary authority, Crestwood is authorized to purchase and sell securities, select brokers, and negotiate commission rates, subject to the guidelines set forth in the private placement memoranda for each Fund.

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

As investment manager or adviser to the Funds, Crestwood has responsibility for making investment decisions that are in the best interest of the Funds. As part of the investment management services it provides, Crestwood generally has the responsibility to vote proxies appurtenant to the shares held in the Funds' portfolios. As a fiduciary, Crestwood believes that it has as duty to manage assets solely in the best interest of its clients, and that the ability to vote proxies is a client asset. Accordingly, Crestwood has a duty to vote proxies in a manner in which it believes will add value to a Fund's investment. Crestwood may amend its proxy voting policies at any time.

Crestwood's investment management agreements with the Funds grant Crestwood the authority to cast all proxy votes. As required by the Advisers Act, Crestwood has adopted a proxy voting policy, which provides that Crestwood will act in the best interest of the Funds in determining whether and how to vote on any proxy voting matter. Crestwood has retained the services of an independent proxy voting service, which votes proxies in accordance with Crestwood's guidelines and retains the proxy voting records for six (6) years or such other period as may be required by applicable law or regulation.

Crestwood's portfolio managers consult with the investment team concerning the best method to resolve any actual or apparent conflicts of interest between the interests of Crestwood and its Funds, in a manner that affords priority to the interests of the Funds. If the conflict is personal to a portfolio manager, the portfolio manager will designate others to address the issues presented by the proxy vote.

A copy of the proxy voting policy and information on how Crestwood voted client securities can be obtained by addressing a request for such policy or information to Crestwood's Chief Compliance Officer at 599 Lexington Avenue, 39<sup>th</sup> Floor, New York, NY 10022.

### **Item 18 – Financial Information**

Crestwood does not charge or solicit pre-payment of \$1,200 in fees per client six (6) months or more in advance. Crestwood has no financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. Crestwood has not been the subject of a bankruptcy proceeding.

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

Not applicable.