

Patagonia Partners, LLC

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Patagonia Partners, LLC (“Patagonia”). If you have any questions about the contents of this Brochure, please contact us at (949) 476-3600. The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Patagonia also is available on the SEC’s website at www.adviserinfo.sec.gov.

This Brochure does not constitute an offer to sell or a solicitation of any offer to invest in any security. All descriptions of Patagonia Wealth Management, LLC (the “Fund”) in this Brochure, including, but not limited to, its investments, the strategies, fees and other costs associated with an investment in the Fund, and any conflicts of interest faced by Patagonia in connection with management of the Fund are qualified in their entirety by reference to the Fund’s offering document.

Item 2 – Material Changes and General Information

Patagonia was previously registered as an investment adviser with the SEC. This Brochure does not contain any material changes from Patagonia's previous brochure (filed in February 2013).

Pursuant to SEC rules, Patagonia will ensure that you receive a summary of any material changes to this Brochure and subsequent brochures within 120 days of the close of Patagonia's fiscal year. You may request the most recent version of Patagonia's brochure by contacting Tom Derenze, Partner, at (949) 476-3600.

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Item 4 – Advisory Business

Patagonia is a Delaware limited liability company and was established in 2012 to provide advisory services to the Fund. Patagonia was founded and is owned by Gerald Gill, Ronald Flores, Thomas Derenze and Mel Herman (the “Partners”). The Fund was formed in 2012 but does not currently have any investors or any assets. Therefore, any descriptions herein of the Fund’s activities, fees, types of investors and other characteristics reflect the anticipated characteristics of the Fund once it begins operations.

Patagonia provides discretionary portfolio management and advisory services to the Fund. More specifically, Patagonia identifies and enters into credit default swap contracts (on behalf of the Fund) with counterparties that Patagonia selects, and makes and implements investment decisions in respect of the collateral held by the Fund. Patagonia also engages in hedging activities on behalf of the Fund in order to mitigate any risk of loss based on its credit default swap contracts.

Patagonia manages the Fund in accordance with its investment strategy and not based upon the individual needs of holders (“Noteholders”) of notes (“Notes”) issued by Fund. Please see Item 8 below for information about the Fund’s investment strategies, investments in which the Fund invests and risk factors associated with those strategies and instruments.

As of December 4, 2013, Patagonia managed \$0.00 of capital on a discretionary basis.

Item 5 – Fees and Compensation

Patagonia does not have a fee schedule.

Patagonia receives a base management fee and a supplemental management fee from the Fund, deducted from Fund assets quarterly in arrears, generally equal to 0.05% and 0.1% (respectively) of the aggregate principal balance of the collateral then held by the Fund (excluding the aggregate principal balance of any collateral in a swap counterparty collateral account). Payment of these management fees is subject to the payment of obligations with higher priority (for example, Fund expenses as described below).

The Fund incurs operating and other expenses, including costs and expenses related to (i) the security agent, (ii) the paying agent, (iii) Patagonia (excluding the base and supplemental management fees), (iv) the independent accountants, agents and counsel of the Fund, (v) governmental fees, charges and taxes related to the Fund, (vi) fees and indemnities payable by the Fund to its officers and directors, the security agent, the paying agent and placement agents and (vii) costs and expenses incurred in respect of any insurance coverage for the Fund’s members or any officers.

Any amounts owed to any placement agents in respect of a distribution of a series of Notes are payable

out of amounts distributable as interest (that would otherwise be paid to Noteholders).

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

As described in Item 5 above, Patagonia may receive performance-based fees from the Fund (its only current client). All performance-based fees are calculated and paid in accordance with Section 205 and Rule 205-3 under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Further, the Fund will not accept Noteholders who do not satisfy the eligibility criteria of Rule 205-3.

Patagonia’s receipt of performance-based fees may incentivize Patagonia to make investments that are riskier or more speculative than Patagonia would make if Patagonia did not receive performance-based fees. However, because Patagonia’s performance-based fee is based upon the aggregate principal balance of the collateral held by the Fund (which, according to the terms of the Fund’s offering memorandum, only includes cash, direct registered obligations of the United States, demand and time deposits and commercial paper), Patagonia believes that the potential for this conflict to arise is minimal.

Item 7 – Types of Clients

Patagonia provides discretionary advisory services to the Fund and may in the future provide discretionary advisory services to other pooled investment vehicles (which may be organized as domestic or foreign partnerships, corporate or other incorporated or unincorporated entities).

The Notes and the Fund itself are not registered under the U.S. Securities Act of 1933, as amended or the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”), respectively. Accordingly, the Notes are offered exclusively to persons satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions, and the Fund is excepted from the definition of an “investment company” under Section 3(c)(7) of the Investment Company Act.

The minimum initial investment is generally \$250,000. However, the Fund may accept contributions of a lesser amount in compliance with applicable law.

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

The information included in this Brochure does not include every potential method of analysis, investment strategy or risk associated with each investment strategy or security used by Patagonia. Noteholders and prospective Noteholders should review the Fund’s offering documents for a complete description of potential risks. An investment in the Fund is speculative and may involve a high degree of risk which could result in a loss of all, or substantially all of a Noteholder’s capital.

The following is a summary of (i) the strategies and methods Patagonia uses in formulating advice or managing assets (and their material risks) for the Fund and (ii) certain material risks associated with the types of securities relevant to these strategies.

STRATEGIES AND CERTAIN RELATED RISKS

Patagonia's primary investment strategy with respect to the Fund will be to sell credit protection through credit default swaps on "reference obligations" that are CLO or CDO securities that have a minimum rating of "A+" by S&P, "A1" by Moody's or "A+" by Fitch or any equivalent rating by any nationally recognized statistical rating agency. Each credit default swap counterparty (or its guarantor, if the obligations of such counterparty are supported by a guarantor) will be required to have a minimum short-term unsecured and unguaranteed debt rating of at least "A-1" by S&P, "P-1" by Moody's or "A1" by Fitch or any equivalent rating by any nationally recognized statistical rating agency.

A credit default swap is an exchange of a fee or "premium" for a payment if a default event or "credit event" occurs with respect to a reference obligation. Reference obligations will include eligible CLO securities and CDO securities.

Patagonia will also have the ability to hedge on behalf of the Fund, through the use of credit default swaps and total return swaps, any of the Fund's exposure to reference obligations (and/or individual reference obligations that are included in the basket of securities comprising such reference obligation) that it is providing credit protection through credit default swaps.

Patagonia will also invest a portion of the Fund's assets in short-term, highly-rated investments, such as money market funds.

The primary risks associated with Patagonia's strategy are detailed in "Types of Securities and Certain Related Risks" below.

TYPES OF SECURITIES AND CERTAIN RELATED RISKS

Notes

Limited Source of Funds: Limited-Recourse Obligations

The Notes are limited-recourse obligations of the Fund, payable in accordance with the priority of payments solely from payments to the Fund under the credit default swaps (if any) and proceeds from Eligible Investments and other collateral pledged by the Fund as security for the obligations of the Fund in respect of the Notes. The Fund is only permitted to invest in Eligible Investments and to enter into credit default swaps. Eligible Investments are short-term, highly rated investments that will likely bear interest below the interest rate on the outstanding Notes. Therefore, the ability of Fund to make scheduled payments on the Notes will be heavily dependent on the ability of the Fund to enter into credit default swaps. If the Fund is unable to enter into a sufficient amount of credit default swaps, it is likely that Noteholders will not receive all of the interest and principal payable on their Notes.

None of the holders of Notes, members, officers, directors, managers or incorporators of the Fund, Patagonia, their agents, the credit default swap counterparties, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the Noteholders must rely solely on payments received by the Fund in respect of the collateral pledged to secure the Notes

for the payment of principal thereof and interest thereon. There can be no assurance that payments to the Fund under the collateral will be sufficient to make payments on the Notes, in particular after making payments of certain required amounts ranking senior to the Notes. If distributions on the collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency. Amounts received in respect of the collateral pledged to secure the Notes are the only source for payments of the expenses of the Fund, including any expenses incurred by the Fund in connection with any litigation.

Interest Rate Risk

The Notes bear interest at floating rates based on LIBOR. Although the Fund expects to enter into credit default swaps in which the payments of premium received by the Fund under the credit default swaps (if any) during a payment period will be an amount equal to LIBOR plus an additional spread, there is no requirement that such premiums accrue at a rate that is based on LIBOR, and the premium rates available for credit default swaps are inherently uncertain. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. An increase in LIBOR could adversely impact the ability of the Fund to make payments on the Notes and there can be no assurance that the payments received by the Fund under the credit default swaps (if any) and proceeds from Eligible Investments and other collateral, will in all circumstances generate sufficient proceeds to make timely payments of interest on the Notes. Further, as noted above, if the Fund cannot enter into sufficient credit default swaps, it is likely that the Fund will not have sufficient funds to make scheduled payments of principal and interest on the Notes.

Credit Default Swaps

Patagonia may only acquire or dispose of credit default swaps (if any) in accordance with the requirements of the Fund's program documents. Such acquisitions or dispositions may have an adverse effect on the value of the collateral and the ability of the Fund to make payments on the Notes. Any termination payments paid by the Fund in respect of any credit default swaps (if any) may have an adverse effect on the amounts payable in connection with any optional redemption of any Note, which may result in a loss for investors or prevent the Fund from satisfying the conditions in the Fund's program documents which must be satisfied before the Fund can complete an Optional Redemption. The customary terms in the credit default swap market are likely to change in the future and the terms of such credit default swap transactions (including the credit events thereunder) may be materially different from the market terms of credit default swaps as of the closing date. Any such market changes may prevent the Fund from being able to acquire credit default swaps and, as a result, the Fund may face increased difficulty and/or costs in remaining invested in credit default swaps (if any) to the full extent anticipated on the closing date. Furthermore, any change in customary terms available in the credit default swap market may result in the Fund facing additional difficulty and/or cost in effecting the disposition of credit default swaps (if any) which utilize terms which have ceased to reflect the market standard. If the Fund cannot acquire or dispose of credit default swaps, the collateral may be less diversified than would otherwise be the case and proceeds in respect of the collateral may be reduced and payments of interest

or principal (including any deferred interest) on the Notes may not be made in full, with the result that investors in the Notes may suffer a loss.

Reliance on Creditworthiness of the Credit Default Swap Counterparties

The ability of the Fund to meet its obligations under the Notes will be dependent on its receipt of payments from credit default swap counterparties. Consequently, the Fund is relying not only on the performance of the reference obligations, but also on the creditworthiness of each credit default swaps counterparty with respect to such payments. The Fund may enter into credit default swaps (if any) with a limited number of credit default swap counterparties and there will be a degree of concentration risk with respect to the credit risk in relation to such parties. Concentration risk will apply to any credit default swap counterparty which is the obligor under a credit default swap (if any) comprising a large portion of the collateral. Neither the Fund nor Patagonia on its behalf will perform an independent credit analysis of the credit default swap counterparty.

The credit default swap counterparty will agree to specific rating downgrade provisions as a condition to entering into the credit default swap (if any) with the Fund. The credit default swap counterparty will be required to take certain actions following certain ratings downgrades of the credit default swap counterparty, including, without limitation, transferring cash collateral to the Fund in respect of its obligations under the credit default swap (if any) pursuant to a collateral arrangement based on the form of the International Swap and Derivatives Association, Inc. ("ISDA") credit support document if it falls below certain ratings set forth in the credit default swaps (if any), thereby reducing the Fund's exposure to the credit risk of the credit default swap counterparty and/or prepaying premium amounts to the Fund. However, it is not certain that the credit default swap counterparty will comply with such requirements. A failure by the credit default swap counterparty to comply with these requirements may result in the termination in full of the credit default swap (if any) by the Fund. In the event of any such termination, the Fund may be required to make a termination payment to the credit default swap counterparty and the amounts payable by the credit default swap counterparty will cease to be payable to the Fund. As a result, unless such credit default swap (if any) is replaced, there will be less funds available to the Fund to discharge its obligation to make payments in respect of the Notes.

Credit Exposure to Reference Obligations; Volatility of Deliverable Obligations

The obligation of the Fund to make payments to the credit default swap counterparty under any credit default swap (if any) creates significantly leveraged exposure to the credit risk of a number of reference obligations. If a credit event with respect to a reference obligation occurs on or after the closing date, the Fund will be obligated under the related credit default swap (if any) to pay a physical settlement amount or termination payment to the credit default swap counterparty. Each physical settlement amount or termination payment paid under any credit default swap (if any) will reduce the aggregate amounts payable by the credit default swap counterparty to the Fund under the credit default swap (if any) and the funds available to pay principal and interest due and payable on the Notes. Although the deliverable obligation must be the same as the reference obligation referenced by the applicable credit default swap (if any), if physical settlement is chosen, the reference obligation may at the time be a defaulted or credit-

impaired security. As a result, the physical settlement amount payable by the Fund under the credit default swap (if any) may exceed the market value of the corresponding deliverable obligation, the sales proceeds from the sale of such deliverable obligation may be less than such physical settlement amount, and it may be difficult for the Fund to sell the deliverable obligation within a short period of time. This will impair the Fund's ability to pay interest on the Notes and ultimately to pay in full or redeem the Notes.

Illiquidity of Reference Obligations

Under any credit default swap (if any), the Fund will have credit exposure to one or more reference obligations. Ratings on the reference obligations may be downgraded or withdrawn after the Fund enters into any credit default swap (if any). Many of the reference obligations will have no, or only a limited, trading market. Trading in fixed income securities in general, including CLO Securities and CDO Securities and derivatives thereof, takes place primarily in over-the-counter markets consisting of groups of dealer firms that are typically major securities firms. Because the market for CLO Securities and CDO Securities and derivatives thereof is a dealer market, rather than an auction market, no single obtainable price for a given instrument prevails at any given time. Not all dealers maintain markets in CLO Securities and CDO Securities at all times. The illiquidity of reference obligations will restrict Patagonia's ability to take advantage of market opportunities. Illiquid reference obligations may trade at a discount from comparable, more liquid investments. In addition, reference obligations may include privately placed securities that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed securities are transferable, the value of such reference obligations could be less than what may be considered the fair value of such securities.

Limited Information with Respect to Reference Obligations

Although a list of the reference obligations relating to the credit default swaps (if any) acquired by the Fund will be included in the monthly reports delivered by the Fund's agent to the holders of the Notes, such holders will not otherwise have the right to obtain from the Fund, any of its agents or Patagonia any other information regarding the reference obligations, the obligors relating thereto or information regarding any other obligations of such obligors. None of the credit default swap counterparties will have any obligation to keep the Fund, Patagonia, any of their agents or the holders of the Notes informed as to matters arising in relation to any reference obligation thereon, including whether or not circumstances exist under which there is a possibility of the occurrence of a credit event. Accordingly, Patagonia may or may not have access to material information concerning the reference obligors under the reference obligations, including information that may be available to a direct holder of a reference obligation.

None of the Fund, Patagonia, their agents or the holders of the Notes will have the right to inspect any records of any credit default swap counterparty or the reference obligations, and the credit default swap counterparty will be under no obligation to disclose any further information or evidence regarding the existence or terms of any obligation of any reference obligation or any matters arising in relation thereto or otherwise regarding any reference obligation, any guarantor or any other person, unless and until a credit event has occurred and the credit default swap counterparty in its capacity as buyer of protection

provides a notice of publicly available information to the Fund evidencing the occurrence of such credit event as required under the terms of the related credit default swap (if any).

No Legal or Beneficial Interest in Reference Obligations

Under credit default swaps (if any) entered into by the Fund, the Fund will have a contractual relationship only with the credit default swap counterparty. Consequently, a credit default swap (if any) does not constitute a purchase or other acquisition or assignment of any interest in any reference obligation. The Fund will not directly benefit from the collateral supporting any reference obligation and will not have the benefit of the remedies that would normally be available to a holder of any such reference obligation. In the event of the insolvency of the credit default swap counterparty, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to any reference obligation. The Fund, therefore, will have rights solely against the credit default swap counterparty in accordance with the credit default swap (if any) and will have no right directly to enforce compliance by the obligor with respect to any reference obligation nor any rights of set-off against any such obligor.

CLO Securities and CDO Securities

The reference obligations under the credit default swaps will consist of CLO securities and/or CDO securities (each, a “Security”). Each Security, however, will involve risks specific to the particular security and its underlying portfolio. The value of the Securities generally will fluctuate with, among other things, the financial condition of the obligors on or Funds of the underlying portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

The Securities are usually limited-recourse obligations of the Fund thereof payable solely from the underlying portfolios of such Fund or proceeds thereof. Consequently, holders of such Securities must rely solely on distributions on the underlying portfolio or proceeds thereof for payment in respect thereof. If distributions on the underlying portfolio are insufficient to make payments on a security, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligation of such Fund to pay such deficiency shall be extinguished. As a result, the amount and timing of interest and principal payments will depend on the performance and characteristics of the related underlying portfolios.

Calculation Agency Function of Credit Default Swap Counterparty

The calculation agent under the credit default swap will determine the amount of any physical settlement amount(s) or termination payments for each credit event payable by the Fund in respect of credit default swaps (if any). The credit default swap counterparty will act as the calculation agent under the credit default swap. The performance by the credit default swap counterparty of its duties as calculation agent may result in potential and actual conflicts of interest between its role as calculation agent of the Fund and its own economic interests as a party to the relevant transaction.

Credit Default Swap Counterparty Acts In Its Own Interest

In taking any action with respect to the credit default swaps (if any), the credit default swap counterparty will be acting solely in its own interests, and not as agent, fiduciary or in any other capacity on behalf of the Fund, Patagonia or the holders of the Notes. The credit default swap counterparty will have no duty whatsoever to consider the effects of its actions or failure to take action on the holders of the Notes. Neither any credit default swap counterparty nor its affiliates will be (or be deemed to be acting as) the agent of the Fund or the Noteholders in connection with the exercise of, or the failure to exercise, any of the rights or powers (including, without limitation, voting rights) of the credit default swap counterparty and/or its affiliates arising under or in connection with their respective holding of any reference obligation.

A credit default swap counterparty and/or its affiliates will have only the duties and responsibilities expressly agreed to by it under the applicable credit default swap (if any) and will not, by reason of its or any of its affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to any higher standard of care than that set forth in the applicable credit default swap (if any) or imposed by law. In no event shall a credit default swap counterparty and/or its affiliates be deemed to have any fiduciary obligations to the Noteholders or any other person or entity by reason of acting in such capacity. A credit default swap counterparty's actions may be inconsistent with or adverse to the interests of the Noteholders.

In taking any action with respect to a credit default swap (if any) (including declaring or exercising its remedies in respect of a credit event or any other default under or termination of the credit default swap), the credit default swap counterparty may take such actions as it determines to be in its own commercial interests and not as agent, fiduciary or in any other capacity on behalf of the Fund or the holders of the Notes. A credit default swap counterparty may act as a dealer for purposes of obtaining quotations with respect to a reference obligation.

A credit default swap counterparty and/or any of its affiliates, may (but are not required to) hold other obligations or securities of any Fund of a reference obligation, may deal in any such obligations or securities, may enter into other credit derivatives involving reference entities or reference obligations that may include the reference obligations (including credit derivatives relating to reference obligations), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any Fund of a reference obligation, any affiliate of any Fund of a reference obligation or any other person or other entity having obligations relating to any Fund of a reference obligation, and may act with respect to such business in the same manner as if the credit default swap (if any) did not exist, regardless of whether any such relationship or action might have an adverse effect on any reference obligation (including, without limitation, any action which might constitute or give rise to a credit event) or on the position of the Fund, the Noteholders or any other party to the transactions described herein or otherwise. In addition, a credit default swap counterparty and/or its affiliates may from time to time possess interests in the Funds of reference obligations and/or reference obligations allowing the credit default swap counterparty or its affiliates, as applicable (or any investment manager or adviser acting on its or their behalf), to exercise voting or consent rights with

respect thereto, and such rights may be exercised in a manner that may be adverse to the interests of the holders of the Notes or that may affect the market value of reference obligations and/or the amounts payable thereunder. A credit default swap counterparty and/or its affiliates may, whether by reason of the types of relationships described herein or otherwise, at the date hereof or any time hereafter, be in possession of information in relation to any Fund of a reference obligation or reference obligation that is or may be material and that may or may not be publicly available or known to the Fund, its agents or the holders of the Notes and which information the credit default swap counterparty and/or such affiliates will not disclose to the Fund, Patagonia, their agents or the holders of the Notes.

A credit default swap counterparty and its affiliates may act as underwriter, initial purchaser or placement agent for entities having investment objectives similar to those of the Fund and other similar entities in the future. A credit default swap counterparty (or an affiliate thereof) may be advising or distributing securities on behalf of an Fund or providing banking or other services to an Fund at the same time at which Patagonia is determining whether to acquire or dispose of a credit default swap relating to a particular reference obligation.

- **Settlement Risk** -To the extent the Fund acquires credit default swap, the Fund may bear the risk of settlement default, particularly since the terms of such credit default swaps (if any) will require physical settlement by the relevant credit default swap counterparty. Settlement risk will arise if the Fund meets its payment obligation under a credit default swap (if any) before the credit default swap counterparty meets its corresponding delivery obligations thereunder. A failure to perform by a credit default swap counterparty may be due to credit default swap counterparty default, operational or administrative error or legal impediments. Furthermore, there may be practical or timing problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such credit default swap counterparty.
- **Physical Settlement** - Under the credit default swaps (if any), in the event that the applicable conditions to settlement have been satisfied after the occurrence of a credit event, the Fund will be obligated to pay the physical settlement amount with respect to the related reference obligation, which will be based on the principal amount or certificate balance of the reference obligation and the credit default swap counterparty may be obligated to deliver one or more deliverable obligations. Patagonia is entitled to dispose of any deliverable obligations in accordance with the procedures described in the Fund's program documents. There is, however, no guarantee that Patagonia will succeed in disposing of any deliverable obligation, and the time required to sell a deliverable obligation cannot be predicted.

If a deliverable obligation is disposed of, there is no guarantee that the disposition proceeds of the deliverable obligation will result in proceeds to the Fund in respect of the related credit event equivalent to the physical settlement amount. The market value of the deliverable obligation delivered by the credit default swap counterparty in connection with a physical settlement will likely be less than the physical settlement amount, and there is no guarantee that the Fund will be able to sell a deliverable obligation which it has received under a credit default swap at a price which Patagonia believes accurately reflects its recovery value. The market value of a deliverable

obligation will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry, the performance of the assets backing the deliverable obligation, the financial condition of the portfolio of the related reference obligor, and the terms of the deliverable obligation. A deliverable obligation may be in default at the time it is delivered to the Fund, and the related reference obligor may be insolvent. These factors may adversely impact the price and liquidity of the deliverable obligations. This may adversely affect payments on the Notes.

- **Termination of the credit default swap** - In the circumstances specified in the credit default swap (if any), the Fund or the credit default swap counterparty may terminate the credit default swap (if any). The credit default swap (if any) is subject to early termination by the Fund in the event of an “Event of Default” by the credit default swap counterparty or a “Termination Event” (as such terms are defined in the credit default swap) affecting the credit default swap counterparty under the credit default swap (if any). The credit default swap (if any) is subject to early termination by the credit default swap counterparty in the event of an “Event of Default” by the Fund or a “Termination Event” affecting the Fund under the credit default swap.

Under the credit default swap (if any), with respect to an “Event of Default” or a “Termination Event,” the non-defaulting party or the non-affected party will designate the “Early Termination Date” and will determine the “Termination Payment” (as such terms are defined in the credit default swap) with respect to all the transactions that is payable to or by the Fund, or as applicable, to or by the credit default swap counterparty. Any termination payment payable by the Fund to the credit default swap counterparty in connection with the termination in full of the credit default swap (if any) will reduce amounts available to make payments on the Notes and will result in a loss to the holders of the Notes, which loss could be substantial. Following the effective designation of an early termination date, no further payments, other than the termination payment and “Unpaid Amounts” (as such term is defined in the credit default swap (if any)) will be required to be made by either the Fund or the credit default swap counterparty under the credit default swap (if any). The Fund will retain the deliverable obligations but will no longer receive payments of premium amounts from the credit default swap counterparty, which will reduce amounts available to make payments on the Notes.

- **Illiquidity of Credit Default Swaps** - The market for credit default swaps on CLO securities and CDO securities has only existed for a few years and is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities).
- **Amendments to Credit Derivatives Definitions.** Each of the credit default swaps will incorporate certain ISDA definitions to the extent agreed upon by Patagonia on behalf of the Fund and the credit default swap counterparty and may include any amendment, modification or supplement thereto effected after the effective date of the relevant credit default swap if the parties so agree. The credit default swap market is expected to change and the ISDA definitions and terms applied to credit derivatives are subject to interpretation and further evolution by ISDA. Such

amendments, modifications or supplements may therefore materially affect in a manner that is adverse to the interests of the Fund and the Noteholders the material terms of a credit default swap negotiated by Patagonia on behalf of the Fund prior to the entry by the Fund into such credit default swap.

- **Declaration of Credit Events.** Whether and when to declare a credit event and to deliver any notice that a credit event has occurred under a credit default swap will be in the sole discretion of the credit default swap counterparty, and none of the credit default swap counterparty or any of its affiliates will have any liability to any Noteholder or any other person as a result of giving (or not giving) any such notice under any credit default swap.
- **Effect of Credit Events on Performance of the Notes** - Payments on the Notes will be adversely affected by credit events under the credit default swaps (if any). There is no guarantee as to the ability of the Fund to sell and timing of sale of deliverable obligations under the credit default swaps (if any), or whether the amount of disposition proceeds on the sale of such deliverable obligations will equal the physical settlement amounts paid by the Fund following the occurrence of the related credit events. This will reduce amounts available to pay expenses of the Fund and interest and principal on the Notes. Prospective purchasers of the Notes should consider and determine for themselves the likely levels of credit events during the term of the Notes and the impact of such credit events on their investment.
- **Credit Ratings.** Credit ratings of credit default swap counterparties and reference obligations represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an Fund's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the credit default swap counterparties and reference obligations will be used by Patagonia only as a preliminary indicator of investment quality.

CLO and CDO Securities

"CLO securities" are collateralized debt obligations that generally entitle holders to receive payments that depend on the cash flow from a portfolio consisting primarily of commercial and industrial bank loans. "CDO securities" are asset-backed securities that generally entitle holders to receive payments the depend primarily on the cash flow from a portfolio of commercial and industry bank loans or corporate debt securities or any combination of the foregoing.

The primary risks associated with these securities include that these securities:

- are limited-recourse obligations of the Fund thereof payable solely from the underlying portfolios of such Fund or proceeds thereof;
- holders of such securities must rely solely on distributions on the underlying portfolio or proceeds thereof for payment in respect thereof;
- if distributions on the underlying portfolio are insufficient to make payments on a security, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligation of such Fund to pay such deficiency is extinguished;
- the amount and timing of interest and principal payments will depend on the performance and characteristics of the related underlying portfolios;
- are subject to credit, liquidity and interest rate risks;
- often include a concentrated portfolios of assets, which would subject the reference obligation to a greater degree of risk with respect to economic downturns relating to the relevant industry; and
- generally will (in terms of their valuation) fluctuate with, among other things, the financial condition of the obligors or Funds of the underlying portfolio of assets, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

Total Return Swaps

A total return swap is a bilateral derivative contract between a total return payer and a total return receiver. The total return payer creates a hedge for both price risk and default risk of a reference obligation, while the total return receiver has synthetic long position in the market risk and credit risk of the reference obligation. The total return payer pays the total rate of return of a reference obligation and receives a form of payment from the total return receiver, typically a floating rate payment tied to LIBOR. If an event of default of the reference obligation occurs prior to the maturity of the total return swap, the total return receiver is obligated to make the total return payer “whole” for the market risk and credit risk of the reference obligation.

The primary risks related to total return swaps are similar to the primary risks associated with credit default swaps (see primary risks for credit default swaps above).

Money Market Funds

Although a money market fund seeks to maintain the value of an investment at \$1.00 per share, there is no assurance that it will be able to do so, and it is possible to lose money by investing in a money market

fund. Generally, short-term funds such as money market funds do not earn as high a level of income as funds that invest in longer-term instruments.

Item 9 – Disciplinary Information

Patagonia does not have any affirmative responses to this Item 9.

Item 10 – Other Financial Industry Activities and Affiliations

The Partners may have business arrangements with related persons/companies that are material to Patagonia's advisory business or to its client. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between Patagonia and its client.

In certain circumstances, the Security Agent or its affiliates may receive compensation in connection with the Security Agent's (or such affiliate's) investment in certain Eligible Investments from the managers of such Eligible Investments.

Patagonia may engage in activities (on behalf of itself or others) which may conflict with its activities on behalf of a client. Subject to Patagonia's Code of Ethics and other conflict mitigation policies and procedures implemented by Patagonia, its affiliates or Associated Advisers (as applicable), Patagonia, its affiliates or Associated Advisers, and any of their respective partners, directors, members, officers and employees, may engage directly or indirectly in any business or other activities, including exercising investment advisory and management responsibility and buying, selling or otherwise dealing with securities for their own accounts, for the accounts of family members, for the accounts of any Funds and for the accounts of individual and institutional clients.

Patagonia, its affiliates and its Associated Advisers may give advice and take action in the performance of their duties to one account which may differ from the timing and nature of action taken with respect to another account. For example, Patagonia may recommend that a client purchase or sell an investment that is being sold or purchased, respectively, at the same time by Patagonia, an affiliate, an Associated Adviser or their respective advisory clients. Therefore, the portfolio strategies that Patagonia, its affiliates or Associated Advisers use for one account could conflict with the transactions and strategies Patagonia employs in managing another Advisory Account and may affect the prices and availability of the securities and other financial instruments in which its clients invest.

Patagonia does not have an obligation to purchase or sell for any Advisory Account any investment which Patagonia or its affiliates, as applicable, may purchase or sell, or recommend for purchase or sale, for its or their own accounts, or for any other client account.

Additional conflicts of interest are provided in the Fund's offering document and discussed in Item 11 below.

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

Patagonia’s Code of Ethics

The Patagonia Code of Ethics will provide a standard of conduct for, among other things, the personal trading of Patagonia employees. Under the Code of Ethics, Patagonia employees will provide Patagonia with initial and annual holdings reports (excluding accounts holding certain securities or discretionary accounts) and quarterly transactions reports. Patagonia employees will also generally be prohibited from participating in initial public offerings and executing transactions in Funds included on Patagonia’s Personal Securities Trading Restricted List, and will obtain preapproval from Patagonia’s Chief Compliance Officer prior to investing in any private placement. Patagonia’s Chief Compliance Officer will review personal trading to prevent violations of its Code of Ethics to determine appropriate internal sanctions on any violations.

Noteholders may obtain a complete copy of Patagonia’s Code of Ethics free of charge by submitting a written request to Patagonia’s Chief Compliance Officer at joe.dibartolo@patagonia-partners.com or by phone at (212) 243-5241.

Letters of Understanding a/k/a “Side Letters”

Patagonia may enter into letters of understanding (“Side Letters”) with certain Noteholders (for example, because of regulatory requirements applicable to a Noteholder), under which those Noteholders may receive information that is not regularly available to, or utilized by, other Noteholders (whether with respect to the Fund, the financial markets generally or otherwise). Patagonia seeks to mitigate the potential conflicts arising from such requests by offering the opportunity to access such information to all investors. Depending upon the nature of the information, Noteholders may also be obligated to abide by confidentiality and insider trading restrictions.

Potential Conflicts

Patagonia employees may engage directly or indirectly in any business or other activities, including exercising investment advisory and management responsibility and buying, selling or otherwise dealing with securities for their own accounts, for the accounts of family members, and for the accounts of other clients. As a result of these other activities, Patagonia employees may have a conflict in allocating their time amongst the Fund and those other activities, including ones in which Patagonia employees may have a greater financial interest. Patagonia will devote such time to the business of the Fund as, in its sole and absolute discretion, it determines to be necessary and appropriate to accomplish the Fund’s investment objective.

Item 12 – Brokerage Practices

Patagonia has the authority to determine without client consultation or consent the counterparty or intermediary through which its client transacts, and the commissions, retainers, mark-ups, markdowns,

fees and any other form of compensation (collectively, "Compensation") at which such transactions are effected.

In selecting a counterparty or intermediary to provide services in connection with client transactions, Patagonia's policy is to seek best execution, which means that it seeks to ensure that the client's total cost or proceeds is the most favorable under the circumstances. Accordingly, transactions will not always be effected at the best price or the lowest available Compensation.

Patagonia typically conducts deals in a very illiquid market and will attempt to solicit favorable bids and offers on trades in the best interests of its client(s). Applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is affected, and the extent to which it is possible to select from multiple dealers capable of effecting the transaction.

Patagonia does not adhere to any rigid formulas in making its selection of counterparties or intermediaries to assist with transactions on behalf of its clients, but weighs a combination of factors or criteria. For example, the determination of what is expected to result in best execution on an overall basis involves a number of factors, including:

- reliability;
- reputation;
- industry knowledge and expertise;
- ability to provide access to potential transactions;
- financial stability;
- efficiency;
- ability to keep activities confidential;
- provision of Products and Services (defined below);
- idea generation;
- competitive Compensation; and
- general responsiveness.

Patagonia may receive Products and Services from counterparties or intermediaries. Such Products and Services may be provided by, or paid for by the counterparty or intermediary (directly or by reimbursement payments or by any other means), and may be in any form (e.g., written, oral or online). "Products and Services" include, but are not limited to:

- proprietary and third party research and analyses regarding potential transactions, investment in securities or containing analyses of issuers, industries, securities, economic factors, trends or portfolio strategy;
- reports on market statistics or market trends;
- introduction of potential opportunities;
- reports on underwriting activity, bank rates, loan defaults, loan new issuance volumes and other capital markets statistics;

- conferences and networking events (including fees, accommodations, travel expenses and meals); and
- taxes, charges, surcharges, penalties, assessments, costs or fees, including late fees, relating to any of the foregoing.

Patagonia's receipt of Products and Services may cause clients to effectively pay Compensation higher than otherwise would be paid. To the extent Patagonia receives Products and Services, it is saving money of its own that it would otherwise have to spend (unless those expenses would otherwise be paid for or reimbursed by the Fund).

Products and Services may be used by Patagonia for itself and/or in servicing some or all of its clients, and may be used for research or non-research purposes. Some Products and Services may not necessarily be used for Patagonia's clients even though their Compensation dollars (transaction-related fees) provided for those Products and Services. Patagonia's clients, therefore, may not, in any particular instance, be the direct or indirect beneficiaries of the Products and Services provided. Further, the relationships with counterparties and intermediaries that provide Products and Services to Patagonia may influence its judgment in allocating business and create a conflict of interest in using the services of those persons. Patagonia will attempt to mitigate the foregoing conflicts of interest through the application of its best execution policies and procedures (which include monitoring whether it is obtaining best execution on an overall basis).

In selecting brokers to execute transactions, Patagonia need not solicit competitive bids and does not have an obligation to seek the lowest available transaction cost (e.g., commission cost). It is not Patagonia's practice to negotiate "execution only" transaction costs (e.g., commission rates). Thus, the Fund may be deemed to be paying for other Products and Services provided by the broker or counterparty which are included in the transaction charges. In exchange for the direction of portfolio transaction dollars to certain brokers or counterparties, credits are generated which may be used by Patagonia to pay for the Products and Services provided by, or paid for by, such brokers or counterparties. To the extent the Fund's portfolio transactions generate such credits or Products and Services are provided, Patagonia or the Fund will be receiving a benefit by reason of the direction of Compensation.

Patagonia does not consider, in selecting or recommending brokers, whether it or a related person receives Noteholder referrals from such brokers. Patagonia does not enter into directed brokerage arrangements.

Item 13 – Review of Accounts

One or more of the Partners will periodically conduct reviews of the Fund's holdings (bi-monthly for holdings with lower ratings and monthly for all other holdings). During these reviews, the Partners will look at, among other things, the relevant holdings' current ratings, ratings forecasts and characteristics of the underlying reference obligations. The Partners may review certain holdings on an ad hoc basis based on a ratings downgrade or concentration limit.

As soon as reasonably practicable after the end of each fiscal year, the Fund will furnish (or cause to be furnished) annual financial statements audited by an independent public accounting firm to every person who was a Noteholder at any time during that fiscal year. The Fund will also provide periodic unaudited performance information, no less frequently than quarterly, to Noteholders. The reports provided to Noteholders are written.

Item 14 – Client Referrals and Other Compensation

Patagonia and/or or the Fund may enter into arrangements with third parties whereby such third parties receive fees for introducing Noteholders to the Fund. Any such compensation is paid by the relevant Noteholders (through their interest in the Fund) and is only paid if the arrangement complies with applicable rules and regulations.

Item 15 – Custody

To the extent required by applicable law, securities and funds are held by qualified custodians. As noted in Item 13 above, Noteholders will receive annual financial statements audited by an independent public accounting firm for the Fund.

Item 16 – Investment Discretion

Patagonia exercises discretion in managing the Fund, based on the Fund’s investment objectives, policies and strategies disclosed in the Fund’s offering memorandum. Patagonia assumed this authority through its management agreement with the Fund. (See Item 4 above for a description of this discretionary authority.)

Item 17 – Voting Client Securities

As a general matter, Patagonia will not vote proxies (because proxies are not relevant to its investment program). However, if Patagonia does vote proxies, Patagonia’s proxy voting policy will ensure that proxies are voted in the best interests of the Fund, without regard to Patagonia’s interests. Any conflicts of interest between Patagonia and its clients in respect of voting client proxies will be mitigated by the use of independent third parties.

Noteholders may not direct Patagonia’s vote on a particular proxy.

Noteholders may obtain a complete copy of Patagonia’s Proxy Voting Policy and Procedures or information on how Patagonia voted proxies for the Fund (if any) free of charge by submitting a written request to Patagonia’s Chief Compliance Officer at joe.dibartolo@patagonia-partners.com or by phone at (212) 243-5241.

Item 18 – Financial Information

At this time, Patagonia has no information to report that is applicable to this Item 18.

Privacy Statement

The following privacy statement applies to Patagonia Partners, LLC ("we") for current and former natural person investors in our fund ("you").

Our Commitment to Your Privacy: we are sensitive to your privacy concerns. We have a policy of protecting the confidentiality and security of information we collect about you. We are providing you this notice to help you better understand why and how we collect certain personal information, the care with which we treat that information, and how we use that information.

Sources of Non-Public Information: In connection with forming and operating our private investment funds, we collect and maintain non-public personal information from the following sources:

- Information we receive from you in conversations over the telephone, in voicemails, through written correspondence, via e-mail, or on subscription agreements, investor questionnaires, applications or other forms, and
- Information about your transactions with us or others.

Disclosure of Information: We do not disclose any non-public personal information about you to anyone, except as permitted by law or regulation and to service providers.

Former Investors and Clients: We maintain non-public personal information of our former investors and clients and apply the same policies that apply to current investors and clients.

Information Security: We consider the protection of sensitive information to be a sound business practice, and to that end we employ physical, electronic and procedural safeguards to protect your non-public personal information in our possession or under our control.

Further Information: We reserve the right to change our privacy policies and this Privacy Notice at any time. The examples contained within this notice are illustrations only and are not intended to be exclusive. This notice complies with the privacy provisions of the Gramm-Leach-Bliley Act. You may have additional rights under other foreign or domestic laws that may apply to you.

For further information regarding Patagonia's privacy policies, please contact Patagonia's Chief Compliance Officer at (212) 243-5241.