

# Standard Pacific Capital, LLC

Form ADV, Part 2A Brochure

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101 California Street, Suite 3600

San Francisco, CA 94111

(415) 352-7100

[www.standardpacific.com](http://www.standardpacific.com)

This brochure provides information about the qualifications and business practices of Standard Pacific Capital, LLC (“SPC,” “we” or “us”). If you have any questions about the contents of this brochure, please contact the Investor Relations Department at (415) 352-7100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

SPC is registered as an investment adviser with the United States Securities and Exchange Commission. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information regarding SPC is also available on the United States Securities and Exchange Commission’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

SPC initially registered as an investment adviser with the SEC in 1995. We have remained registered since that time. The date of SPC's last Brochure was March 28, 2013 and this is our annual updating amendment.

The total assets under management, noted in Item 4, has been updated.

Items 4, 5, 6 and 7 have been updated to include disclosure regarding potential sub-advisory services to mutual funds. Item 6 has also been updated to include disclosure regarding potential client accounts which are subsets of or thematically related to the "Global Equity" portfolio or the "Pan-Asia" portfolio.

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#### **Item 4 – Advisory Business**

SPC provides investment advice and management to privately placed investment funds (“Funds”), including certain U.S. limited partnerships (“U.S. Partnerships”), certain non-US Partnerships (“Offshore Partnerships”) and non-U.S. companies (“Offshore Funds”), as well as separately managed accounts (“Separate Accounts”) and private investment vehicles formed specifically for one or more particular investors or groups of investors (“Custom Funds”). Standard Global Equity Holdings, L.P. (“GEH”), an affiliate of SPC, serves as the only general partner of the U.S. Partnerships and of certain of the Custom Funds. Standard Global Equity Cayman, Ltd. (“SGC”), an affiliate of SPC, serves as the only general partner of the Offshore Partnerships.

SPC may in the future enter into sub-advisory agreements with asset managers to registered investment companies under which SPC will provide sub-advisory services to certain of those managers’ registered investment companies (i.e. mutual funds). As will be disclosed in each mutual fund’s respective prospectus, those managers would pay SPC sub-advisory fees for these services.

We have included in this brochure references to private investment funds only for the purpose of describing our advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.

SPC currently manages two types of portfolios: “Global Equity” portfolios, which invest and trade in equity securities and other instruments, long and short, worldwide and “Pan-Asia” portfolios, which invest and trade in equity securities and other instruments, long and short, in the Pan-Asia region and in other markets when these companies derive revenue from, or are related in any way to that region.

SPC manages each Fund pursuant to the objectives specified in the materials by which that Fund offers its ownership interests to investors. GEH and SPC alone determine those objectives for the U.S. Partnerships and SGC and SPC alone determine those objectives for the Offshore Partnerships. The boards of directors of the Offshore Funds have the authority to determine those Funds’ objectives, subject to SPC’s agreement, and to supervise our conduct of those Funds’ investment and trading activities. SPC’s agreements with the Funds impose no limits on the types of securities or other instruments in which the Funds may invest, the types of positions they may take, the concentration of their investments by sector, industry, fund, country, class or otherwise, the amount of leverage they may employ or the number or nature of short positions they may take. The Funds’ investors do not have the right to specify, restrict, or influence the Funds’ investment objectives or any investment or trading decisions. Certain of SPC’s Separate Accounts and Custom Funds impose restrictions or limitations on certain types of investment activities.

SPC does not participate in any wrap fee programs.

SPC is a California limited liability company. The managing member is Standard Pacific Partners, L.P., a Delaware limited partnership (“*SPP LP*”), the sole general partner of which is

SPH GP, LLC (“*SPH GP*”), a Delaware limited liability company whose sole members are Raj D. Venkatesan and G. Douglas Dillard, Jr. The other member of SPC is a limited partnership, the general partner of which is SPP LP and the limited partners of which are employees of SPC or its affiliates. Through these entities, Mr. Venkatesan and Mr. Dillard are SPC’s principal owners.

SPC is registered with the Securities and Exchange Commission as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended, and has been registered since 1995.

As of February 28, 2014, SPC’s total assets under management, calculated using Net Asset Value prior to month-end redemptions, were approximately \$1,231,970,491. All such assets are managed on a discretionary basis.

## Item 5 – Fees and Compensation

SPC delivers this brochure only to “Qualified Purchasers,” therefore it is not required to include its fee schedule in this brochure, but the following describes generally the kinds of compensation it and its affiliates receive and the kinds of expenses its clients pay.

### *Fees*

The range of compensation paid to SPC is generally as follows:

- *Partnerships.* From each partnership, SPC typically receives an asset-based management fee payable as of the beginning of each calendar quarter or month, based on the balances in limited partners’ capital accounts. GEH and SGC generally receive a portion of the appreciation of limited partners’ capital accounts as a special general partner allocation but only to the extent that appreciation exceeds any unrecovered losses from earlier periods (a “high water mark”). This special general partner allocation is typically made at the end of each calendar year.
- *Offshore Funds.* From each Offshore Fund, SPC typically receives a management fee similar to the fee paid by the partnerships. SPC also generally receives an incentive fee calculated and paid annually in a manner similar to the special general partner allocation described above.
- *Separate Accounts.* From Separate Accounts, SPC generally receives fees similar to those paid by Offshore Funds. Management fees are typically paid in advance.

The incentive fees and special profit allocations described above are structured to comply with Rule 205-3 under the Investment Advisers Act of 1940. SPC believes its fees are competitive with fees charged by other investment advisers for comparable services; however, comparable services may be available from other sources for lower fees than those charged by SPC.

The Funds pay management fees monthly or quarterly, in advance. Investors will generally be allowed to withdraw capital or redeem shares only as of the end of a calendar quarter or, in some cases, month, at which time there generally will be no prepaid fees. We will not be required to refund any portion of our management fee to a Fund if that Fund allows an investor to withdraw or redeem as of a time other than a month-end. The Funds pay our fees directly from assets that we manage. Incentive allocations take the form of increases in the value of GEH’s or SGC’s partner interest in the relevant U.S. Partnership or Offshore Partnership.

The performance-based fees and allocations are calculated and accrued monthly and on any other date as of which the net asset value of the relevant Fund is determined, and is due and payable at the end of each calendar year. Generally, any accrued performance fee with respect to any interests in one of the Funds that is being redeemed is also due and payable when such interests are redeemed. SPC has no obligation to restore to the Funds any performance fees previously earned and paid, notwithstanding a loss in a subsequent period.

SPC may waive, reduce, or rebate fees as to particular investors in the Funds for particular periods by agreement with those investors.

SPC may in the future provide sub-advisory services to certain mutual funds managed by unaffiliated third parties. As will be disclosed in each mutual fund's respective prospectus, those managers would pay SPC sub-advisory fees for these services.

### *Expenses*

The Funds bear all expenses incidental to their operations and business. These include (a) brokerage commissions and charges, (b) fees and charges of custodians and clearing agencies, (c) interest and commitment fees on loans and debit balances, (d) income taxes, withholding taxes, transfer taxes and other governmental charges and duties, (e) fees of the legal advisers and independent auditors used in connection with the organization and ongoing operations of the Funds, (f) Directors' fees and expenses, (g) the costs of maintaining the Offshore Funds' registered offices, and (h) the costs of printing and distributing any private offering memoranda and subscription materials and any reports and notices to investors or prospective investors.

SPC is responsible for providing all personnel and office space and facilities required to perform its services.

Further information regarding brokerage and other transaction costs is discussed in Item 12 of this brochure.

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

As noted, SPC receives performance-based incentive fees from Offshore Funds and Separate Accounts, and its affiliates GEH and SGC receive special performance-based profit allocations from the U.S. Partnerships and Offshore Partnerships respectively, all generally to the extent performance exceeds “high water marks.” See Item 5, “Fees and Compensation.” SPC does not manage any accounts that do not provide for performance-based profit participation by us or by our affiliates. While SPC, GEH and SGC have the right to waive incentive allocations as to particular investors, SPC manages each Fund as an undivided pool, so any such waiver would not give rise to incentives to favor any particular account over another. Differences in the percentages of profit participations involved in performance-based compensation arrangements or in the methods of calculating compensation could possibly be thought to create incentives to favor accounts from which SPC or its affiliates may receive higher compensation over other accounts. However, SPC manages each of its client accounts as either a “Global Equity” portfolio or a “Pan-Asia” portfolio and allocates trades systematically without consideration to compensation structure. We believe this effectively prevents favoring some accounts over others.

Separate Accounts managed by SPC include similar performance based fees.

SPC may in future provide sub-advisory services to managers of mutual funds that will not provide performance based fees to SPC while continuing to manage funds where it is compensated based on fund performance as disclosed above. This could create an incentive for SPC to favor clients for which it receives a performance based fee. SPC will address this potential conflict of interest in connection with this side-by-side management with systematic trading and allocation policies and procedures designed to ensure that clients are treated fairly and equitably over time. Although SPC has a duty to treat all portfolios within an investment strategy fairly and equitably over time, such portfolios will not necessarily be managed the same at all times. Different guidelines and regulatory requirements may lead to the use of different investment practices within a similar investment strategy.

SPC may in the future also manage client accounts which are subsets of or thematically related to the “Global Equity” portfolio or the “Pan-Asia” portfolio. These accounts will include similar performance based fees to the main portfolios. SPC will address this potential conflict of interest in connection with this side-by-side management with systematic trading and allocation policies and procedures designed to ensure that clients are treated fairly and equitably over time.



## **Item 7 – Types of Clients**

SPC provides investment advice and management to privately placed investment funds, including limited partnerships of which GEH or SGC is the general partner and non-U.S. companies, as well as separately managed accounts, primarily for institutions.

The Funds are privately-offered investment funds that are not regulated under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) because of Sections 3(c)(1) and 3(c)(7) of that act and, in the case of the Offshore Funds, their adherence to the substantive provisions of Section 3(c)(7) as to U.S. investors. Each Fund will impose minimum investor qualification standards and minimum investment requirements.

SPC may in the future enter into sub-advisory agreements with asset managers to registered investment companies under which SPC will provide sub-advisor services to certain of those managers’ registered investment companies (i.e. mutual funds)

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

### *Investment Philosophy and Approach*

SPC's focus is on bottom-up, fundamentally-based investing in equity and equity-linked investments, selected from a wide range of industries on a global basis. As such, SPC seeks out long positions in companies that: are under-researched or misperceived but have improving fundamentals; have high-quality, long-term growth prospects and good management teams; have poor track records and have been viewed negatively by the markets but are undertaking restructuring programs with a reasonable prospect of generating higher-than-expected return on capital and more favorable growth prospects; or constitute special situations in which market breaks, radical management change, unique product developments, corporate activity, or sudden regulatory shifts may have adversely impacted the share price as the market digested the event.

SPC also seeks out short positions as independent profit opportunities. Short sale candidates may exhibit any of the following characteristics: overvaluation relative to the company's growth or breakup value; an ill-conceived or flawed business model; a market strategy that is at odds with fundamental change within an industry; growth or earnings expectations that are too high relative to the company's fundamentals; a secular decline in the company's industry or the company's share of an industry due to inefficient cost structures, inferior products or services, or the substitution of products and services for new technology or distribution methods; a misperception that the company is a growth (rather than cyclical) company; or regulatory change that could adversely impact the business prospects for the company.

SPC's philosophy determines not only what kind of investments it considers attractive to achieve superior returns but also how it identifies those investments. SPC spends significant time meeting with the management personnel of companies, conducting due diligence, speaking to independent consultants, and discussing business trends with suppliers, customers, and competitors. SPC's approach to conducting primary research also relies on following and tracking global industrial value chains over substantial periods of time. Research and analysis will often extend across multiple industries.

### *Managing Risk and Net Exposure*

SPC believes that risk management is multi-faceted and more complex than simple net/gross exposure and, accordingly, manages gross and net exposure based on a combination of factors. SPC monitors risk across several metrics: individual stocks can be monitored on a stock-specific versus market-risk basis, as well as on a sector and portfolio basis.

Exposure levels vary based on the attractiveness of individual long and short investment opportunities at any given time. Investment decisions are based on bottom-up analysis, and therefore, the macroeconomic bias will tilt based on information SPC learns from companies and the industry trends that may be occurring globally based on the research its global investment team generates. In addition, a portfolio consisting of regulated utilities or tobacco companies would have significantly different risk profiles than Internet stocks. Net exposure will therefore be more a function of the implied volatility of the portfolio. SPC sizes individual stocks on the

opportunity set each represents on the upside and downside, as well as the contribution those stocks contribute to overall market/beta (non-stock specific) risk.

### *Investment Risks*

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

While SPC attempts to moderate these risks, there can be no assurance that the investment and trading activities will be successful or that the Funds will not suffer losses. The following is a summary of some of the principal risks involved in SPC's investment management activities. It is necessarily incomplete; no summary can describe all risks.

### *Investment Selection / Key Personnel Risks*

SPC believes the primary risk of its investment strategies arises from investment selection: the risk that SPC's techniques could result in investment positions that, at least over certain periods, decline in value or do not appreciate as much as alternative investment opportunities. SPC's investment advice depends on the judgment and analysis of its key investment personnel, in particular Raj Venkatesan and G. Douglas Dillard, Jr. If either of them were to die, become ill or disabled, or otherwise cease to be involved in the active management of the business of the Funds' portfolios for any period of time, client's investments could suffer.

### *General Economic and Market Conditions*

The success of SPC's investment activities may be affected by global, national and local economic and market conditions, such as interest rates, currency exchange rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. None of these factors is within the control of SPC. These factors may affect the level and volatility of securities prices and the liquidity of the investments. Unexpected volatility or illiquidity could impair profitability or result in losses.

### *General Market Conditions and Disruptions; Interconnected Markets.*

Developments and disruptions in financial and securities markets generally, including such aspects and attributes as interest rates, the availability of credit, and liquidity of particular types of investments, as well as changes in general economic conditions, including unemployment and inflation, can significantly affect the prospects of issuers of securities in which investments are made, SPC's ability to assess those prospects, and its ability to adapt portfolios and market exposures. In 2007 and 2008, a global "credit crisis" caused rapid and violent swings in all markets. The effects of that crisis on markets (including effects caused by governmental intervention, discussed below) may continue, and markets may be less predictable than historically. Other types of disruptions could emerge, including as a result of political or economic developments outside the markets in which we mainly invest, that have similarly, or even more, dramatic effects on the markets in which we invest, potentially causing accounts to incur losses.

Clients may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions can be compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Market disruptions can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. The financing available to the Funds or other clients for their portfolio activities is typically reduced in disrupted markets and providers of financing may take rapid and severe action (such as forcing the closure of short positions) that could result in substantial losses to the Funds.

*Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act.*

The global “credit crisis” and related or concurrent market disruptions that began in 2007 have led to extensive new governmental intervention in financial markets and the structure and operation of financial institutions. Initially, much of that intervention was implemented on an “emergency” basis, suddenly disrupting markets further. For example, in 2008 a number of countries imposed bans on short-selling on an “emergency” basis, making it impossible for numerous market participants either to continue to implement their strategies or to control the risk of their open positions. In part due to the complexities of financial markets and the speed with which governments have taken action, many governmental interventions have been unclear in scope and application and have included apparent inconsistencies. For example, while the Federal Reserve assisted or otherwise intervened as to some distressed financial institutions, it refused to do so for others. That inconsistency caused both severe losses for a number of market participants — who assumed either no intervention or intervention consistent with past precedent — and contributed to a general confusion and uncertainty as to important market forces, and as a result to illiquidity of markets.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) became law in the United States. The Reform Act seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Many provisions of the Reform Act require rulemaking by regulators before becoming fully effective and mandate multiple agency reports and studies (which could result in additional legislative or regulatory action). While some of that action has been taken and more has been proposed, it will remain difficult for some time to predict the impact of the Reform Act on markets in which the Funds invest or otherwise on SPC or the Funds. The Reform Act could cause some investment strategies and/or trading techniques to become non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to it could have a material adverse impact on the profit potential of the Funds. Other action has been taken and is proposed in various other countries.

It is impossible to predict what other interim or permanent governmental restrictions or other actions may be imposed on the markets, particularly if new disruptions occur, and it is impossible to predict the effect those restrictions or other actions may have on SPC’s strategies or the Funds’ portfolios when implemented.

## *Risks of Investing in Non-U.S. Securities*

Investing in securities and commodity interests of non-U.S. companies, securities, commodity interests and derivative contracts and instruments denominated in currencies other than U.S. dollars subjects accounts to risks not typically associated with investing in securities and commodity interests in the U.S. The following discussion sets forth some of the more significant risks associated with this type of investing.

- *Political and Economic Instability.* Many economies are subject to instability due to, among other things, volatile internal political environments, relatively unstable monetary systems, and/or external political risks. Some governments participate in their economies through ownership or regulation in ways that can have a significant effect on securities prices. The economies of certain countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic condition of their trading partners. In some countries, especially developing or emerging countries, political or diplomatic developments could lead to programs that would adversely affect investments, such as confiscatory taxation or expropriation.
- *Currency Fluctuations.* We invest client assets in securities denominated in foreign currencies. A change in the value of any such currency against the U.S. dollar causes a corresponding change in the U.S. dollar value of securities that are denominated in that currency. Such changes will also affect the Funds' income. Certain foreign countries maintain their currencies at artificial levels relative to the U.S. dollar. This type of system can lead to sudden and large adjustments in the currency, which can result in losses to foreign investors. We may enter into certain futures and foreign currency transactions to attempt to reduce foreign currency exposure. These techniques may reduce but will not eliminate the risk of loss due to unfavorable currency fluctuations and they tend to limit any potential gain that might result from favorable currency fluctuations. Certain countries restrict conversion of their currency into foreign currencies, including the dollar, and for some currencies, there is no significant foreign exchange market.
- *Characteristics of Foreign Securities Markets.* We generally purchase securities and other instruments on the principal stock exchange or over-the-counter market of the country in which the principal offices of the issuer of the security are located. Many foreign markets are not as developed or efficient as those in the U.S. and may be more volatile than the U.S. markets. In particular, there is generally less government supervision and regulation of foreign exchanges, brokers and listed companies than in the U.S. Further, trading volumes in many markets are lower than in U.S. markets, resulting in reduced liquidity and potentially rapid and erratic price fluctuations. Commissions for trades on foreign exchanges are generally higher than negotiated commissions on U.S. exchanges and custody expenses are generally higher as well. Settlement practices for transactions in foreign markets may involve delays beyond periods customary in the U.S., possibly requiring an account to borrow funds or securities to satisfy its obligations arising out of other transactions. In addition, there could be more "failed settlements," which can result in losses.

- *Less Company Information and Regulation.* Generally, there is less publicly available information about foreign companies than about U.S. companies. This may make it more difficult for SPC to keep informed of corporate action that may affect the price of a particular security. Further, many foreign countries lack uniform accounting, auditing and financial reporting standards, practices and requirements. These factors can make it difficult to analyze and compare the performance of foreign companies.
- *Restrictions on Investment and Repatriation.* Certain countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require prior governmental approvals, impose limits on the amount or types of securities that may be held by foreigners, or impose limits on the types of companies in which foreigners may invest. These restrictions may at times limit or preclude investments in certain countries and may increase the costs and expenses of investing. Indirect foreign investment may, in some cases, be permitted through investment funds that have been specifically authorized for that purpose. Because of the limited number of authorizations granted in such countries, however, units or shares in most of the investment funds authorized in those countries may at times trade at a substantial premium over the value of their underlying assets. There can be no certainty that these premiums will be maintained and if the restrictions on direct foreign investment in the relevant country were significantly liberalized, premiums might be reduced, eliminated altogether or turned into a discount. In addition, certain foreign countries impose restrictions and controls on repatriation of investment income and capital.
- *Foreign Withholding Taxes.* Dividend and interest payments on certain foreign securities the Funds may own may be subject to foreign withholding taxes, which will reduce net proceeds to the Funds.

#### *Investment in Small- and Medium-Capitalization Companies*

Small- and medium-capitalization companies may be less seasoned or have securities traded in the over-the-counter market. These “secondary” securities often involve significantly greater risks than the securities of larger, better-known companies. In addition to being subject to the general market risk that common stock prices may decline over short or even extended periods, these securities may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. The stocks of such companies may be more volatile in price and have lower trading volumes than larger capitalization companies. In addition, many small- and medium-capitalization securities are followed by relatively few securities analysts, with the result that there tends to be less publicly available information about them compared to what is available for exchange-listed or larger companies. These securities may have limited trading volumes and be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and we may be required to deal with only a few market-makers when purchasing and selling these securities. Transaction costs in small- and medium-capitalization stocks may be higher than in those of larger capitalization companies. Issuers of these stocks also may have limited product lines, markets or financial resources and may lack management depth and may be more vulnerable to adverse business or market developments.

### *Limited Liquidity of Some Investments*

Some of the securities in which we invest may be relatively illiquid, either because they are thinly traded, because they are traded only in foreign markets that do not provide the same liquidity as U.S. markets, or because they are subject to transfer restrictions. We may not be able promptly to liquidate those investments if the need should arise, and our ability to realize gains, or to avoid losses in periods of rapid market activity, may therefore be affected. Further, sales of thinly-traded securities could depress the value of the securities we do not sell, thereby reducing profitability or increasing unrealized losses.

### *Concentration of Investments*

There are no particular limits as to concentration in industries, particular issuers, or types of investments and investment portfolios (on account of size, investment strategy and other considerations) may at times be limited to the securities of a relatively few issuers. Although market economists have expressed differing views as to the effectiveness of diversification in reducing investment risk, by concentrating investments in several, relatively large security positions relative to a Fund's capital, a loss in any one position could materially reduce that Fund's performance. Further, significant losses or redemptions may leave the Funds with insufficient funds to diversify its investments.

### *Short Selling*

Short sales can, in some circumstances, substantially increase the impact of adverse price movements on a portfolio. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying securities to cover the short position.

### *Use of Leverage*

Leverage, if employed, would increase both the possibilities for profit and the risk of loss. Margin borrowings are usually from securities brokers and dealers and typically are secured by the borrower's securities and other assets. Under certain circumstances, such a lender may demand an increase in the collateral that secures the borrower's obligations, and if the borrower were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the borrower's obligation. Liquidation in that manner could have extremely adverse consequences, including realization of losses that would not otherwise be realized. In addition, interest on borrowing, which can fluctuate, could have a significant effect on a Fund's profitability.

### *Investments in Distressed Companies*

We may invest in securities of distressed or troubled companies. Special risks of these investments include a greater risk of total loss and, in reorganization proceedings, the risk of being forced to accept cash or securities with a value less than the costs and limits on exercising certain rights with respect to such investment. Distressed company investments may not show

any returns for a considerable period of time. There may be very long-term limited markets, if any, for these holdings. There is no assurance that these securities will resume trading in public markets or be acquired by other companies. Sales of securities held by the Funds may be dependent on the exercise of registration rights or the expiration of relevant securities laws restrictions.

Troubled companies may be involved in (or the target of) acquisition attempts or tender offers or may be involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. Any such transactions may be unsuccessful, take considerable time, or result in a distribution of cash or a new security, with a lower value than the purchase price of the financial instrument in respect of which such distribution is received. If an anticipated transaction does not occur, the investments may become worthless.

### *Derivatives and Hedging*

We may invest and trade in a variety of derivative instruments, both to hedge portfolios and for profit. Derivatives are financial instruments or arrangements in which the risk and return are related to changes in the value of other assets, reference rates or indices. The ability to profit or avoid risk through investment or trading in derivatives will depend on SPC's ability to anticipate changes in the underlying assets, reference rates or indices.

- *Options.* The trading of options is highly speculative and may entail risks that are greater than those present when investing in other securities. Prices of options are generally more volatile than prices of other securities. They permit speculation on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying such option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent an account buys options it does not sell or exercise, it will lose the premiums paid in such purchase. Selling (writing) options involves a theoretically unlimited risk of loss if the price of the underlying securities increases. To the extent the seller must buy the underlying securities, it risks losing the difference between the market price of the underlying securities and the option price. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid.
- *Futures/Commodities.* The trading of commodities and commodity interests (e.g., futures contracts on commodities, securities indices or currencies) is highly speculative and may entail risks that are greater than investing in securities. Prices of commodity interests are generally more volatile than prices of securities. Futures trading can have effects on portfolios similar to the effects of leverage; it permits participation in market price fluctuations of securities or commodity interests underlying futures (or options on futures), while only investing a small percentage of the value of those underlying securities or commodity interests. If the market moves against positions or margin levels are increased, an account may be called upon to pay substantial additional funds on short notice to maintain



its position. If it were to fail to make such payments, the account's positions could be liquidated at a loss, and the client would be liable for any resulting deficit.

Positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange. In addition, although we intend to enter into futures contracts only if an active market exists for the contracts, no assurance can be given that an active market will exist for the contracts at any particular time. Futures positions may be illiquid because, among other things, most commodity exchanges limit fluctuations in certain futures contract prices during a single day. Once the price of a contract for a particular future has increased or decreased by an amount equal to the "daily limit," positions can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. Such an occurrence could prevent a client from liquidating unfavorable positions and could subject the client to substantial losses.

- *Foreign Currency Forward Contracts.* Foreign currency forward contracts (agreements to exchange one currency for another at a future date) involve a risk of loss if we fail to predict accurately the direction of currency exchange rates. For example, the Funds may experience a loss if it increases its exposure to a foreign currency and that currency's value in relation to the U.S. dollar subsequently falls. In addition, forward contracts are not guaranteed by an exchange or clearinghouse. Unlike exchange-traded future contracts and options on futures, forward contracts are not regulated by the CFTC and accordingly a Fund will not receive any benefit of CFTC regulation of these trading activities. Therefore, a default by the forward contract counterpart may result in a loss to a Fund for the value of unrealized profits on the contract or for the difference between the value of its commitments, if any, for purchase or sale at the current currency exchange rate and the value of those commitments at the forward contract exchange rate. At times, certain market makers have refused to quote prices for forward contracts, or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and sell. Should this occur, a Fund could experience significant losses.
- *Swap Agreements.* Swap agreements ("swaps") are individually negotiated and structured agreements through which a participant may obtain exposure to particular investment positions or market factors. They may be subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. They can involve considerable economic leverage. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of swap agreements is the change in the individual equity values, specific interest rate, currency or other factors that determine the amounts of payments due to and from their participants. If a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses.
- *Stock Indices and Related Derivatives.* The use of options on stock indices and stock index futures contracts as hedging devices involves several risks. No assurance can be given that a correlation will exist between price movement in the stock index and price movements in the securities that are the subject of the hedge.

- *Foreign Derivatives.* We may trade futures and options in non-U.S. markets. The risks of these activities may be greater than those of trading on U.S. exchanges. For example, foreign futures and options are cleared on and subject to the rules of foreign boards of trade or similar organizations. Neither the U.S. Commodity Futures Trading Commission nor the National Futures Association regulates activities of any foreign board of trade, including execution, delivery and clearing of transactions. Funds provided for foreign futures and options may not be provided the same protections as funds received in respect of United States transactions.
- *Hedging Generally.* Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to involve transactions costs and may inherently limit or reduce the potential for profit.

#### *Tax-Related Risks of Investing in U.S. Securities.*

- *U.S. Source Payments to a Fund May Be Subject to Withholding Under the HIRE Act.* The Hiring Incentives to Restore Employment Act (the “HIRE Act”) and recently issued IRS guidance provides that a 30% U.S. withholding tax will be imposed on certain payments of U.S. source income made on or after January 1, 2014 and certain payments of proceeds from the sale of property that could give rise to U.S. source interest or dividends made on or after January 1, 2015 unless a Fund enters into an agreement with the U.S. Internal Revenue Service (the “IRS”) to disclose the name, address and taxpayer identification number of certain U.S. persons that own, directly or indirectly, an interest in the Fund, as well as certain other information relating to any such interest. Although a Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of this withholding tax, no assurance can be given that a Fund will be able to satisfy these obligations. If a Fund becomes subject to a withholding tax as a result of the HIRE Act, the returns may be materially affected. In addition, a Fund may reduce the amount payable on any distribution or redemption to a shareholder that fails to provide a Fund with the requested information. Any master fund in a master-feeder structure will be subject to similar requirements under the HIRE Act. Prospective investors are encouraged to consult with their own tax advisers regarding the possible implications of the HIRE Act on their investments in a Fund.
- *A Fund May Mandatorily Redeem any Shareholder that Fails to Cooperate with the Fund’s Efforts to Comply with the HIRE Act.* A Fund’s ability to comply with the HIRE Act will depend on each shareholder providing the Fund with information that the Fund requests concerning the direct and indirect owners of such shareholder. If a shareholder fails to provide a Fund with any information the Fund requests, the Fund may exercise its right to mandatorily redeem such shareholder or take such other actions as may be permitted pursuant to a Fund’s organizational documents.
- *U.S. Withholding Taxes.* Subject to certain exceptions, a Fund will be subject to a 30% withholding tax on the gross amount of (i) any United States source interest income that falls outside the “portfolio interest” exception or other available exception to withholding tax, (ii) any United States source dividend income, and (iii) any other fixed or determinable annual or periodical gains, profits or income from sources within the United States.

- *Tax Audits.* Each master fund or Fund may be audited by U.S. federal, state or other tax authorities. An income tax audit may result in an increased tax liability of the Fund, including with respect to years when an investor was not a shareholder of the Fund, which could reduce the Net Asset Value of the master fund or the Fund and affect the return of all shareholders.

#### *Accounting for Uncertainty in Income Taxes*

ASC 740, “Income Taxes” (in part formerly known as “FIN 48”), provides guidance on the recognition of uncertain tax positions. ASC 740 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in an entity’s financial statements. It also provides guidance on recognition, measurement, classification and interest and penalties with respect to tax positions. A prospective investor should be aware that, among other things, ASC 740 could have a material adverse effect on the periodic calculations of the Net Asset Value of a Fund or its master fund, including reducing the Net Asset Value of the Fund or the master fund to reflect reserves for income taxes that may be payable by the Fund or the master fund. This could cause benefits or detriments to certain investors, depending upon the timing of their entry and exit from the Fund.

#### *Investment for Control*

SPC may become an active participant in management of certain portfolio companies. If we participate in management, we may be deemed to have duties to the portfolio company. Other parties could seek damages based on allegations of wrongdoing in the course of exercising influence and control over a company.

#### *Portfolio Turnover*

Our portfolio management activities may involve higher portfolio turnover than other investment managers’. If that occurs, brokerage commissions may be higher than those incurred in other portfolios.

#### *Pan-Asia Specific Risks*

In addition to the risks posed by investments in non-U.S. securities in general, there are additional risks specifically associated with investments in securities of Asian issuers.

- *Economic Considerations.* The Pan-Asia region has experienced rapid economic growth rates and in many cases stock market valuations have followed this. There can be no assurance that this will continue, or that the rapid growth in China and India has not led to structural imbalances that may lead to another crisis. The region has in the past been profoundly impacted by growth rates in the United States and Western Europe, and a slowdown or recession in those regions would likely have significant impact on Asian economies.

- *Economic and Political Dislocations in Asia.* Many Asian economies are generally less stable than the U.S. economy, due to, among other things, volatile internal political environments, less stable monetary systems and/or external political risks. Coups in several countries and geopolitical instability have at times had significant impact on these markets and are likely to do so again. Among other things, political and economic risks may arise from tensions between China and Taiwan, North Korea's nuclear ambitions, the India-Pakistan tensions, attempted coups in Thailand and the Philippines, and economic nationalism. In addition, in some countries, political or diplomatic developments could lead to programs that would adversely affect investments, such as confiscatory taxation or expropriation. Any of these factors may lead to unfavorable investment climates across the region.
- *Limited Availability of Information; Due Diligence.* Financial statements are prepared in accordance with local accounting standards, which in many cases differ in certain respects from U.S. GAAP. In addition, the securities and exchange laws in many Asian countries, which govern public companies, impose disclosure requirements that in many cases are more limited than those in the United States in certain important respects. The result is that it is likely that financial statements and reported earnings of companies in this region will generally contain less information than what would be reported based on U.S. accounting and reporting standards. Moreover, there is less experience in Asia with the extensive legal and business due diligence that is typically conducted in the United States. As a result, in considering a prospective investment, it may be difficult for SPC to conduct the level of due diligence that it customarily conducts as to U.S. investments.
- *Legal System.* The legal systems of many Asian countries suffer from a lack of complete transparency and significant procedural inefficiencies. In addition, delays in obtaining licenses, approvals, and authorizations are common and may adversely affect the operations of companies in which the Funds will invest.
- *Securities Markets.* When possible, the Funds generally buy and sell securities on the principal stock exchange or over-the-counter market of the country in which the principal offices of the issuer of the security are located. Non-U.S. stock markets generally are not as developed or efficient as those in the United States and may be more volatile than the U.S. markets. In particular, there is generally less government supervision and regulation of non-U.S. exchanges, brokers and listed companies than there is in the United States. Further, as compared with trading volumes in U.S. markets, trading volumes in non-U.S. markets are usually lower and therefore are characterized by less liquidity and more rapid and erratic price fluctuations. Commissions for trades on non-U.S. stock exchanges are generally higher than negotiated commissions on U.S. exchanges, and custody expenses are generally higher as well. Settlement practices for transactions in non-U.S. markets may involve delays beyond periods customary in the United States, and the Funds may be required to borrow funds or securities to satisfy its obligations arising out of other transactions. In addition, there could be more "failed settlements," which can result in losses to the Funds.
- *Corporate Governance.* The laws in many Asian countries regulating ownership, control and governance of companies are still evolving, and under some of those laws it is

permissible or not uncommon for companies to pursue interests that are not aligned with investors' interests. Although in some countries there have been procedural and other changes that are intended to facilitate the increased exercise of legal rights by minority investors, there can be no assurance that these changes will be sufficient to afford minority investors effective means for preventing, or seeking compensation for, transactions or conduct that is injurious to investors' interests.

- *Restrictions on Investment and Repatriation.* Certain countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require that proposed investments be pre-approved by regulatory authorities or impose limits on the amount or types of securities that may be held by foreigners or on the types of companies in which foreigners may invest. These restrictions may at times limit or preclude a Fund's investments in certain countries and may increase a Fund's costs and expenses. Foreign investors may, in some cases, be permitted to invest indirectly in certain countries through investment funds that have been specifically authorized for that purpose. However, because those countries grant only a limited number of authorizations, units or shares in most of the authorized investment funds may at times trade at a substantial premium over the value of their underlying assets. There can be no certainty that these premiums will be maintained, and if the restrictions on direct foreign investment in the relevant country were significantly liberalized, premiums might be reduced, eliminated altogether or turned into a discount. In addition, certain countries impose restrictions and controls on the repatriation of investment income and capital. SPC may cause a Fund to use swaps or other derivatives to obtain exposure to certain non-U.S. markets or securities.
- *Asian Currency Factors.* A Fund's investments may be denominated in non-U.S. currencies. A change in value of any such currency against the U.S. dollar will cause a corresponding change in the U.S. dollar value of a Fund's investments that are denominated in that currency. Those changes may affect a Fund's income and profitability. Certain countries maintain the value of their currencies at artificially high levels relative to the value of the U.S. dollar. This practice may result in sudden and large adjustments in a currency's value, potentially resulting in losses to foreign investors, such as a Fund. A Fund may enter into currency hedging transactions to attempt to reduce its currency exposure. These techniques may reduce but will not eliminate the risk of loss due to unfavorable currency fluctuations, and they may limit any potential gain that might result from favorable currency fluctuations. Certain countries restrict conversion of their currency into foreign currencies, including the dollar, and for some currencies, there is no significant foreign exchange market.
- *International Trade.* International trade is important to Asian countries. Many of them depend on foreign countries for raw materials, and exports allow them to pay for those raw materials. Some Asian countries may develop difficulties in their relationships with trading partners, particularly those with whom the trade imbalances are the greatest. It is possible that disputes over trade policies may lead the trading partners to take actions that may have an adverse effect on the relevant countries.
- *Natural Disasters.* In the past, Japan, Thailand, Singapore, India and other Asian countries have experienced earthquakes, tidal waves and other natural disasters of varying degrees of

severity, and the risks of such phenomena, and damage resulting from them, continue to exist. Any such events, depending on their severity, could have substantial adverse effects on the economies of the affected countries.

### *Currency Hedging*

Because a core component of SPC's investment strategy is investing in non-U.S. securities or securities traded in currencies other than U.S. dollars, we may seek to hedge exposure to currency fluctuations. Hedging activities involve transaction costs that can reduce returns. Moreover, hedging may not always be effective. In addition to trading in futures contracts on currencies (subject to the conditions described above), SPC may enter into foreign currency forward contracts (agreements to exchange one currency for another at a future date). These contracts involve a risk of loss if we fail to predict accurately the direction of currency exchange rates. For example, a client may experience a loss if we increase its exposure to the Yen and the Yen's value in relation to the U.S. dollar subsequently falls. In addition, forward contracts are not guaranteed by an exchange or clearinghouse. Therefore, a default by the forward contract counterparty may result in a loss for the value of unrealized profits on the contract or for the difference between the value of commitments, if any, for purchase or sale at the current currency exchange rate and the value of those commitments at the forward contract exchange rate.

### *Valuation Risks*

Many of the securities in which we invest are traded in markets that are not as active or deep as large-capitalization equity markets. For some securities, there is no established secondary market. For others, the market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, resulting in unreliability of pricing information. The markets for over-the-counter derivative products are even less developed and have no equivalent of established securities exchanges or composite tape systems to supply pricing information. Because of market inefficiencies, there can be material variation of bid/ask pricing from different dealers. Further, if an issuer's financial condition deteriorates, accurate financial and business information may become even more limited or entirely unavailable. In some circumstances, prices for positions may not be available from any source. Where third-party pricing information is not available, or where SPC considers market-based pricing information not to be indicative of an investment's value, the investment will be valued at SPC's discretion. SPC may face conflicts of interest in making valuation decisions.

As a result of these and other factors, there can be no assurance that the valuation of investment positions at any valuation date will accurately reflect the amount that could be obtained (or payment required as to some types of derivatives positions) upon a sale or closing transaction on that date. Inaccuracies in valuation could affect portfolio management activities and, as a result, cause significant losses.

### *Counterparty and Settlement Risk*

Funds or other clients may be exposed to the risk of default by their counterparties or to settlement difficulties in their over-the-counter derivative contracts or transactions (*i.e.*,

transactions in options or other derivatives that are not cleared through the facilities of an exchange or clearing organization such as the Options Clearing Corporation). These transactions may include “swaps,” contracts for differences and specially tailored options, and instruments or interests underlying them that may include securities, securities indices, interest rates, commodities and commodities indices. This risk may be materially greater than default or settlement risks involved in standardized and exchange-traded transactions. The latter are generally backed by clearing organizations’ guarantees and are generally marked to market daily, and financial intermediaries and obligors are generally subject to settlement, segregation and minimum capital requirements. Transactions directly with a counterparty generally do not benefit from those protections and expose each party to a greater risk of the other’s default.

## **Item 9 – Disciplinary Information**

SPC does not believe that there have been any legal or disciplinary events that are material to our advisory business or the integrity of our management.



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

SPC has contracted with SPC Japan, LLC (the “Japanese Sub-Advisor”), a Delaware limited liability company that is 100% owned by Standard Pacific Partners, L.P. (the managing member of SPC). Through a branch office that it has established in Tokyo, Japan, the Japanese Sub-Advisor will provide SPC, for use with respect to appropriate client accounts, research, analysis and recommendations regarding investment opportunities in securities of Japanese corporations and potentially in securities of companies based in other Asian markets. The branch office is registered, under the Investment Advisory Business Law of Japan, as an investment adviser in Japan.

The Japanese Sub-Advisor does not participate directly in the management of client accounts or the settlement of any trades entered into by SPC, nor will it be sub-delegated any of the discretionary investment authority vested in SPC. The compensation of the Japanese Sub-Advisor for its services will be paid solely by SPC, and the Japanese Sub-Advisor will not receive any compensation from the Funds or other clients. SPC may terminate its relationship with the Japanese Sub-Advisor or engage different or additional sub-advisors, at SPC’s expense, without the consent or approval of the Funds or other clients.

GEH and SGC are the General Partners of the partnerships managed by SPC and holds performance allocation shares in those partnerships as described in the relevant partnership offering memorandum. GEH’s General Partner is the same entity that is SPC’s managing member. SGC’s sole shareholder is GEH. These entities were created for reasons not directly related to SPC’s clients and perform functions that would be performed by SPC itself if it did not exist. We do not believe our relationship with these entities cause any conflict of interest with our clients.

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

SPC's Code of Ethics covers all employees of the firm. The Code of Ethics includes, among other things, provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures. This Code of Ethics is distributed to each employee at the time of hire and is supplemented with training periodically thereafter. All employees at SPC must attest to following the terms of the Code of Ethics annually.

SPC and/or its members, employees or other related persons may from time to time invest in certain Funds. SPC and/or its members, employees or other related persons may also personally buy or sell the same instruments that SPC buys or sells for client accounts, and it or they may own securities, or options on securities, of issuers whose securities are subsequently bought for client accounts. SPC's policy as to such transactions is that neither SPC nor any of its members, employees or other related persons are to benefit from price movements that may be caused by transactions for client accounts or otherwise because of SPC's recommendations regarding a particular security. The Code of Ethics, among other things, subjects trading by SPC, its employees and other related persons for their own accounts to internal review. Certain pre-clearance procedures are also required, and trading may be restricted in recognition of impending or recent investment decisions on behalf of clients and other factors. SPC maintains "blackout" periods during which SPC, its members, employees and other related persons may not (i) buy securities for their own account within a certain period of time of a purchase or sale of the same or related security by any client account or (ii) sell securities for their own account within a certain period of time of a purchase or sale of the same or related security by any client account. Neither SPC nor any of its members, employees or other related persons may execute a proprietary transaction in a security on any day during which there is pending for any client any order in the same security, until such time as the client order is executed or withdrawn. All personal accounts are monitored.

In addition, SPC and/or its related persons or Funds may buy or sell specific securities for its or their own account that are not deemed appropriate for client accounts at the time, based on personal investment considerations that differ from the considerations on which decisions as to investments in client accounts are made. Where execution opportunities for a particular security are limited, SPC attempts in good faith to allocate such opportunities among clients in a manner that, over time, is equitable to all clients. See Item 12, "Brokerage Practices."

SPC's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Client Relations Department at (415) 352-7100.

## Item 12 – Brokerage Practices

In acquiring and disposing of investment positions, SPC generally has complete discretion to select the brokers, dealers, futures commission merchants, swap dealers and counterparties, counterparties to other transactions and investment positions, and other financial intermediaries (“Transacting Parties”). Accounts may buy investments directly from and sell them directly to dealers, with a markup or markdown included in the price, and they may buy and sell investments through brokers, futures commission merchants and other financial intermediaries who charge commissions or commission equivalents. SPC may also cause securities to be bought from underwriters in public offerings at prices that include compensation to the underwriters. SPC has complete discretion in negotiating the prices for investment positions and the amounts and nature of transaction-related compensation, if any, its clients will pay.

In choosing Transacting Parties SPC is not required to consider or focus on any particular criteria. In selecting dealers from which clients may buy or to which they may sell securities and commodity interests, and in selecting brokers and other intermediaries to execute transactions on an agency basis, for the most part, SPC will seek “best execution” of transactions. What constitutes “best execution” and determining how to achieve it are inherently uncertain. In evaluating whether a Transacting Party will provide best execution, SPC will consider a range of factors. These will include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement and error-correction capabilities of the Transacting Party generally and in connection with securities, commodity interests or other instruments of the type and in the amounts to be bought or sold (including the ability to follow instructions, provide timely reporting, maintain confidentiality, and provide market color); the Transacting Party’s willingness to commit capital; the Transacting Party’s reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the security, commodity interest or other instrument; and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party. In selecting counterparties to swaps and other over-the-counter derivatives transactions or positions, SPC will consider, as primary matters, the price and other fundamental terms of the particular contract and the creditworthiness and financial stability of the counterparty. SPC is not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to others, and the Fund expects at times to pay more than the lowest transaction cost available in order to obtain for itself and/or SPC services and products other than securities transaction execution.

### *“Soft Dollars”*

When a Transacting Party provides a client or SPC with services or products other than transaction execution, or pays for those services or products for a client or SPC, in recognition of portfolio execution business done with that Transacting Party or in the expectation of such business, those services or products are said to be acquired with “soft dollars.” A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as SPC) of soft dollars generated by securities transactions to pay for various expenses but provides a safe harbor from

breach of fiduciary duty claims if certain conditions and requirements are met. Under the safe harbor, soft dollars may be used to acquire “research” and “brokerage” services and products for which a client would not otherwise be required to pay. Services or products generally constitute “research” under Section 28(e) if they constitute advice, analyses or reports, any of which express reasoning or knowledge as to the value of or investing in or trading securities or, as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent SPC uses them for lawful and appropriate assistance in making investment decisions for its clients. “Brokerage” services and products are those used to effect portfolio transactions for SPC’s clients (including the Funds) or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting, clearing or settling transactions) or regulatorily required in connection with transactions. In addition, only commissions or commission equivalents on transactions in securities are protected by Section 28(e). Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, using markups and markdowns on many principal transactions, commissions paid to futures commission merchants on transactions in futures contracts, and compensation from transactions in swaps or other derivative instruments to pay for research or brokerage is not protected but is not necessarily prohibited.

Because many services and products SPC may receive from Transacting Parties may benefit SPC, SPC may face conflicts of interest in allocating clients’ transactional business. These may include incentives to cause clients to engage in the following practices to induce Transacting Parties to provide those benefits: (i) pay Transacting Parties higher compensation (potentially including markups and markdowns on principal transactions) than the compensation payable to other market participants who do not provide the services or products; (ii) select Transacting Parties that do not provide the best possible price; (iii) use (and pay) Transacting Parties who do not actually provide execution services (including brokers who are paid commissions on transactions effected on a principal basis with other dealers acting as market-makers); and (iv) effect more transactions than might otherwise be optimal. SPC’s agreements with the Funds do not require SPC to remain within the Section 28(e) safe harbor; they authorize SPC to consider, in selecting Transacting Parties, provision to it of a wide range of services and products, including those falling outside the protections of the safe harbor and notwithstanding the conflicts of interest that may be involved. However, SPC’s agreements with some other clients do limit soft dollar activities to those protected by Section 28(e). As a result, SPC currently intends to limit its soft dollar activities for all accounts, although where not contractually prohibited, it may from time to time use a Fund’s soft dollars in a manner that does not fall within the Section 28(e) safe harbor. Services acquired with one client’s soft dollars will often be used in connection with managing other clients’ accounts.

### *Procedures*

Transacting Parties from which SPC obtains soft dollar services or products generally establish “credits” based on past transactional business (including markups and markdowns on principal transactions), which may be used to pay or reimburse SPC for specified expenses. In some cases the process is less formal; a Transacting Party simply may suggest a level of future business that would fully compensate the Transacting Party for services or products it provides. Actual

transactional business with a Transacting Party may be less than the suggested level but may exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because clients' investment activities generate aggregate commissions in excess of the levels of future business suggested by all Transacting Parties who provide services and products. And it may be in part because those Transacting Parties may also provide superior execution and may therefore be most appropriate for particular transactions. SPC may ask a Transacting Party who is executing a transaction for several of SPC's Funds to "step out" of a portion of the transaction in favor of a Transacting Party who has provided or is willing to provide products or services for soft dollars. That is, the executing Transacting Party will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar Transacting Party. This assists SPC in acquiring products and services with soft dollars while providing the benefits of aggregated transactions as described below. It may result in some clients paying additional commissions or other transaction compensation to the Transacting Party to whom a portion of an aggregated transaction is "stepped out" and therefore incurring higher transaction costs for that transaction than do other clients who are buying or selling the same security at the same time.

These procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage. However, Section 28(e)'s safe harbor is not available as to many transactions effected on a principal basis, as most transactions with market-makers in over-the-counter securities are, with a markup or markdown paid to the Transacting Party or where the transactions are in commodity interests rather than securities. SPC may nonetheless determine to use such markups, markdowns and non-securities transaction compensation as soft dollars with which to acquire services and products of the kinds described below:

Soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

#### *"Research and Brokerage"*

The types of "research" SPC may receive from Transacting Parties include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems (to the extent used to assist in making investment decisions), quotation services; and other products or services that may enhance SPC's investment decision-making. "Brokerage" services and products (beyond typical execution services) include (but are not limited to): computer systems and facilities (including hardware) used for such things as communicating orders electronically to executing Transacting Parties, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions. Even where SPC's use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), SPC will have a conflict of interest in connection with that use because it might otherwise have to pay cash for those services and products and it may have an incentive to use Transacting Parties who provide those services and products more than it otherwise would.

In the last year, SPC has, among other things, used “soft dollars” to receive the following research:

- Software and other products that aggregate market data, broker-dealer research reports, company financial data and economic data
- Industry consultants who provide direct market research and market color via written reports, calls or meetings
- Quantitative analytical software that supplies portfolio analysis

### *Client Expenses*

Transacting Parties could possibly agree to pay some or all of a client’s accounting and other, similar expenses or to meet the client’s obligation to reimburse SPC for expenses it has advanced. SPC could also cause clients to use brokerage commissions, markups and markdowns, and other transaction-related compensation (as well as interest the Prime Broker receives on cash balances, margin borrowings and borrowings of securities to maintain short positions) to pay the Prime Broker for recordkeeping, custodial and related services provided to clients. Under SPC’s agreements, the Funds and in some cases other clients, and not SPC, would otherwise be obligated to bear all of these expenses and SPC therefore does not believe it would have a meaningful conflict of interest in selecting a Transacting Party in recognition of that party’s payment of them.

### *Other Services and Products*

Non-research or non-brokerage services that a Transacting Party could potentially provide may include some of SPC’s costs of and equipment used in providing services, such as computer and communications equipment SPC uses in connection with its investment analysis and decision-making (*e.g.*, Bloomberg subscriptions and terminals), industry research services and/or other publications, out-of-pocket expenses involved in evaluating potential investment opportunities, the costs of computer software and hardware and other equipment used for client reporting and/or other administrative activities and other costs that SPC or its related persons would otherwise bear. A Transacting Party may also provide other benefits to SPC or its affiliates, such as by lending to or engaging in other financial transactions with SPC or its affiliates on terms better than those otherwise available or by investing in the Funds or other accounts SPC or its affiliates sponsor or manage. SPC will have a conflict of interest to the extent Transacting Parties pay for or provide these services or benefits, as it will have an incentive to use those Transacting Parties regardless of whether using them would otherwise be in the clients’ best interests.

### *Directed Brokerage; Prime Brokerage*

We do not have any “directed brokerage” arrangements with the Funds. While not “directed brokerage,” as noted above the Funds may pay a portion of their own costs using soft dollars, including custodial, clearing, recordkeeping, and related services obtained through what is known as a “prime brokerage” arrangement. By using brokerage firms for these functions the Funds avoid paying custodial fees that banks charge other institutional investors. Prime Brokers

are compensated through brokerage commissions, interest on credit balances, margin borrowings, and stock loans. Although we dictate the Funds' choices, the Funds might be thought of as "directing" us to place transactions with the Prime Brokers in order to pay for the custodial, clearing and related services the Funds obtain from the Prime Brokers. The Prime Brokers may provide services to us and/or our affiliates, distinct from the custodial, lending and related services the Prime Brokers provide the Funds and other clients. These services may include, among other things, information technology, website hosting, portfolio management software license and support service, consulting services with respect to various aspects of our business and introducing us to prospective Fund investors. They may be provided at lower than the market price for similar services or for no charge. The Prime Brokers may also enter into financial transactions with us or our affiliates, and these transactions may be on terms more favorable than the terms available with other counterparties. These transactions might include lending money to us or our affiliates. To the extent we or our affiliates receive services from a Prime Broker at lower than market prices, or enter into transactions on terms better than terms available on the market, because we are responsible for selecting the Prime Brokers or negotiating the rates of compensation the Funds pay the Prime Brokers, conflicts may exist between our interests and the Funds'. That is, we may have an incentive to cause the Funds to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) that might be available otherwise or to continue to use a Prime Broker when the Funds would not otherwise do so.

#### *Referrals of Investors and Advisory Clients*

In selecting a Transacting Party, SPC may consider the Transacting Party's referrals of investors to the Funds, referrals of advisory clients to SPC, the potential for future referrals, and/or the Transacting Party's willingness to pay third-party finders' fees for those referrals. To the extent SPC would otherwise be obligated to pay for "finding" services, it has a conflict of interest in considering those services when selecting a Transacting Party. It also faces a conflict because it benefits from increases in the Funds' size.

#### *Aggregation of Orders*

SPC may (but is not required to) combine orders on behalf of one client account with orders for other client accounts for which it or its principals have trading authority, or in which it or its principals have an economic interest. When it does, SPC will generally allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. SPC believes combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to a client than if that client had been the only account effecting the transaction or had completed its transaction before the other participants. Because of SPC's relationship to the Funds it manages by virtue of its position as the investment manager, there may be circumstances in which transactions for those entities may not, under certain laws, regulations and internal policies, be combined with those of some of SPC's and its affiliates' other clients, which may result in less advantageous execution for those Funds and/or other clients.

SPC may place orders for the same security for different clients at different times and in different relative amounts due to differences in investment objectives, cash availability, size of order and practicability of participating in “block” transactions. The level of participation by different clients in the same security may also be dependent upon other factors relating to the suitability of the security for the particular client. For example, in certain situations a security may be suitable for both the Pan-Asia portfolios and the Global Equity portfolios, whereas a security with a smaller market capitalization or trading volume may be suitable only for the Pan-Asia portfolios due to the large scale of assets that would need to be deployed by the Global Equity portfolios. In other situations, the Pan-Asia portfolios may take a larger relative position in a security than the Global Equity portfolios. SPC has adopted policies and procedures to ensure that its trading allocations are fair to all clients.

SPC may (but is not obligated to) cause accounts it manages (including Funds in which SPC and/or one or more of its related persons has an ownership interest) to effect “cross” transactions with other accounts, subject to applicable law or regulation. It may do so when it believes those transactions will be beneficial to both parties. SPC typically causes these transactions to be executed at current market prices through independent brokerage firms, which may result in parties to these transactions incurring additional transaction charges.



### **Item 13 – Review of Accounts**

All Funds are managed and reviewed daily by the Funds' Portfolio Managers. Asset allocation, cash management, market prospects and individual issue prospects are considered. Particular attention is given to changes in company earnings, industry and company outlook, market outlook and price level.

Investors in the Funds generally receive the following reports:

- Monthly—Letter stating prior month's performance, year-to-date performance, inception-to-date performance, and relevant portfolio details.
- Quarterly—Letter providing performance for the year through the most recently ended quarter, together with SPC's view of the current investment outlook.

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

SPC has agreements with certain third parties to pay a portion of the management fee due SPC from investors in certain of the Funds for referrals of those investors and services provided by the third party to those investors. These investors are subject to the Funds' standard terms and conditions and will not be subject to any additional fees or allocations payable to SPC or any affiliate as a result of such solicitation agreements.

We may also receive client referrals from brokers providing services to our clients. See Item 12, "Brokerage Practices."

## **Item 15 – Custody**

A rule under the Investment Advisers Act provides that, because SPC is an affiliate of the general partner of the partnerships, SPC, through its affiliates, is considered to have “custody” of those partnerships’ assets, even though independent custodians (Prime Brokers) actually hold those assets. That rule generally requires investment advisers that have “custody” of client assets to cause certain account statements detailing holdings and transactions to be sent to clients, and imposes certain other obligations. However, advisers to investment funds like the partnerships need not comply with those requirements if, among other things, the partnerships provide investors with audited financial statements by a specified time each year and those financial statements meet certain requirements. We satisfy those conditions and therefore are not subject to reporting and other obligations.

## **Item 16 – Investment Discretion**

SPC usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, SPC observes the investment policies, limitations and restrictions of the clients for which it advises. See Item 4, “Advisory Business,” and Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss.”

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

SPC has adopted and implemented policies that it believes are reasonably designed to insure that decisions regarding when and how to vote proxies are done in the best interest of its clients. SPC's authority to vote proxies for its clients is established by its investment management agreements (or comparable documents). When SPC considers it to be in the best interests of clients to vote proxies, SPC votes such proxies in a manner SPC considers consistent with the best economic interests of our clients. The policy includes general guidelines for voting on matters that are frequently put before shareholders. SPC uses these guidelines flexibly, keeping in mind the principles stated above, as well as SPC's fiduciary responsibility to protect its clients' rights as shareholders.

SPC attempts to identify conflicts of interest that may arise in the proxy decision making process. If a material conflict of interest over proxy voting arises between SPC and a client, and SPC determines that its proxy voting policy does not adequately address the conflict of interest, SPC will notify the relevant Separate Account clients of the conflict and ask them to consent to SPC's intended response to the proxy solicitation. If a client consents to SPC's intended response or fails to respond to the notice within a reasonable period of time specified in the notice, SPC will vote the proxy as described in the notice. If the client objects to SPC's intended response, SPC will vote the proxy as directed by the client. SPC will not submit conflict questions of this type to investors in the Funds.

Investors in the Funds may obtain a copy of SPC's proxy voting policy and records detailing how SPC voted proxy issues on the Funds' behalf by submitting a written request to the Chief Compliance Officer at Standard Pacific Capital, LLC, 101 California Street, Suite 3600, San Francisco, California 94111.

## **Item 18 – Financial Information**

SPC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.