

**Item 1: Cover Page**

**Socratic Fund Management LP Brochure**

**Form ADV Part 2A**

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This brochure provides information about the qualifications and business practices of Socratic Fund Management LP (“Socratic” or “we” or “our”). If you have any questions about the contents of this brochure, please contact us by phone at 973-921-4700 or by email at: [info@socraticfunds.com](mailto:info@socraticfunds.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC” or the “Commission”), or by any state securities authority. Additional information about Socratic is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Summary of Material Changes**

As Socratic is a newly registered adviser, this brochure represents Socratic's initial filing of Form ADV Part 2A with the SEC. Therefore, Socratic does not have any specific material changes to disclose pursuant to this Item.

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

Socratic was founded by principal owner and managing member, Jonathan Gibson, in December 1997.

We specialize in providing discretionary investment advisory services to separately managed accounts and private pooled investment vehicles (hedge funds) in the global energy space. Our investment objective is to preserve capital and to earn superior long-term returns, irrespective of market direction, primarily through investments in global energy securities using both long and short positions. Collectively, our firm has over 15 years of combined experience that has allowed us to develop a disciplined approach to risk management and strict adherence to investment parameters set forth in our funds' offering documents and our separately managed account clients' agreements. Each of us has invested and maintains substantial portions of our liquid net worth invested in the funds.

For more information on the investment strategy, please see Item 8 "Methods of Analysis, Investment Strategies and Risk of Loss."

Our advice is limited to the types of investments listed above and as more fully described in Item 8.

We do not participate in wrap-fee programs.

As of December 31, 2012, our discretionary net assets under management were \$68,250,000.

We do not manage assets on a non-discretionary basis at this time.

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

*Fund clients:* Socratic charges asset-based management fees to its Fund clients. As Socratic's fund clients are configured as a master feeder structure, Socratic charges its management fees at the master fund level only. In this capacity, Socratic is paid a management fee as of the beginning of each fiscal quarter equal to 0.375% of the sum of (i) the aggregate net asset values of each feeder fund investor's special account at the master fund level and (ii) the aggregate book values of each feeder fund investor's special illiquid account at the master fund level (if any) (i.e., 1.5% per annum).

Fees for fund clients are generally not negotiable, however, Socratic reserves the right to waive all or a portion of the management fee. Management fees are pro-rated for partial periods. Management fees are deducted directly from fund clients and fund clients (including investors in fund clients) may not request to be billed for fees incurred.

*Managed account clients:* All of our managed account clients are qualified purchasers and, therefore, this brochure does not contain our advisory service fee schedule for these clients. All of our managed account clients may negotiate asset-based fees. These fees are fully disclosed in

each managed account agreement. Managed account clients are billed for management fees. Such fees are not directly deducted by Socratic.

*Other fees and expenses:* In connection with our advisory services, our fund clients bear all of their own expenses. Fund client expenses will include legal, accounting, auditing and other professional fees and expenses (including, without limitation, expenses of consultants and experts), administration expenses and fees of the administrator (including fees and expenses related to order and risk management systems), research and research-related expenses (including third-party research reports, and travel expenses related to investigating investment opportunities), expense related to research databases and equipment related thereto used in the investment and investment management process for the funds, and investment expenses such as brokerage commissions, interest on margin accounts and other indebtedness, custodial fees, bank service fees and other reasonable expenses related to the research, purchase, sale and/or transmittal of fund client assets or potential assets.

Our managed account clients pay for all of their own operating expenses. This includes all expenses incurred with their account transactions, such as custodial fees, brokerage commissions, clearing fees, interest and withholding or transfer taxes.

As a general rule, all trading errors affecting a client's account are promptly investigated and resolved fairly.

See Item 12, Brokerage Practices.

Neither Socratic nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or services fees from the sale of mutual funds.

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

*Fund clients:* Investors in fund clients are subject to an annual incentive-based compensation which is taken only at the master fund level. The incentive allocation is taken by an affiliate of Socratic and, is anywhere between 15%-20% of net profits related to each Fund investor's special account at the master fund, described in more detail in the relevant feeder fund's offering documents. The incentive-based compensation is subject to a high-water mark in which all prior losses attributable to a fund investor's capital account must be made up before any incentive-based compensation may be taken by Socratic's affiliate. Socratic's affiliate may waive or reduce the incentive-based compensation for any fund investor in its sole discretion. If a fund investor withdraws or redeems from a fund prior to the date on which incentive-based compensation is taken, Socratic's affiliate will be entitled to receive its incentive-based compensation (if any) as of the withdrawal or redemption date.

*Managed account clients:* We bill our managed account clients for performance-based compensation. Our managed account clients are billed quarterly in advance for our asset-based management fee and billed annually or when a withdrawal is made (but only on the withdrawn amount) for our performance-based compensation.

The existence of the performance-based compensation may create an incentive for us or our affiliates to make riskier or more speculative investments on behalf of our clients. Our firm's investment in our fund clients aids in aligning our interests with the interests of our fund clients. We do not manage any clients that do not pay performance-based compensation.

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

All of our clients are private-pooled investment vehicles (hedge funds) and foundations.

*Fund clients:* Our fund clients rely on certain exclusions from the definition of "investment company" in the Investment Company Act of 1940, as amended. Accordingly, none of our fund clients are registered as investment companies with the SEC. Investors in our fund clients must all be accredited investors as that term is defined by Regulation D of the Securities Act of 1933, as amended and, to the extent required, investors in our onshore feeder fund clients must also be qualified clients as defined by the Investment Advisers Act of 1940, as amended. Investors in fund clients are also generally required to make a minimum initial investment of \$1,000,000. Either Socratic or an affiliate of Socratic, has the discretion to, and on occasion may, accept investments for a lesser amount.

*Managed account clients:* All managed account clients are required to be accredited investors and qualified purchasers as defined by Rule 2(a)(51)(A) of the Investment Company Act of 1940, as amended. The general minimum investment required to open a separately managed account is typically \$5,000,000. We have the discretion to, and on occasion may, accept investments for a lesser amount.

This firm brochure is not an offer to invest in our fund clients.

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

#### **(i) Overview.**

We believe that the global energy macro-environment creates a great deal of uncertainty where prices may fluctuate widely, with oil and gas prices going down as well as up. We believe that this need-driven global uncertainty presents an array of investment opportunities. The disparity between underlying commodity prices and security pricing presents many opportunities, in both the long and short positions which we continually assess. It is our belief that we will continue to identify securities that are mis-priced by the stock markets.

**(ii) Investment Objectives.**

Our goal is to preserve capital and to earn superior long-term returns, irrespective of market direction, through investments in global energy securities using both long and short positions.

**(iii) Investment Strategy.**

We use a flexible multi-strategy approach to implement our investment objectives, with fundamental research-driven analysis (macro-economic and company specific) forming the foundation of our investment strategy. We believe that our experience extending over geographic, geopolitical and cultural boundaries allows us a substantial competitive advantage in our selection of portfolio investments. Our substantial, long-term relationships, combined with our extensive experience of investing in the energy industry, positions us well to deliver superior investment returns by taking advantage of the many attractive opportunities that the industry presents. For each targeted investment opportunity, we will develop a deep understanding of the target's business outlook in relation to the current market valuation for the security.

Although the investment selection process is idiosyncratic for each investment, investment choices generally follow three interrelated, but analytically distinct, selection approaches:

- **Macro/Directional.**

This is the mainstay of our investment strategy under which we seek to capture investment opportunities in the global energy markets through the development of a proprietary, macro-economic investment thesis. To develop this thesis, we collect, analyze and interpret a variety of information related to the global economic marketplace. We rigorously evaluate information relating to geopolitics, economics, technology, legislation, regulation, interest rates, politics and other historical and current information. Through a further robust analysis combined with proprietary modeling, we assign to that interpretation a likelihood of occurrence, with the result being the investment thesis. We then determine whether that investment thesis deviates from the current market consensus valuation of individual securities; i.e., whether an investment opportunity exists. Our investment thesis is ambulatory rather than static and is constantly reevaluated. We believe that constant reevaluation of relevant contributing influences and our interpretations of those influences enables us to predict the likelihood of the occurrence and timing of determining events, facilitating an efficient interpretation of the consequential effects of those events, specifically as they relate to existing and targeted investments.

- **Long/Short.**

Although influenced by our macro-economic global energy investment thesis, this is predominantly a "bottom-up" strategy with an opportunistic focus. This strategy targets attractive, risk-adjusted returns by investing in long and short positions where individual security mis-pricings exist while maintaining focus on capital preservation. We conduct extensive

“bottom up” company, industry, accounting and financial analysis to determine what we consider should be a securities fair value.

- **Special Situations.**

This opportunistic strategy is designed to exploit situations in which an announced or anticipated event creates a catalyst for the mis-pricings of securities, such as mergers, potential mergers, spin-offs, split-offs, dividends, liquidations, bankruptcies, regulatory/legal environment, and earnings.

**(iv) Investment Process.**

The investment process, in true Socratic tradition, is driven by disciplined, fundamental research and constant re-evaluation of facts, assumptions, interpretations and conclusions. That process is based on the following interrelated elements:

- **Focus: Sector, industry, and company focus**

We focus the majority of our time on the broad global energy sector where we maintain a proprietary knowledge base, allowing us to identify and respond to catalysts and changes as they occur.

- **Analysis: Financial and strategic analysis**

We believe in fact-based decision making. Given that energy is a macro-economic driver, we continuously analyze the global markets and, specifically, its energy-based inputs and outputs from a top-down perspective, using our proprietary modeling techniques. Any single security investment screening includes a rigorous and thorough financial analysis to determine the “quality of earnings” of an individual company. This includes an analysis of the business outlook, expected product cycles, competitive position, cash flow statements, balance sheets, income statements, other relevant corporate filings, and industry data and periodicals. We analyze whether a targeted company is creating or destroying economic value. Before taking a position, in most situations, we try to meet with management to evaluate their strategic plans, operating ability and overall credibility.

- **Proprietary research: Differentiated perspective.**

Our managing partner’s previous experience in the energy industry allows us to make continuous use of his industry contact base. Moreover, Mr. Gibson is the fourth generation of his family directly involved in the energy industry which gives him a rare depth of industry insight and contacts. His deep contact base of industry professionals allows us to form a comprehensive opinion of specific aspects of the industry, competitors, and businesses within the industry, and



aids considerably in the development of its macro-economic investment thesis. We also use private consultants to aid our generation of differentiated, proprietary research who provide expertise in areas such as tanker rates, refinery purchasing trends, climatology, reservoir analysis, seismology, and accounting, legislative and regulatory implications for the industry and specific companies.

- **Investor Bias Evaluation: Perspective, clarity and independence**

We continually evaluate our internal research, interpretations and conclusions for the influence of investor bias, specifically, overconfidence in investment positions which may be influenced by random data, underweighting relevant new information and investing in similar themes and stocks to those of other managers. By constantly questioning and evaluating the critical data used in forming an investment decision, we reduce the likelihood of analytical mistakes.

(v) **Risks**

Despite our thorough research and analysis, there is always the possibility that we may not correctly predict or evaluate the future performance of certain securities. Investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear. Below, we describe some of the most significant risks associated with our investment strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategy.

For a complete explanation of all relevant investment strategies and their associated risks, our clients, or investors in our clients, should also review each applicable client's offering memorandum or managed-account agreement, which may contain explanations of additional strategies, risks and other related details not discussed below.

□ **Market Risks.**

The profitability of a significant portion of our investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. Although we may attempt to mitigate market risk through the use of long and short positions or other methods, there may be a significant degree of market risk.

We are subject to the risk that our principal market segment, energy-related stocks, may underperform compared to other market segments or the equity markets as a whole. To the extent that our investments are concentrated in the energy sector, they are subject to legislative or regulatory changes, adverse market conditions and/or increased competition. Prices of the securities may fluctuate widely due to changes in value and dividend yield, which depend largely on the price and supply of energy fuels, international political events relating to oil producing countries,

energy conservation, the success of exploration projects, and tax and other governmental regulatory policies.

#### ☐ **Portfolio Concentration**

We may invest in a limited number of investments and, therefore, our investment portfolio may be highly concentrated from time to time. Investments in our principal market segment tend to be highly correlated and therefore a market segment decline may adversely affect our investments more than it would a more diversified portfolio of investments.

Also, targeting specific geographic regions for investment could adversely affect our portfolio performance or cause our performance to be more volatile than one that has a more diversified portfolio. Our performance may be closely tied to economic and political conditions within a relatively small number of countries or regions.

#### ☐ **Foreign Investments**

Clients will invest in securities and other instruments issued by non-U.S. companies and foreign countries. Investing in the securities and other instruments of such companies and countries involves certain considerations not usually associated with investing in securities and other instruments of U.S. companies, including political and economic considerations such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict a client's investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to United States standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. Also there may be less or qualitatively different regulation, generally, of the financial markets in foreign countries than there is in the United States.

#### ☐ **Currency Risk**

We may invest a portion of our clients' assets in equity securities and other investments denominated in currencies other than the U.S. dollar and in other financial instruments, the prices of which are determined with reference to currencies other than the U.S. dollar. To the extent that the investments are un-hedged, their value may fluctuate with U.S. dollar exchange rates as well as with price changes of the investments in the various local markets and currencies. We

may use forward currency contracts and options to hedge against currency fluctuations, but there can be no assurance that such hedging transactions may be effective.

#### ☐ **Short Sales**

Short selling, or the sale of securities not owned by our clients' portfolio, necessarily involves certain additional risks. Such transactions expose the portfolios to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the portfolios in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the portfolio might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

#### ☐ **Leverage**

While the use of margin and other borrowing for our investment activities can substantially improve the return on invested capital, such use may also increase the adverse impact on clients' investment portfolios. Borrowings may be from securities brokers and dealers and will typically be secured by clients' portfolio securities and other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the obligations, and if we were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of borrowings and the interest rates on those borrowings, which may fluctuate, may have a significant effect on profitability.

#### ☐ **Small Cap Stocks**

At any given time, the portfolios may have significant investments in smaller-to-medium sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These "secondary" securities may involve significantly greater risk than the securities of larger, better-known companies.

#### ☐ **Options**

Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause the value of a client's capital to be subject to more frequent and wider fluctuations than would be the case if a client did not invest in options.

## ☐ **Counterparty Risks**

To the extent that a client invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions including forward contracts, or in certain circumstances, non-U.S. securities, such client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

In addition, there are risks involved in dealing with the custodians or brokers who settle client trades, particularly with respect to non-U.S. investments. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of a client, and hence a client should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing a client's rights to its assets in the case of an insolvency of any such party.

## ☐ **High-Growth Industry Related Risks**

Socratic may invest in the securities of companies in high-growth industries (e.g., technology companies related to its primary investment focus). It is noted that these securities may be very volatile. In addition, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses, have limited ability to protect their rights to certain patents, copyrights, trademarks and other trade secrets, or be otherwise adversely affected by the extremely competitive markets in which many of their competitors operate, any of which might adversely affect a client's performance.

## ☐ **Reliance on Principal**

Jonathan Gibson is the managing member of Socratic. In the event that Mr. Gibson resigns, dies or otherwise becomes unable to participate in the management of the firm or our affiliate, it is possible that a significant number of clients' investors would exercise their right to withdraw at the next applicable withdrawal date. There can be no assurance that the client portfolios could be liquidated in an efficient manner to accommodate such withdrawals, and client investors could experience substantial losses. In addition, there can be no assurance that enough client investors would choose to remain invested to make it feasible to continue to manage the investment portfolios.

## ☐ **Trading in Futures Contracts**

Socratic may invest in futures contracts, commodities, and options thereon both for hedging purposes and to increase the total return on a client's portfolio. Trading in futures, commodities,

contracts and options is a highly specialized activity which, while it may increase the total return on a client's portfolio, may entail enhanced investment risk.

□ **Special Situations and Distressed Securities**

Socratic may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either may be unsuccessful, take considerable time or may result in a distribution of cash or a new security, the value of which may be less than the purchase price to a client of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially-troubled companies in which a client may invest, there is a potential risk of loss by a client of its entire investment in such companies.

□ **Illiquid Securities**

A portion of a client's assets may from time to time be invested in securities and other financial instruments or obligations for which no market exists and/or which are restricted as to their transferability under federal or state securities laws. Because of the absence of any trading market for these investments, a client may take longer to liquidate these positions than would be the case for publicly-traded securities. Accordingly, Socratic's ability to respond to market movements may be impaired and a client may experience adverse price movements upon liquidation of its investments. Although these securities may sometimes be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by a client. Additionally, accurately valuing and realizing such investments or closing out positions in such investments at appropriate prices may not always be possible. Further, companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities.

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There can be no assurance that our firm will achieve its investment objective and its past results are no indication of future performance.

**Item 9: Disciplinary Information**

Neither our firm, nor any of our directors, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court. Neither our firm, nor any of our directors, officers or principals has been found (1) to have caused an investment-related business to lose its authorization to do business or (2) to have been involved in a violation of an investment-related statute or regulation and the subject of an order in connection with any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority. Neither our

firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.

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

Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Our affiliate, Socratic Fund Management, LLC, sponsors and serves as the general partner to the limited partnership private investment funds that we manage. Although this arrangement may give us heightened control and discretion over our fund clients, we manage any potential conflicts of interest by adhering to the investment strategy discussed in each fund client's offering documents. Further, this relationship creates an incentive for us to make investments that are riskier or more speculative than would be the case if Socratic Fund Management, LLC (an affiliate of ours) did not receive incentive compensation from the master fund for serving as the general partner to the master fund.

We do not recommend or select other investment advisers for our clients.

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

We have adopted a Code of Ethics in accordance with SEC requirements. Our Code of Ethics works to ensure that our employees' actions, including their personal securities transactions, are consistent with our firm's fiduciary duty to our clients and to ensure compliance with legal and regulatory requirements. Our Code of Ethics focuses on specific areas where employee conduct has the potential to affect clients' or clients' investors' interests adversely, such as personal securities trading, outside activities, gifts, borrowing and lending, and the influence of personal relationships and charitable contributions. Our Code of Ethics requires employees to submit initial, quarterly and annual statements to our Chief Compliance Officer for any account holding securities in which an employee or certain family members have an interest. Most employee trades in which an employee or certain family members have an interest must be reviewed and pre-approved by our Chief Compliance Officer or his designee. Our clients or investors in our clients, or any prospective clients or prospective investors in our clients may obtain a copy of our Code of Ethics by contacting Mr. Todd Littler, our Chief Compliance Officer, at (973) 921-4700.

Our Code of Ethics also requires employees to:

- pre-clear certain personal securities transactions,
- report personal securities transactions on at least a quarterly basis, and
- provide our Chief Compliance Officer with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which employees have a direct or indirect beneficial interest.

Currently, our firm, our affiliates or employees of our firm do not buy or sell for client accounts securities in which they have a material financial interest. We have established procedures intended to limit conflicts of interest in cases where our firm, our employees and/or other related parties buy or sell securities that we recommend to clients. Employees are generally restricted from transacting in certain securities, as set forth in our Code of Ethics, on behalf of their personal accounts. Employees that wish to transact in a restricted security may do so only upon the approval of the Chief Compliance Officer. In instances when the Chief Compliance Officer has engaged in personal securities transaction, Jonathan W. Gibson shall review the Chief Compliance Officer's brokerage statements and trade confirmations.

## **Item 12: Brokerage Practices**

### **We Utilize Research and Other Soft Dollar Benefits**

We have discretionary authority to determine, without our clients' consent, the broker or dealer to be used and the commission rates paid within the guidelines established in the clients' governing documents or managed account agreement, as applicable. In selecting a broker, we seek the best available combination of execution and overall price (which includes the cost of the transaction). We consider such factors as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and any research or investment-management related services provided by such brokers. Accordingly, if we determine in good faith, that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research or investment-management-related services provided by such broker, our clients' may pay commissions to that broker in an amount greater than the amount another broker might charge, in recognition of the value of research services provided by the broker.

We may, from time to time, enter into soft dollar arrangements, but will limit such arrangements for research and execution services as permitted within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between us and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations. In some instances, we may receive a product or service that may be used only partially for functions within Section 28(e) (e.g. an order management system, trade analytical software or proxy services). In such instances, we will make a good faith effort to determine the relative proportion of the product or service used to assist us in carrying out its investment decision making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting us in carrying out its investment decision-making responsibilities will be paid through brokerage



commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by us from our own resources. We typically trade securities on behalf of our clients on an aggregated basis and allocate any costs and soft dollar benefits generated to our clients on a pro rata basis. As a result of this practice, soft dollar benefits are not allocated to each client in proportion to the soft dollar credits each client generates. Instead, all of our clients generally benefit equally from the soft dollars generated by our aggregate trading method.

### **The Use of Soft Dollars Can Create a Conflict of Interest**

Using client transactions to obtain soft dollar benefits creates incentives that result in conflicts of interest between advisers and their clients. Specifically, when we use a portion of our commissions to obtain soft dollar benefits, our profitability is increased because we do not have to produce or pay for the research products and services. The availability of these soft dollar benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the soft dollar benefits instead of on our clients' interest in receiving the best execution prices. Obtaining these soft dollar benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

We direct our clients' transactions to broker-dealers based on overall best execution, as explained above. Our Chief Compliance Officer periodically reviews our brokerage practices and procedures to ensure that we are achieving best execution on all trades for our clients.

### **We Do Not Consider Referrals in Selecting or Recommending Broker-Dealers**

#### **Our Clients Do Not Direct Brokerage**

We do not recommend, request, require or permit that a client directs us to execute transactions through a specified broker-dealer.

### **Trade Aggregation**

We typically aggregate the purchase or sale of the securities for our client accounts. Generally, we allocate the securities purchased (or sold) pro rata to our clients so that each client receives the same terms on an equitable basis. We typically place one combined order for all client's accounts simultaneously and allocate on a pro rata basis regardless of complete or partial fills.

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

Jonathan Gibson, our firm's portfolio manager and managing partner, monitors and reviews client accounts on a daily basis for their respective positions, size, profit/loss and risk limits. Our Chief Financial Officer also monitors our clients' accounts for adherence to risk limits and matches all the trading activity to brokers' reports.

We provide investors in our fund clients with written monthly estimated performance reports and through our independent, third party, fund administrator, statements showing the investor their unaudited and estimated capital balance/net asset value. Also on a monthly basis, investors receive letters from our portfolio manager. We also provide investors in our fund clients with annual audited financial statements examined by independent auditors, as well as annual tax information.

Our managed account clients receive monthly performance reports and internally generated account statements. They also receive custodial statements directly from their respective custodian. We may also provide additional information to certain of our managed account clients pursuant to special arrangements, as set forth in their managed account agreement.

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

Our firm does not, nor does any principal or employee of our firm, receive any economic benefit from non-clients for providing advisory services to our clients. Our firm does not, nor does any principals or employees of our firm, compensate anyone for client referrals.

### **Item 15: Custody**

We are deemed to have custody of our fund clients' assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended. In order to comply with Rule 206(4)-2, we utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all of our clients' assets. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities, under our name as agent for the clients. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year.

We do not custody or have custody over the assets of our managed account clients. These clients will receive account statements directly from their custodian and should review them carefully. They should compare the account statements they receive from their custodian with any reports that we send them.

## **Item 16: Investment Discretion**

### **Scope of Authority**

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell. As a result of this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' offering documents and/or managed account agreement. Procedures for assuming authority before accepting their subscriptions for interests, we provide all investors in our fund clients and all managed account clients with an offering document and/or managed account agreement (as the case may be) that sets forth, in detail, the relevant client's investment strategy and program. By completing our subscription documents to acquire an interest in one of our client funds, entering into advisory agreements with our fund clients and having executed managed account agreement to set up separately managed accounts, we are given complete authority to manage their investments in accordance with the offering document and/or managed account agreement they each received.

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

### **Proxy Voting Policies and Procedures**

Because clients have, in most cases, delegated the power to vote their securities to our firm, we have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. It is our firm's policy that we must vote all client proxies solely in the best interests of our clients. We generally believe that voting in the best interest of our clients entails voting in a manner that will maximize the value of the security.

We are not required to vote every proxy and the failure to vote any proxy should not be construed as a violation of our fiduciary obligations. We shall not ignore or neglect our proxy voting responsibilities. However, there may be times when refraining from voting is in our clients' best interest, such as when our analysis of a particular proxy reveals that the cost of voting the proxy may exceed the expected benefit to our clients.

Upon request, our clients (and investors in our fund clients) can obtain a copy of our proxy voting policies and procedures.

### **Potential Conflicts of Interest**

If a proxy vote creates a material conflict between our interests and the interests of a client, we will resolve the conflict before voting the proxies. The Chief Compliance Officer will consult with Jonathan Gibson and consider the following issues before taking any action:

- Whether adoption of the proposal would have a positive or negative impact on the Issuer's short-term or long-term value.
- Whether the issuer has already responded in some appropriate manner to the request embodied in a proposal.
- Whether the proposal itself is well framed and reasonable.
- Whether implementation of the proposal would achieve the objectives sought in the proposal.
- Whether the issues presented would best be handled through government or issuer-specific action.

### **Recordkeeping**

We maintain records of (i) all proxy statements and materials we receives on behalf of clients; (ii) all proxy votes that are made on behalf of the clients; (iii) all documents that were material to a proxy vote; (iv) all written requests from clients regarding voting history; and (v) all responses (written and oral) to clients' requests. These records are available to the clients upon request.

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

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

We have never been the subject of a bankruptcy petition.