

# **Leucadia Asset Management LLC**

## **Topwater Division**

### **FORM ADV PART 2A**

#### **The Brochure**

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**This brochure provides information about the qualifications and business practices of Leucadia Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at (212) 460-1900. 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. Leucadia Asset Management LLC is registering as an investment adviser with the SEC. Registration does not imply that a registered adviser has achieved a certain level of skill, expertise, or training in providing advisory services to its clients.**

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

**Item 2. Material Changes**

This is an initial Form ADV filing for Leucadia Asset Management LLC and as such Material Changes do not apply.

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#### **Item 4. Advisory Business**

Leucadia Asset Management LLC (referred to in this brochure as “LAM” or “we”), a limited liability company formed under the laws of the State of Delaware in May 2013, is an indirect, wholly-owned subsidiary of Leucadia National Corporation (“Leucadia”), a publicly traded corporation listed on the New York Stock Exchange and trading under the symbol “LUK”. This Brochure relates to the Topwater division (the “Topwater Division”) of LAM. Through the Topwater Division, we are engaged in the business of offering advisory and portfolio management services to private funds. LAM expects to operate other services through other divisions of LAM, which will be described in other brochures.

LAM’s principal office and place of business is located in the New York, New York, where we perform the accounting and legal functions. Our branch office located in South Norwalk, Connecticut is primarily responsible for performing the portfolio management quantitative analysis, systems development, operations and compliance functions. Various affiliates of LAM perform administrative functions and services (such as Human Resources, Information Technology, Accounts Payable, Treasury, and Purchasing) in New York, New York, and other US locations of Leucadia and its subsidiaries. The Topwater Division maintains separate investment personnel and has physical and technological barriers in place between it and other Leucadia entities and their employees. The Topwater Division’s office and place of business is located in South Norwalk, CT.

LAM intends to conduct its activities in accordance with the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and the rules and regulations promulgated thereunder. All personnel of the Topwater Division are subject to the supervision and control of LAM. All divisions of LAM, including the Topwater Division, operate under one set of Code of Ethics and have a single Chief Compliance Officer.

LAM serves as the Manager and Investment Advisor to Topwater Partners LLC, a Delaware limited liability company (the “Feeder”) and each of Topwater Stonefly Fund LLC, Topwater Mayfly Fund LLC and other entities through which investment activities will be conducted (the “Master Funds” and, together with the Feeder, the “Funds”). The Feeder will invest substantially all of its assets in the Master Funds. Each Master Fund is expected to hold one or more managed accounts (each a “Managed Account”) managed by third-party account advisers (each an “Account Manager”). Each Account Advisor will be engaged by the relevant Master Fund pursuant to an investment advisory agreement (each an “Account Investment Advisory Agreement”) to manage a specified Managed Account and will have discretionary authority to invest and reinvest only that portion of a Master Fund’s capital that is allocated to the Managed Account managed by it.

The Feeder may offer one or more Classes of Member Interests. The Classes are expected to vary from each other in the investment strategies (including use of leverage), asset classes, investment restrictions, and/or investment risks experienced by their investors, and consequently investors in different Classes are expected to experience different returns. Each Class is expected to include three types of Member Interests: First-Loss Interests, Regular Interests and Performance Interests.

The holders of these Member Interests are referred to as First-Loss Members, Regular Members and Performance Members. The Feeder initially is offering Class A Member Interests (Class A).

Each First-Loss Interest of a Class is associated solely with a single Managed Account managed by an Account Advisor. The First-Loss Interest associated with each Managed Account is generally expected to be (but is not required to be) held by the Account Advisor for the relevant Managed Account or an affiliate of such Account Advisor.

Regular Interests of a Class will be associated with all of the Managed Accounts of the Master Funds that are funded by such Regular Interests. Regular Members may be held by LAM or an affiliate thereof, and eligible third party investors.

Performance Interests will be associated with all of the Managed Accounts of the Master Fund and be used to allocate an incentive allocation to the Performance Member. See Item 6 below. LAM will be the sole Performance Member.

#### **Item 5. Fees and Compensation**

With respect to Class A Regular Interests, LAM is entitled to be paid, from the capital account of each Regular Member, a management fee (the “Management Fee”), paid in advance, equal to 0.25% (or approximately 1.0% on an annualized basis) of the value of such capital account as of the opening of business on the first business day of each calendar quarter (after giving effect to capital contributions).

With respect to Class A First Loss Interests and Performance Interests, First-Loss Members and the Performance Member are not expected to be charged the Management Fee.

#### **Other Compensation**

LAM, including the Topwater Division, and its employees do not receive compensation for the sale of securities or other financial products.

#### **Item 6. Performance-Based Fees and Side-by-Side Management**

As the Class A Performance Member, LAM is entitled to receive a performance allocation (the “Performance Allocation”) with respect to each performance period in an amount equal to 10.0% of the excess, if any, of the Allocable Net Profits over Allocable Net Losses allocated to the capital account of each Class A Regular Member for each month during such performance period.

Each Performance Allocation is allocated from the Capital Account of the applicable Regular Member to LAM’s Capital Account as of the end of the applicable performance period.

Capital Accounts of First-Loss Members and are not expected to be charged the Performance Charge.

#### **Item 7. Types of Clients**

We provide investment advisory services to the Fund. The Regular Members and First-Loss Members in the Fund are primarily comprised of eligible corporations, endowments, pension plans, hedge funds of funds, family offices, investment managers (including Account Managers) and high net worth individuals.

Conditions for investing in the funds, such as the minimum investment amount, are stated in the Fund's Offering Memorandum, Class Addendum and Subscription Documents. The Manager of the Fund has the sole discretion to reduce or waive the minimum investment amount. The minimum investment amount for a Regular Member interest in the Fund is \$5 million. A First-Loss Member's required initial capital contribution will be as specified in the relevant Account Investment Advisory Agreement and will be allocated exclusively to the Managed Account associated with such First-Loss Member.

In order to invest in a Regular Interest or First Loss Interest and become a Member, a person must meet certain suitability standards and qualify as an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act of 1933, as amended, and a "qualified purchaser" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "1940 Act") or a "knowledgeable employee" within the meaning of Rule 3c-5 under the 1940 Act.

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

The investment objective of the Fund and of each Class is to seek attractive risk-adjusted returns through capital appreciation of, and income from, its investments. The investment strategies to be used for a particular Class, and any restrictions on trading on behalf of such Class, will be set out in the applicable Class Addendum and/or Account Investment Advisory Agreement.

Allocations of capital will be made by LAM to Account Advisors who will in turn invest in a variety of investment strategies. There are no material limitations on the investment strategies or techniques which may be employed by Account Advisors. Generally the investment strategies utilized by the Account Advisors will include, but are not limited to, Long/Short Equities, Relative Value, Long-Biased/Long Only, Short-Biased/Short Only, Merger or Risk Arbitrage, Statistical Arbitrage, Special Situations/Event Driven Investment, Fixed Income and Options (each strategy is further described in the Fund's Offering Memorandum). Generally, a majority of the Fund's capital will be invested (indirectly through Master Funds) in publicly traded stocks, options, exchange-traded funds ("ETFs"), and fixed income instruments. Any restrictions on trading on behalf of a Class in the Fund will be set out in the Account Investment Advisory Agreement among the Fund, the Account Advisor and the First-Loss Member.

LAM monitors the Fund's overall investment position, including ongoing evaluations of the performance of the Managed Accounts, and may make periodic changes in the allocation of Feeder assets to existing and new Account Advisors as it deems appropriate. LAM will assess the overall risk of all of the investments by examining the individual risks and the cross correlation of risks among each of the Managed Accounts and investments of the Fund. LAM will determine, on a monthly basis each Managed Account's investment account exposure, which is a specified dollar amount that is associated with such Managed Account in connection with its Account Advisor's trading.

Account Advisor selection may take into account investment strategy employed; prior performance; research and trading capabilities; depth and investment experience of management team; risk management capabilities; and potential volatility and risk exposure of portfolio.

### **Risks Associated with the Funds' Investment Strategy**

The success of the Fund is substantially dependent on the LAM's ability to select and allocate assets to Account Advisors that successfully implement their investment strategies. No assurance can be given on LAM's recommended Account Advisors and their respective investment strategies will be successful. LAM's recommendation of an Account Advisor relies heavily on historical information which is not an indicator of future investment performance.

An investment in the Fund involves a substantial risk of loss an investor should be prepared to bear. No guarantee or representation is made the investment objective of a Fund will be achieved. There are material risks associated with the investment strategies used by the Account Advisors and with the Class structure of the Fund. Regular Members and First-Loss Members should be aware any investment in the Fund is subject to significant risks, including the loss of all or a substantial portion of their investment.

Each Account Advisor's ability to achieve the investment objective may be affected by a number and variety of risks, which include but are not limited to Equity Risks, Market Risk, Fixed Income Risk, Extraordinary Events, Market Liquidity Risks, Investment Concentration, Leverage, Short Sales, Derivatives, Increased Regulation and Foreign Exchange Risk. The aforementioned risks do not attempt to describe all of the risks associated with the investment strategies employed by the Account Advisors or the Fund.

Furthermore, Regular Members and First-Loss Members should be aware of the following additional risks involved with making an investment in the Fund.

- No Operating History;
- Illiquid nature of the Fund's membership interests;
- No assurance of the achievement of Fund's Investment Objective and Strategies;
- Dependence upon LAM to select, monitor, rebalance and change Account Advisors;
- Additional layer of performance fees paid to the Account Advisors;
- Use of multiple Account Advisors;
- Lack of Regulation of the Account Advisors;
- Possible unavailability of Key Personnel;
- Members do not participate in Management;
- Member interest concentration and the potential impact of a substantial withdrawal from the Fund;
- Regular Member's lack of control over the investment of the Fund's capital;
- Possibility of high levels of concentration with a specific Account Advisor; investment strategy, or a particular investment;
- Exposure to losses in any Managed Account;
- Possibility of magnified losses from the Fund's use of leverage; and
- Counterparty Risk with broker-dealers and other financial institutions.

First-Loss Members should be aware their investments in the Fund contain numerous risks in addition to those mentioned above. Each First-Loss Member only participates in the net profits attributable to the Managed Account associated with their First Loss Interest and will be allocated the first loss associated with such Managed Account. In addition, as an investor in the Feeder, each First-Loss Member may be exposed to the third loss associated with the Fund's other Managed Accounts. As a result, a First-Loss Member will not benefit from the gains from the Fund's other Managed Accounts but could be exposed to losses of the Fund's other Managed Accounts. Furthermore, the allocation of net losses in each Managed Account is disproportionately allocated to the respective First-Loss Member according to the terms of the Fund's Offering Memorandum, Class Addendum and Account Investment Advisory Agreement. This disproportionate allocation of net losses magnifies the risk of loss to the First-Loss Member.

For additional information, prospective investors should carefully review the Fund's Offering Memorandum and Class Addendum with particular emphasis on the investment strategy, risk factors, and conflicts of interest. First-Loss Members should also carefully review the Account Investment Advisory Agreement relating to the managed account in which they are invested.

#### **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 the registered investment advisor or the integrity of its management. LAM has no information applicable to this Item.

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

LAM is an indirect, wholly-owned subsidiary of Leucadia. Leucadia (NYSE: LUK) is a diversified holding company engaged through its consolidated subsidiaries in a variety of businesses, including beef processing, manufacturing, gaming entertainment, real estate activities and medical product development. Leucadia also owns significant equity interests in various operating businesses that are not consolidated subsidiaries.

In March, 2013, Leucadia completed its merger with Jefferies Group LLC ("Jefferies"), a global investment banking firm, as a result of which Jefferies became an indirect, wholly-owned subsidiary of Leucadia. Headquartered in New York, with offices in over 30 cities around the world, Jefferies provides clients with capital markets and financial advisory services, institutional brokerage and securities research, as well as wealth and asset management. Jefferies provides research and execution services in equity, fixed income, foreign exchange, futures and commodities markets, and a full range of investment banking services including underwriting, merger and acquisition, restructuring and recapitalization and other advisory services.

Jefferies LLC, a wholly-owned subsidiary of Jefferies, will serve as a placement agent for the Fund and receive a customary placement fee in connection therewith.

We have operational and administrative support arrangements with Leucadia and Jefferies. We reimburse Jefferies for the reasonable cost of services provided by Jefferies to LAM. In addition,



LAM will reimburse Leucadia for any salary and benefits provided by Leucadia to our employees and the reasonable cost of any services provided by Leucadia to LAM.

Certain Leucadia and Jefferies subsidiaries are investment advisers and other financial institutions whose businesses have no material relationship to our business.

### **Other Conflicts of Interest**

Affiliates of LAM may be advising or may in the future play an advisory role or perform other services for one or more of a Master Fund's portfolio companies. LAM, attempts to limit the extent to which it has access to information about such matters through its policies and procedures ("Information Walls"). However, if one of LAM's affiliates decides to play such a role, e.g., act as adviser to a portfolio company, and to the extent that Information Walls do not successfully prevent LAM from acquiring information about its affiliate's services, a Master Fund may be required or expected to liquidate its position in such portfolio company. Such a transaction may cause the Fund to realize reduced profits or losses. Similarly, if a Master Fund maintains a short position in a company for which LAM's affiliate intends to play an advisory role, such Master Fund may be forced to cover the short prematurely, which, in turn, may result in reduced profits or losses. If a Master Fund is permitted to maintain its position in such instance, LAM's affiliate may take actions or provide advice with respect to the portfolio company that could result in adverse consequences to such Master Fund and the restriction on the ability to close such position.

Affiliates of LAM, including Jefferies LLC and its affiliates, may publish research and market commentary from time-to-time on financial markets and other matters that may influence the value of the Interests, or express opinions or provide recommendations that are inconsistent with purchasing or holding an Interest. Such affiliates of LAM may have published or may publish in the future research, market commentary or other opinions that call into question the investment view implicit in an investment in an Interest. Any research, market commentary, opinions or recommendations expressed by these entities may not be consistent with each other and may be modified from time-to-time without notice. Members should make their own independent investigation of the merits of investing in an Interest.

By reason of the advisory, investment banking, and/or other activities of LAM and its affiliates, LAM and its affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities of certain companies. LAM will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, it may not be able to initiate a transaction for a Master Fund's account that it otherwise might have initiated. A Master Fund may be frozen in an investment position that it otherwise might have liquidated or closed out.

### **Adviser Selection**

LAM, as part of its service to the Funds, provides sourcing, conducts due diligence, and recommends potential Managed Account Advisors to the Funds. The compensation for these services is described in Item 5 "Fees and Compensation".

By acquiring an interest in the Fund, each investor will be deemed to have acknowledged the existence of any such actual and potential conflicts of interest, and to have waived any claim with

respect to any liability arising from the existence of any such conflicts of interest.

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

As required by SEC Rule 204A-1 under the Investment Advisers Act of 1940, LAM has adopted a Code of Ethics (the “Code”) which sets forth its business standards and its fiduciary duty to the Fund. At the beginning of employment and annually, each employee of LAM must acknowledge the terms of the Code and receive training on the various obligations imposed by the Code. The CCO will ensure all employees have access to the most recently updated Code. Any employee who violates the Code may be subject to disciplinary action, up to and including termination. All employees are obligated to report any violation of the Code to the CCO. The Code addresses the following:

- Prohibition on the use of material non-public information of a security;
- Reporting initially and quarterly thereafter all brokerage accounts of employees and members of their household;
- Prohibition on employees executing security orders for their personal accounts ahead of the Funds security orders (i.e. front running);
- Pre-clearance of all private placement security transactions;
- Prohibition of the purchase of new issue securities;
- Reporting of all reportable transactions within thirty (30) days of each calendar quarter end by all employees;
- Reporting of gifts over a de minimis value; and
- Other potential conflicts of interest.

The Code is available to all current and prospective investors by contacting the CCO at [compliance@topwaterpartners.com](mailto:compliance@topwaterpartners.com).

### **Item 12. Brokerage Practices**

#### **Brokerage Selection**

LAM continuously evaluates and recommends broker-dealers to the Fund. There are a number of factors considered when recommending broker-dealers and determining the reasonableness of their compensation. One of the most important factors is the quality of the introductions to potential Account Advisors. The other factors include:

- 1.) Best Execution
- 2.) Reporting
- 3.) Execution software
- 4.) Expertise in particular markets
- 5.) Reputation
- 6.) Experience
- 7.) Financial stability
- 8.) Customer service
- 9.) Financing/margining

LAM has no soft dollar agreements with the broker-dealers used by the Fund.

### **Brokerage for Client Referrals**

As mentioned above, LAM receives Account Advisor introductions from broker-dealers. These introductions could be classified as client referrals and may create a conflict of interest. If a broker-dealer introduction results in the selection of an Account Advisor the standard procedure for LAM is to recommend each Fund:

- Establish the managed account at the broker-dealer that provided the introduction; and
- Require the Managed Account Advisor to primarily execute its trading activity at the broker-dealer providing the introduction.

This procedure creates an incentive for LAM to recommend broker-dealers who make introductions of Account Advisors. Conflicts of interest may exist because the recommended broker-dealers may not be as competitive as other broker-dealers based on the factors listed above. LAM's recommendation of specific broker-dealers may not result in the most favorable execution which may result in additional cost to the Funds.

### **Directed Brokerage**

As described above, LAM routinely recommends the Funds establish managed accounts and the Account Advisors execute brokerage transactions at specific broker-dealers. However, LAM does not have the ability to require the Fund or an Account Advisor to execute brokerage transactions at specific broker-dealers.

LAM does not aggregate the purchase or sale of securities for the Fund or Regular Member accounts.

### **Item 13. Review of Accounts**

LAM monitors the activity of each Managed Account on a continual basis and produces multiple reports which are sent to the Fund including:

- A report prepared every two (2) hours containing a brief summary of the Managed Account's daily trading activity and profitability;
- A daily report containing a brief summary of the prior day's performance, investment exposure of the Managed Account and the assets at each broker-dealer;
- A daily report containing an analysis of the liquidity of each position in the Fund;
- An annual report containing detailed information relating to the Managed Account, including the performance, return attribution, and exposure level of the Managed Account; and
- Customized reports.

These reports are conducted and reviewed by LAM's chief risk officer and employees.

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

There are no arrangements, written or otherwise, in which LAM will receive an economic benefit, including sales awards or other prizes, for someone else, providing investment advice or other advisory services to the Fund. Please see Item 12 “Brokerage Practices” above.

#### **Item 15. Custody**

LAM may be deemed to have custody, as defined under Rule 206(4)-2 under the Advisers Act, of funds or securities of the Fund. LAM relies on the “audit exemption” under Rule 206(4)-2(b)(4) under the Advisers Act, which exempts an adviser to a limited partnership, limited liability company or other pooled investment vehicle from the requirement to deliver account statements to its clients if the adviser requires the vehicle to be audited annually by an independent public accountant that is registered with the Public Company Accounting Oversight Board and distributes the audited financial statements annually to the investors in the vehicle. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the funds’ fiscal year ends.

#### **Item 16. Investment Discretion**

We have broad discretionary authority to manage securities accounts on behalf of the Regular Members who are investors in the Fund. LAM is delegated such authority in the Operating Agreement of the Fund. Each Account Advisor has investment discretion over their managed account, subject to the parameters set forth in each of their respective Account Investment Advisory Agreement with the Fund. However, the Account Investment Advisory Agreement generally place investment restriction on each Account Advisor.

#### **Item 17. Voting Client Securities**

The Account Adviser will, on behalf of and in the name of the Master Fund, have all responsibility with respect to the voting of (including the election not to vote) the securities and other investments in the Investment Account.

#### **Item 18. Financial Information**

LAM does not require or solicit prepayment of more than \$1,200 in fees from the Feeder or the Master Funds, six months or more in advance, and therefore is not required to provide financial information in this section. LAM has no financial commitments it believes will impair its ability to perform its fiduciary duty to the Funds. LAM and its members have never filed a bankruptcy proceeding.

#### **Item 19. Requirements for State Registered Advisers**

This Item 19 is not applicable.