

***Davy Capital Management, LLC***  
***Form ADV Part 2A – Disclosure Brochure***  
***April 1, 2013***

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**This brochure provides information about the qualifications and business practices of Davy Capital Management, LLC (“DCM”). If you have any questions about the contents of this brochure, please contact us at 646-552-6202 or email [jtarrant@davycapital.com](mailto:jtarrant@davycapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

DCM is an investment adviser registered with the Securities and Exchange Commission. Registration of an investment advisor does not imply any level of skill or training.

## **Item 2: Material Changes**

This is DCM's first ADV Part 2, so there are no material changes at this time. In the future, this Item will be used to provide you with a summary of new and/or updated information. You will receive a summary of any material changes to this ADV Part 2 within 120 days of the close of our fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## Item 4 – Advisory Business

**Our Firm:** DCM was founded on January 23, 2013 by Darren Davy and John Tarrant. It is a privately held, Delaware limited liability company, with Messrs. Davy and Tarrant the sole owners and Managers of the firm. DCM applied for registration as an investment adviser with the Securities and Exchange Commission on March 26, 2013.

**Our Advisory Services:** DCM intends to provide discretionary investment management services to three private investment funds: Grasmere Macro Domestic Fund LP (“Domestic Fund”), Grasmere Macro Offshore Fund Ltd. (“Offshore Fund”) and Grasmere Macro Master Fund Ltd. (the “Master Fund”; and, collectively, the “Funds”). The Offshore Fund and Domestic Fund are each a feeder fund for the Master Fund, and only available for investment by accredited investors. Item #8 provides more information about our investment strategy. With respect to the Domestic Fund, the general partner, Grasmere Domestic GP LLC (the “General Partner”), has delegated responsibility for most of the management, supervisory, investment and related services in connection with the Domestic Fund to DCM.

DCM may also provide discretionary investment management services to separate account clients and non-discretionary investment management services relating to advice and securities selection for other private funds.

**Tailoring Our Services:** Currently, DCM does not tailor its portfolio management services to the individual needs of the separate account holders or the Funds’ limited partners or shareholders. All investors in the current Funds are limited partners / shareholders in a pooled investment vehicle and as such cannot impose restrictions on investing in certain securities.

**Wrap Fee programs:** DCM does not currently participate in wrap fee programs.

**Assets Under Management:** As of the date of this brochure, DCM had no assets under management. However, upon the launch of the Funds and the opening of the separate accounts, all of the assets it manages will be discretionary assets.

## Item 5 – Fees and Compensation

**Private Investment Funds:** DCM intends to offer for investment two private investment funds, the Offshore Fund and Domestic Fund, which will each invest in a Master Fund that is also advised by DCM. The management fee will be paid by each Fund on a monthly basis in advance on the first calendar day of each month. The fee will be calculated at an annual rate of 1.25% of the Funds’ net asset value on the first calendar day of each month. This fee covers the investment management services that DCM provides to the Funds, including supervising all of the other service providers to the Funds, and, for the Domestic Fund.

**Non-Discretionary Investment Management Advice:** The fees charged to other private funds or clients which utilize DCM's non-discretionary investment management services will be charged an advisory fee as negotiated with each such client and established through written agreement. DCM's advisory fees for these accounts will be structured as a performance or incentive fee.

**Separate Accounts:** The management fees charged to any separate account holders to DCM for its investment management services will be paid on a monthly basis in advance on the first calendar day of each month. The fee will be calculated at an annual rate of 1.25% of the average daily assets managed by DCM for the separate account holder.

**Affiliated Broker-Dealer:** DCM does not have an affiliated broker-dealer and does not receive a commission attributable to the sale of any security or other investment products, including shares or units of the Funds. Currently DCM does not utilize soft dollars.

## **Item 6 – Performance-Based Fees**

DCM charges a 20% performance fee to the Offshore Fund. DCM does not charge a performance fee to the Domestic Fund. However, the Domestic Fund will pay a 20% performance allocation to its General Partner, an affiliate of DCM.

DCM charges a performance fee to its non-discretionary clients. Such performance fees are calculated using trading profits in excess of two per cent (2%) IRR per annum on the time-weighted average Notional Account Value during the calculation period, subject to deferral of a portion of the performance fee and certain adjustments.

## **Item 7 – Types of Clients**

### **Fund Clients**

DCM will provide investment management services to the Funds. The Domestic and Offshore Funds each have a minimum investment of \$1,000,000, which may be waived by Fund management in its sole discretion. DCM may also provide securities selection advice/ non-discretionary investment management services to other hedge fund or private fund clients. There is no established minimum account size for such clients.

### **Separate Account Clients**

DCM may also provide investment management services to separate account clients, which require a minimum investment of \$1,000,000. However, such minimum may be waived by DCM in its sole discretion.

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

***Investing in securities involves risk of loss that clients should understand and be prepared to bear.***

The investment objective of each Fund is to generate consistent superior risk-adjusted returns primarily through a global fundamental macro-economic investment strategy.

DCM invest and trades on behalf of its clients on a global basis in securities, commodities and financial instruments of any kind (though primarily in liquid securities, commodities and derivatives), including, without limitation, U.S. and non-U.S. equity and equity-related securities, bonds and other fixed-income securities, futures, forward contracts, warrants, options, swaps, contracts for difference and other derivative instruments, currencies, commodities, pooled investment vehicles, money market funds, commercial paper, certificates of deposit and other cash equivalents (collectively, "**Financial Instruments**"). Investments in Financial Instruments may be made on exchanges and through over-the-counter transactions and private placements anywhere in the world. The Financial Instruments in which DCM invest may be issued by supranational organizations or public international bodies, governments and their agencies and instrumentalities, municipal or local authorities and their agencies and instrumentalities, corporations, partnerships, trusts and other issuers whether or not listed or traded on recognized exchanges or over-the-counter markets.

DCM's clients may hold both long and short positions in Financial Instruments and will employ leverage in its investment program. Such leverage may take the form of trading on margin, investing in derivative instruments that are inherently leveraged and entering into other forms of direct or indirect borrowings. DCM may invest its clients' excess cash balances in short-term investments deemed appropriate by DCM.

DCM invests primarily in Financial Instruments of issuers organized in OECD countries<sup>1</sup> but may also invest in Financial Instruments relating to issuers organized in other developed countries and emerging market countries.

### **Investment Methodology**

DCM seeks to exploit investment strategies and opportunities that it believes offer high risk-adjusted returns on a global basis. DCM emphasizes an investment approach which focuses on major macro-economic dislocations in the markets. DCM believes that imbalances in financial markets are created from time to time by the influence of economic, political and capital flow factors and seeks to exploit these conditions by applying appropriate directional and relative value strategies. DCM aims to identify

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<sup>1</sup> The OECD countries are: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

investment opportunities globally and formulate its investment strategies by using all resources available to it, including but not limited to:

- DCM's experience in the areas of economic, political and central bank policy analysis;
- rigorous proprietary and third-party research;
- use of leverage, portfolio optimization and a risk management process to find favorable risk-reward opportunities;
- risk management systems; and
- proprietary technical systems to assist in price location, timing trends and market positioning.

### **Risk Management**

DCM employs an ongoing risk management process. Risk management for portfolio construction will seek to achieve: (i) diversification within a strategy across security types, asset classes and markets; (ii) diversification across varying types of strategies; and (iii) discretionary application, where possible, of exposure and leverage limits and stop losses; however, its clients are not subject to any formal policies regarding diversification and may sometimes concentrate their portfolio holdings in investment strategies, industries or companies which, in light of investment considerations, market risks and other factors, DCM believes will provide the best opportunity for high risk-adjusted appreciation. DCM is responsible for computing, monitoring, evaluating and managing risks associated with its trading activities and will focus on quantifiable market risk, credit risk and liquidity risk and the less-quantifiable operational risk.

DCM will not attempt to hedge all market or other risks inherent in a client's positions. DCM may choose not to hedge, or may deem it to be economically unattractive to hedge, certain risks including, without limitation, risks related to changes in interest rates, currency rates, equity prices, volatility, credit spreads and liquidity as well as buy-in risk on short positions, either in respect of particular positions or in respect of a client's overall portfolio.

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

As a registered investment adviser, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of DCM or the integrity of DCM's management.

DCM has no such events to report.

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

DCM is not registered as a broker-dealer, nor is it affiliated with a broker-dealer.

DCM's affiliate, Grasmere Domestic GP LLC, a Delaware limited liability company, serves as the general partner to the Domestic Fund.

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

**Code of Ethics:** DCM expects its employees to always act in the best interest of our clients, and to place the interests of our clients ahead of our own. DCM has adopted a Code of Ethics which sets forth the standard of business conduct expected from each member of our team.

The Code of Ethics restricts trading in any security for which we believe we may be privy to material non-public information. It also restricts personal trading activities to prevent any conflict of interest between personal trading and client trading. The Code of Ethics limits gifts and entertainment, be they received or given, to avoid conflicts of interests. The Code causes all outside business activities of our team members to be disclosed so that potential conflicts can be detected and addressed. Finally, it limits the political contributions of our employees to prevent any potential conflicts in that area as well. All DCM employees must accept in writing the terms of the Code of Ethics upon employment, annually, and as amended.

DCM will provide a copy of the Code of Ethics to any client or prospective client upon request by contacting the firm's Chief Compliance Officer, John Tarrant at [jtarrant@davycapital.com](mailto:jtarrant@davycapital.com).

**Participation in Client Transactions:** DCM does not buy or sell securities to or from its clients. DCM solicits investors to invest in the Domestic Fund and Offshore Fund and separate accounts, which DCM manages and for which we receive a management fee. The Domestic and Offshore Funds each invest in a Master Fund, also managed by DCM. We may have a conflict of interest due to the master-feeder fund structure of the Funds, so we seek to educate potential investors regarding an investment in any of our Funds before they decide to make such an investment.

**Personal Trades:** As described above, DCM access persons are technically allowed, with some restrictions, to purchase securities in their personal accounts, which might also be purchased for clients. The Code of Ethics is designed to discourage such activity and to prevent such transactions from taking place when they might advantage an access person and disadvantage a client. Nonetheless, since the Code of Ethics does allow access person and clients to potentially hold the same security, there is a possibility that access persons might benefit from market activity by a client in a security held by the access person.

## Item 12 – Brokerage Practices

**Brokerage Selection & Best Execution:** DCM has full discretion to select brokers, when necessary, to execute transactions for the Funds and separate accounts it manages and to negotiate and determine the commissions to be paid for such transactions. DCM may consider a number of factors when selecting a broker or dealer

for a transaction, including the broker's execution capability, the broker's responsiveness to DCM, the broker's reputation and access to the markets for the security being traded, the efficiency with which the trade will be executed, commission rates and the value of the research products and services that a broker lawfully may provide to assist DCM in the exercise of its investment decision-making responsibilities, and the expected market impact of the trade. The determining factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution for our clients. DCM has no affiliated broker-dealer.

Currently, the firm does not receive research or other products or services other than execution from a broker-dealer or a third party ("soft dollars"). Should the firm decide to use soft dollars, all soft dollar arrangements made shall be consistent with Section 28(e) of the Securities Exchange Act of 1934.

**Brokerage for Client Referral:** Client referral is not a consideration in selecting broker-dealers to execute securities transactions for the DCM. We do not compensate broker-dealers for distributing the Funds by directing brokerage transactions to them.

**Directed Brokerage:** DCM does not have any trades directed to a particular broker-dealer by any of its clients. DCM, at its sole discretion, selects any broker-dealer through which a trade is placed. However, the Funds utilize a prime broker, which also serves as qualified custodian to each Fund.

**Trade Aggregation & Allocation:** If DCM believes the purchase or sale of a security is in the best interest of more than one of the clients it manages, DCM may aggregate the securities to be purchased or sold into a single order (a "block trade"). DCM will allocate securities purchased or sold in a block trade, as well as the expenses incurred in the transaction, on a pro-rata basis or in another manner that it considers equitable and consistent with its fiduciary obligation to clients. Each portfolio may not receive a pro-rata allocation of a block trade in instances where the trade is only partially filled. DCM has a Trade Allocation Policy for such instances in order to maintain economically sound and equitable treatment of the portfolios. For example, one portfolio may randomly receive the entire executed trade if the pro-rata division of the trade would make the trades for each portfolio uneconomical. DCM will seek to be fair and equitable in its allocation of trades, but there can be no assurance that the net result will be equal across portfolios.

**Other Brokerage Practices:** In the event a trade error occurs, DCM will seek to identify and correct the error as promptly as possible consistent with its Trade Error Policy and Procedures.

## **Item 13 – Review of Accounts**

The Funds' limited partners and/or shareholders receive account statements on a monthly basis from the Funds' administrator, which have been reconciled to the records of the prime broker (which provides monthly statements to the Funds), and also have

electronic access to account information via a secured website. Any separate account clients will receive at least quarterly account statements from their account custodian. DCM reviews the Funds' custodian account statements.

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

DCM receives no economic benefit for providing investment advice to clients other than as outlined in Item 5. DCM does not compensate any person not under our supervision for client or investor referrals.

#### **Item 15 – Custody**

DCM nor its affiliates provide custodial services to its clients. Client assets are held at the prime broker or a bank that is a “qualified custodian.”

Clients will not receive accounts statements from DCM. The Funds investors receive account statements from the Funds Administrator, GlobeOP. These client statements have been reconciled with the custodian statements for each Fund by the service provider.

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

DCM has discretionary authority to manage the assets in all client accounts. We observe investment limitation and restrictions that are outlined in the Funds' governing documents (e.g. Limited Partnership Agreement in the case of the Domestic Fund) and the Private Placement Memorandum for each Fund or in the investment management agreement with respect to a separate account client.

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

DCM has the authority to vote any proxies on behalf of its Fund clients. DCM's policy is to vote securities in the manner we believe will best maximize long-term investor value. DCM invests in hedge funds or other private funds that we believe have high quality management teams, and consequently DCM generally supports the recommendations of the general partner or fund management when voting proxies, however, we ultimately vote for or against recommendations based on what we believe is in our clients' best interest. DCM does not accept proxy voting authority on behalf of its separate account clients or non-discretionary client accounts

Clients may obtain a copy of DCM's Proxy Voting Policy and Procedures upon request by sending a request to DCM's Chief Compliance Officer, John Tarrant, at [jtarrant@davycapital.com](mailto:jtarrant@davycapital.com). Separate account holders and Fund investors may also obtain information about how DCM voted any proxies their behalf by contacting DCM.

## **Item 18 – Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. DCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.

## **Item 19 – Requirements For State Registered Advisers**

Not Applicable.