

# STONECASTLE ASSET MANAGEMENT, LLC

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## Form ADV Part 2A BROCHURE

This Brochure provides information about the qualifications and business practices of StoneCastle Asset Management, LLC (“StoneCastle”). If you have any questions about the contents of this Brochure, please contact us at **212-354-6500**. 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.

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

Additional information about StoneCastle also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This update was made to reflect the change in the Chief Compliance Officer. This document has been posted on the SEC's public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer, Erik Minor at (212) 354-6500.

The last annual update of this document was 12/4/2012

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## **Item 4 – Advisory Business**

StoneCastle Asset Management, LLC (“StoneCastle”) was formed in November 2012 and is a wholly-owned subsidiary of Stone Castle Partners, LLC. StoneCastle provides investment management services to investment funds, including private investment funds, and registered investment companies, or companies seeking to become a registered investment company (“Funds”).

As of December 31, 2012, StoneCastle had discretionary assets under management of \$0.

StoneCastle also offers advice on common stock, preferred stock with warrants, convertible preferred stock, trust preferred securities, subordinated debt, bank stock loans and other fixed income or equity securities issued by financial institutions (including, without limitation, banks, thrifts, credit unions or similar financial institutions or holding companies thereof).

StoneCastle does not participate in wrap fee programs.

StoneCastle tailors its advisory services according to the individual needs and requests of clients. Additionally, clients may impose restrictions on investing in certain securities or types of securities. All such features and restrictions would be set forth in a client’s written agreement with StoneCastle.

## **Item 5 – Fees and Compensation**

Generally, StoneCastle charges a base management fee and administrative services fee based on Fund assets under management. All fees are negotiated on a case by case basis and are set forth in the related advisory contract.

The specific manner in which fees are charged by StoneCastle is established in a Fund’s Private Placement Memorandum. StoneCastle’s base management fee and administrative fee are payable periodically.

Whether fees are paid in advance or arrears is negotiated and determined on a case by case basis and is set forth in the related advisory contract. Generally, fees paid in advance would be non-refundable but such feature is negotiated and determined on a case by case basis and is set forth in the related advisory contract.

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

The Advisor does not accept performance based fees.

## **Item 7 – Types of Clients**

StoneCastle provides investment management services to investment funds, including private investment funds, and registered investment companies, or companies seeking to become a registered investment company. Please refer to a Fund's Private Placement Memorandum for the minimum investment amount required for new investments.

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

### **A. Analysis:**

As part of its focus on fundamental analysis, StoneCastle selects its investments through rigorous initial and ongoing issuer screening and manages its portfolios using a conservative credit discipline, as evidenced by the high underlying credit quality of its investments.

After such detailed analysis of the investment is conducted by StoneCastle, the Investment Committee meets to discuss the merits of the investment (which may include the relative value of the investment, the asset quality, the structural features, and how the investment contributes to the diversification of the investment portfolio for which the investment is being considered). This process is highly iterative between the committee members, where decisions can swing between buy/don't buy based upon ideas and perspectives that arise as each member discusses the target investment from his particular perspective.

Each StoneCastle investment decision is reviewed and approved by the Investment Committee.

### **Investment Strategies:**

StoneCastle will pursue its investment objective by investing principally in public and privately-held community banks located throughout the United States ("Investments"). The investment strategies used to implement any investment advice given to clients include long term purchases (securities held at least a year).

StoneCastle intends to manage the Fund in accordance with the investment objectives, policies and restrictions set forth in the Fund's current Private Placement Memorandum and governing documents.

In addition, StoneCastle uses the following as main sources of information: financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filing with the SEC, and company press releases.

StoneCastle also uses other public data bases (such as those available through FDIC, OTS, OCC and the Federal Reserve) to conduct its analysis.

**B. Risk of Loss:**

**All of our Investments are subject to liquidity risk:** We may invest in debt obligations that are unrated and that are issued by banks that have no corporate rating. In such cases, there may not be an active market for these securities and our investments will be subject to significant liquidity risk in the event we are required to sell such investments.

In addition, because we are focused on the banking sector, our investments may present more risk than if they were broadly diversified among other sectors of the economy. A downturn in the banking sector may have a larger negative impact on the valuation of the investment than might otherwise be the case if we were diversified in other sectors of the economy. At times, the performance of securities issued by companies in the banking sector may lag the performance of securities issued by companies in other sectors of the economy.

Further, investing in securities involves risk of loss that clients should be prepared to bear. Stock markets and bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss on the assets we manage that will be out of our control. We cannot guarantee any level of performance or that you will not experience a loss of your account assets.

**Hedging transactions may limit our income or result in losses:** We may engage in hedging transactions to limit our exposure to changes in interest rates, currency exchange rates and other financial market changes and therefore may expose ourselves to risks associated with such transactions.

**Legal and regulatory changes could occur that may adversely affect Investments:** The regulatory environment for businesses such as ours is evolving, and changes in the regulation or interpretations thereof may adversely affect Investments. The regulatory environment for financial institutions and for many of the industries that their clients are engaged is always evolving, and changes in these regulations may adversely affect the value of our Investments.

Please refer to each Fund's Private Placement Memorandum or other disclosure documents for a more detailed description of the various risks associated with our investment strategies.

C. StoneCastle does not primarily recommend a particular type of security to our clients.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of StoneCastle or the integrity of StoneCastle management. StoneCastle has no information to disclose applicable to this Item.

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

StoneCastle is part of a group of affiliated companies engaged in the financial services business. In certain situations, StoneCastle may have business arrangements with its related companies that are material to StoneCastle's advisory business or to its clients. These arrangements may cause StoneCastle or a related person's interests to diverge from the best interests of a client. We refer to advisory affiliates and any person or company that is under common control with StoneCastle as "related persons".

#### **Related Investment Advisers**

StoneCastle is a related person of the following other investment advisers:

- StoneCastle Investment Management, LLC
- StoneCastle Advisors, LLC
- StoneCastle Loan Management, LLC
- StoneCastle Cash Management, LLC
- StoneCastle Placement Advisors, LLC

#### **Related Broker Dealers**

Stone Castle is a related person of the following broker dealer:

StoneCastle Securities, LLC

StoneCastle's Code of Ethics described in Item 11 below addresses these potential conflicts of interest.

## **Item 11 – Code of Ethics**

StoneCastle has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures, among other things. Each officer, director and employee at StoneCastle must acknowledge the terms of the Code of Ethics annually, or as amended.

Such potential conflicts include those relating to allocation of investment opportunities. For example, it is possible that an investment opportunity may be suitable for more than one account managed by StoneCastle, but may not be available in sufficient quantities for all accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple accounts. A conflict arises where the portfolio manager has an incentive to treat an account preferentially because the account pays StoneCastle or its affiliates a performance-based fee or the portfolio manager, StoneCastle or an affiliate has an ownership or other economic interest in the account. To address these conflicts of interest associated with the allocation of trading and investment opportunities, StoneCastle has adopted an investment allocation policy and trade allocation procedures that govern the allocation of portfolio transactions and investment opportunities across multiple advisory accounts, including affiliated accounts. StoneCastle allocates across accounts fairly and equitably over time based upon its policies and procedures.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of Access Persons of StoneCastle will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of StoneCastle's clients. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between StoneCastle and its clients.

To supervise compliance with its Code of Ethics, StoneCastle requires that its Access Persons provide copies of their personal securities holdings and transaction reports to the Firm's Chief Compliance Officer for review. In addition, StoneCastle requires all employees to receive approval from the Chief Compliance Officer for certain types of investments (i.e., IPO's or private placements) and at certain times based on client trading activities. Any individual not in observance of the above may be subject to disciplinary action.



StoneCastle's Code of Ethics is based upon the following core principles:

1. The interests of clients will be placed ahead of the Firm's or any Supervised Person's own investment interests at all times.
2. Access Persons are expected to conduct their personal securities transactions in accordance with the Firm's Personal Trading Policy, which requires that they submit an initial holdings report and regularly report their personal securities holdings thereafter, and notify the Chief Compliance Officer of any outside business activity in which they would like to engage.
3. Supervised Persons are expected to comply with federal and other applicable securities laws.
4. Information concerning the identity of security holdings and financial circumstances of all clients is confidential.
5. Supervised Persons should not accept inappropriate gifts, favors, entertainment, special accommodations or other things of material value that could influence their decision-making or make them feel beholden to a person or firm.

Failure to comply with the Firm's Code of Ethics may result in disciplinary action, up to and including termination of employment.

Clients and prospective clients may request a complete copy of StoneCastle's Code of Ethics by contacting StoneCastle, at the address or telephone number on the cover page.

#### **Conflicts of Interest**

StoneCastle will be subject to certain conflicts of interest in management. These conflicts will arise primarily from the involvement of StoneCastle and its affiliates in other activities that may conflict with StoneCastle activities. StoneCastle and its affiliates engage in a broad spectrum of activities. In the ordinary course of their business activities, they may engage in activities where their interests or the interests of their clients may conflict with our interests and the interests of a Fund. Other present and future activities of StoneCastle and its affiliates may give rise to additional conflicts of interest which may have a negative impact on a Fund.

As a result of StoneCastle's allocation policies, it may not be able to invest in all opportunities that are appropriate and this may have the effect of reducing potential earnings. Although StoneCastle has agreed that it will allocate opportunities among its clients pursuant to its written policies and procedures, there is no assurance that these policies and procedures will work as intended.

StoneCastle Securities, LLC ("StoneCastle Securities"), a registered broker-dealer and an affiliate of StoneCastle may, as part of the selling syndicate of the securities of a Fund client for which StoneCastle acts as investment advisor, receive compensation from such Fund

client. In addition, our affiliate StoneCastle Cash Management, LLC provides various cash management products to its clients which involve depositary relationships with community banks and services to community banks with respect to their cash management products. StoneCastle Cash Management, LLC receives fees from these clients and / or community banks in connection with these cash management services, which may include community banks in which we invest.

If applicable, fees received by StoneCastle and its affiliates are also disclosed in a Fund's Private Placement Memorandum.

StoneCastle acts as investment advisor to Fund clients for which it receives management fees. StoneCastle may recommend to other clients that they buy or sell securities issued by such Fund client. StoneCastle will disclose its role as investment advisor prior to recommending the purchase of any securities issued by such Fund client for a client.

## **Item 12 – Brokerage Practices**

### **Selection of Broker-Dealers**

StoneCastle will generally acquire and dispose of our investments in privately negotiated transactions, and we may use brokers in the course of our business. StoneCastle generally has the authority to determine, without obtaining specific client consent, securities to be bought and sold, including the type, amount and price of the securities, the specific brokers used for the trades and the commission rates paid. As an investment adviser, StoneCastle has a fiduciary relationship to its clients. One of the specific duties that flow from this relationship is a duty to seek the best price and execution of client securities transactions when the adviser is in a position to direct brokerage transactions. It is StoneCastle's policy to always seek best execution for client securities transactions. While we will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly on brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided.

The limitations on StoneCastle's authority to determine, without obtaining specific consent, the securities to be bought or sold, or the amount of the securities to be bought or sold, are set forth in the applicable Private Placement Agreement.

When StoneCastle is directing the purchase of a security for a client and such purchase is going to be made from a broker (as opposed to directly from an institutional investor),

StoneCastle may or may not pay a commission or a “mark up” to the selling broker. The amount of the mark-up is not disclosed to investors. The factors that StoneCastle considers in purchasing a security from a broker are the availability of the security (if any) from other sources and the price.

#### **Aggregation and Allocation of Orders**

StoneCastle may combine orders on behalf of an account with orders for other accounts for which it or it has trading authority, or in which it has an economic interest. When it does, StoneCastle will allocate the securities across accounts, considering account size, diversification, cash availability, and other factors, including, where appropriate, the value of having a round lot in the portfolio. StoneCastle believes combining orders in this way will be advantageous to all participants over time. However, the average price could be less advantageous to an account than if an account had been the only account effecting the transaction or had completed its transaction before the other participants. When a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if StoneCastle believes that a larger size block trade would lead to best overall price for the security being transacted.

To date, StoneCastle has not entered into any client directed brokerage arrangements.

### **Item 13 – Review of Accounts**

#### **Reviews**

StoneCastle’s investments are evaluated periodically by the Investment Committee. The Investment Committee is currently comprised of Joshua Siegel, Managing Partner and CEO, George Shilowitz, Managing Partner and Senior Portfolio Manager, Erik Eisenstein, Senior Bank Analyst and Director and Ricardo Vilorio, Co-Portfolio Manager and Director.

There are generally no specific events that automatically trigger reviews of a Fund’s portfolio on a basis other than periodically.

Generally, we furnish investors in a Fund with periodic written unaudited performance reports on a quarterly basis. On an annual basis, investors receive a copy of the relevant Fund’s annual audited financial statements.

Regular reports are provided to clients on such periodic dates, and with such content, as is negotiated on a case by case basis.

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

Client of StoneCastle has entered into an exclusive investment referral and endorsement relationship with a third party service provider. Such compensation is paid as an annual fee and will be paid quarterly in arrears. For a more detailed discussion of this arrangement please refer to the offering documents related to StoneCastle Financial Corp.

Please refer to each Fund's Private Placement Memorandum or other disclosure documents for a more detailed description of the investment referral and/or endorsement relationships between a Fund and StoneCastle.

## **Item 15 – Custody**

StoneCastle does not maintain custody of clients' funds and/or securities.

## **Item 16 – Investment Discretion**

The limitations on StoneCastle's authority to determine, without obtaining specific consent, the securities to be bought or sold, or the amount of the securities to be bought or sold, are set forth in the applicable Fund Private Placement Memorandum that is negotiated with each client.

## **Item 17 – Voting Client Securities (i.e., Proxy Voting)**

StoneCastle shall vote proxies relating to portfolio voting securities in what StoneCastle perceives to be the best interests of its clients. StoneCastle shall review on a case-by-case basis each proposal submitted to a shareholder vote to determine its impact on portfolio voting securities held by its clients. Although StoneCastle will generally vote against proposals that may have a negative impact, StoneCastle may vote for such a proposal if there is a compelling long-term reason to do so.

StoneCastle's proxy voting decisions are made by the senior officers who are responsible for monitoring portfolio securities. To ensure that StoneCastle's vote is not subject to a conflict of interest, StoneCastle requires that: (1) anyone involved in the decision making process disclose to the CCO any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) anyone involved in the voting decision making process is prohibited from revealing how StoneCastle intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Conflicts based on a business relationship with StoneCastle or any affiliate will be considered only to the extent that StoneCastle has actual knowledge of such relationships. If StoneCastle determines that voting a particular proxy would create a material conflict of interest between StoneCastle's interests and the interests of clients, StoneCastle may: (1) disclose the conflict to the client and obtain the client's consent before voting the proxy; (2) vote such proxy based on the recommendation of an independent third party; (3) "mirror vote" the proxy in the same proportion as the votes of other non-client proxy holders; or (4) vote in accordance with predetermined decision making criteria.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about StoneCastle's financial condition. StoneCastle has no financial condition that impairs its ability to meet contractual commitments to clients and has not been the subject of a bankruptcy petition.

StoneCastle does not require prepayment of advisory fees; therefore the Firm is not required to provide an audited financial statement.

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

Not Applicable.