

## **Part 2A of Form ADV: *Firm Brochure***

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This brochure provides information about the qualifications and business practices of Balestra Capital, Ltd. (referred to as “Balestra Capital”, the “firm” or “we”). If you have any questions about the contents of this brochure, please contact the firm’s Chief Compliance Officer at (212) 768-9000 or at [compliance@balestracapital.com](mailto:compliance@balestracapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Any reference to Balestra Capital as a “registered investment adviser” or as being “registered” with the SEC does not imply any level of training or skill.

Additional information about Balestra Capital is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by the name of the firm or by a unique identifying number, known as a CRD number. The CRD number for Balestra Capital is 107825.

**2. SUMMARY OF MATERIAL CHANGES**

We do not believe that there has been any material change to the business, operations or risks disclosed in this brochure since the previous year's brochure. We have, however, renamed our non-discretionary advisory business, which now operates under the trade name "Landseer." While it is not a material portion of our business at this time, we refer to it throughout our brochure.

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#### **Supplemental Information – Privacy Policy**

#### 4. ADVISORY BUSINESS

Balestra Capital is an SEC-registered investment adviser with its principal place of business in New York City, New York. The firm has been in business since 1979, and has been a registered adviser since 1987. Our registration with the SEC does not imply any level of training or skill by our firm or employees or that the SEC has endorsed our respective qualifications to provide investment supervisory services. Balestra is majority owned by James L. Melcher, its President. Messrs. Norman J. Cerk and Matthew J. Luckett are each a Partner of Balestra Capital. We primarily provide discretionary investment supervisory services to our clients. As of January 1, 2014, our firm managed approximately \$1.64 billion of client assets on a discretionary basis. We also provide certain non-discretionary advisory services under the trade name “Landseer,” as described in C below, which is not reflected in the above amount.

##### A. PRIVATE INVESTMENT FUNDS:

Balestra Capital primarily provides investment supervisory services to several US and non-US private investment funds (collectively, the “Balestra Funds”). Most of the Balestra Funds are sponsored by the firm or our affiliate, Balestra Capital Management, LLC (“BCM”). Balestra Capital Advisors, LLC, a Balestra Capital affiliate (“BCA”), may also serve as an investment adviser or sub-investment adviser to unaffiliated private investment funds or separate accounts from time to time. BCA is currently not serving in any such capacity and is dormant.

The Balestra Funds include: (i) our flagship global macro-economic hedge fund (and its offshore feeder) (collectively, the “Flagship Funds”) and (ii) our two macro-driven funds of hedge funds (and an offshore feeder) (together, “Balestra Spectrum”). Each of our Flagship Fund’s primary objective is to achieve capital appreciation through investments based primarily on broad macro-economic themes, but also on social, political, psychological and other factors. Balestra Spectrum’s primary objective is to seek optimum returns to investors, adjusted for risk, by allocating its capital among several managers, including our Flagship Funds. Balestra Spectrum’s assets may also be invested directly in any equity or fixed income securities, currencies, commodities, or related derivatives on any of these investments, based primarily on broad macro-economic themes, but also on social, political, psychological and other factors.

The following is a summary of each of the Balestra Funds.

##### *I. The Flagship Funds (global macro-economic hedge funds):*

- Balestra Capital Partners, L.P., a Delaware limited partnership (“BCP”); and
- Balestra Global Ltd., a Cayman Islands exempted company, which is regulated as a mutual fund in the Cayman Islands (“BGL”) and serves as the offshore feeder fund for BCP.

##### *II. Balestra Spectrum (macro-driven funds of hedge funds):*

- Balestra Spectrum Partners L.L.C., a Delaware limited liability company (“BSP”);

- Balestra Spectrum Partners II, LLC, a Delaware limited liability company (“BSP II”); and
- Balestra Spectrum Partners, Ltd., a Cayman Islands exempted company which is regulated as a mutual fund in the Cayman Islands (“BSP Ltd”) and serves as the offshore feeder fund for BSP II.

Each of the Balestra Funds is a private investment fund. We manage the Balestra Funds on a discretionary basis in accordance with the terms and conditions of each fund's offering and organizational documents. Each of the Balestra Spectrum funds is a “fund of hedge funds”. As a result of this investment approach, Balestra Spectrum primarily invests in other hedge funds, but may also directly buy or sell any security on an on-going basis. As part of its portfolio, Balestra Spectrum invests a portion of its assets in the Flagship Funds. BSP is closed to new investors.

Our advice is tailored to each private investment fund client rather than being tailored to the individual needs of our investors therein. With respect to our discretionary separate account management and non-discretionary advisory services, while we focus on macro-economic analysis, we attempt to understand the needs of the particular client.

THIS FIRM BROCHURE DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES, WHICH MAY BE MADE ONLY BY MEANS OF A PRIVATE PLACEMENT MEMORANDUM OR SIMILAR MATERIAL WHICH CONTAINS A COMPLETE DESCRIPTION OF MATERIAL TERMS AND RISKS.

#### *ADDITIONAL CONSIDERATIONS*

The information contained in this Firm Brochure regarding the Balestra Funds merely summarizes some of the detailed information provided in each of the funds' respective offering and organizational documents. Prospective investors in any of the Balestra Funds should be aware of additional risks and requirements associated with any fund investment. Prospective investors should refer to the appropriate Balestra Fund offering and organizational documentation for important additional information and considerations.

#### **B. DISCRETIONARY SEPERATE ACCOUNT MANAGEMENT:**

Balestra Capital also provides investment supervisory services on a separately managed account basis to institutional clients and high net worth individuals. Investment advice is generally offered on a discretionary basis.

Discretionary managed account clients' assets may be invested in a variety of instruments including equity or fixed income securities, currencies, commodities, or related derivatives of any of the foregoing, depending on the individual needs and investment objectives of the particular client. Balestra Capital seeks to achieve a high rate of return to the extent consistent with the respective client's investment objectives and an acceptable level of risk, while seeking to preserve capital and maintain a reasonable cost structure.

In addition to retaining Balestra Capital for discretionary account management, our discretionary managed account clients may also elect to make direct investments of personal capital in the Flagship Funds or Balestra Spectrum.

Balestra Capital's approach to investments is based on its view of how specific industry sectors will react to broader economic, political and social trends. While Balestra Capital's investment recommendations are often concentrated in specific industry sectors, a portion of the client's portfolio may be invested in securities of small capitalization companies with high growth potential, irrespective of industry sector.

The minimum initial account size for a new managed account is generally \$50,000,000, although our firm may agree to manage accounts of a lesser initial size.

**C. NON-DISCRETIONARY ADVISORY SERVICES:**

Balestra Capital, Ltd. dba Landseer provides non-discretionary portfolio advisory services to non-profit institutions such as endowments, foundations, and charitable trusts. Landseer does not provide any continuous or regular supervisory or management services, nor does it implement or facilitate any purchases or sales of specific securities or other investments for such non-discretionary clients. If the non-discretionary client finds Landseer's recommendation to be acceptable, the client is at all times directly responsible for effecting all of its securities purchases or sales, including allocating its investment capital among unaffiliated third-party investment managers recommended by the firm. Accordingly, the account assets of these non-discretionary clients have not been included in Balestra Capital's regulatory assets under management.

**5. FEES AND COMPENSATION**

Balestra Capital is engaged in providing investment supervisory services to clients, including private investment funds, institutions and high net worth individuals. Balestra Capital dba Landseer also provides non-discretionary portfolio advisory services to several non-profit institutions. Below is a summary of the fees and compensation typically associated with such services.

**A. PRIVATE INVESTMENT FUNDS:**

Balestra Capital acts as investment manager to the Flagship Funds and Balestra Spectrum, which are US and non-US private investment funds sponsored by the firm.

*I. The Flagship Funds (global macro-economic hedge funds):**BALESTRA CAPITAL PARTNERS, L.P.*

BCP, a Delaware limited partnership, is a global macro-economic hedge fund for which Balestra Capital serves as investment manager.

Balestra Capital receives a management fee from BCP on a quarterly basis, payable in advance by BCP at the beginning of each quarter and deducted from each investor's capital account. For Class A Interests, the quarterly management fee equals 0.375% of the net asset value of the interests, which amounts to 1.5% annually. For Class B Interests, the quarterly management fee equals 0.5% of the net asset value of the interests, which amounts to 2.0% annually. The management fee is pro-rated and refunded to the fund's investors for partial quarters.

BCM, an affiliate of Balestra Capital and the general partner of BCP, receives a profit allocation, calculated as of the end of the calendar year, in an amount equal to 20% of realized and unrealized net profits of each limited partner in BCP, subject to a loss carry forward provision such that no profit allocation is made unless all prior losses have been first recouped. Mr. James L. Melcher, Balestra Capital's President, serves as the Manager of BCM and Messrs. Norman J. Cerk and Matthew J. Luckett, each a Partner of Balestra Capital, are Members of BCM.

*BALESTRA GLOBAL LTD.*

BGL, a Cayman Islands regulated mutual fund, is an offshore feeder of BCP for which Balestra Capital serves as investment manager.

Balestra Capital receives a management fee from BGL on a quarterly basis, payable in arrears by BGL at the end of each quarter and deducted from each investor's account. For Class A Shares, the quarterly management fee equals 0.375% of the net asset value of the shares, which amounts to 1.5% annually. For Class B Shares, the quarterly management fee equals 0.5% of the net asset value of the shares, which amounts to 2.0% annually. The management fee is pro-rated for partial quarters. Balestra Capital also receives an incentive fee, calculated as of the end of the calendar year, in an amount equal to 20% of realized and unrealized net profits of the fund, subject to a loss carry forward provision such that no incentive fee is paid unless all prior losses have been first recouped. BGL is not charged a separate management fee or incentive allocation at the BCP level.

Messrs. James L. Melcher, Balestra Capital's President, and Norman J. Cerk and Matthew J. Luckett, each a Partner of Balestra Capital, serve as Directors of BGL, along with Messrs. Geoff Ruddick and Christopher Bowring, who are independent from the firm and its affiliates.

*II. Balestra Spectrum (macro-driven fund of hedge funds):*

*BALESTRA SPECTRUM PARTNERS L.L.C.*  
*BALESTRA SPECTRUM PARTNERS II, LLC*  
*BALESTRA SPECTRUM PARTNERS, LTD.*

Balestra Capital also serves as investment manager to each of BSP, BSP II and BSP Ltd. BSP Ltd is an offshore feeder of BSP II.

Balestra Capital receives a management fee from BSP and BSP II on a quarterly basis, payable in advance by BSP and BSP II, respectively, at the beginning of each quarter and deducted from each investor's capital account. The quarterly management fee equals 0.30% of the net asset value of each of BSP and BSP II, which amounts to 1.2% annually.

With respect to BSP Ltd's investment in BSP II, Balestra Capital receives a management fee from BSP II, payable in advance at the beginning of each quarter. For Class Prev and Class New Shares of BSP Ltd, the quarterly management fee equals 0.30% of the net asset value of the shares, which amounts to 1.2% annually. BSP Ltd does not directly pay a separate management fee to Balestra Capital.

BCM serves as the managing member of BSP and BSP II. BCM receives from BSP a profit reallocation, calculated as of the end of the calendar year, in an amount equal to 10% of net realized and unrealized profits in excess of a hurdle rate equal to the total annual return of the 90-day U.S. Treasury note. BCM receives from BSP II a profit reallocation, calculated as of the end of the calendar year, in an amount equal to 10% of net realized and unrealized profits. With respect to BSP Ltd's investment in BSP II, BCM receives a profit reallocation at the BSP II level, calculated as of the end of the calendar year, in an amount equal to (i) 10% of net realized and unrealized profits of Class Prev Shares in excess of a hurdle rate equal to the total annual return of the 90-day U.S. Treasury note and (ii) 10% of net realized and unrealized profits of Class New Shares. The performance-based compensation payable to BCM with respect to each of BSP, BSP II and BSP Ltd is subject to a loss carry forward provision such that no such compensation is paid or made to BCM unless all prior losses have been first recouped by the respective fund. BSP Ltd is not directly assessed a separate profit reallocation to BCM or Balestra Capital.

In addition to the asset-based fees, performance based-compensation and direct expenses investors will bear at the BSP and BSP II level, investors will also indirectly bear, the fees, expenses and performance-based compensation of the investment funds in which BSP and BSP II invest, as further described below under the heading titled "Other Fees and Expenses".

*III. Different Fee Schedules:*

Balestra Capital's, and BCM's management fees and performance-based compensation may be discounted or waived with respect to any investor for any particular period of time at the sole



discretion of Balestra Capital or BCM, as applicable. This discounted rate or waiver is not available to all or even most investors in the Balestra Funds.

*IV. Side Letters:*

Certain large or strategic investors in the Balestra Funds managed by Balestra Capital may enter into side letters with BCM and/or Balestra Capital, in their discretion, pursuant to which such investors may be afforded different rights or terms than those offered to other investors including, without limitation, relating to advisory fees, subscriptions and withdrawals, access to portfolio information and other risk metrics.

**B. DISCRETIONARY SEPARATE ACCOUNT MANAGEMENT:**

Advisory fees payable to Balestra Capital for legacy separately managed accounts include a management fee ranging from 0% to 1.00% of assets under management and/or an incentive fee ranging from 0% to 10% of the realized and unrealized appreciation in the relevant account's portfolio. Typically, the incentive fees are subject to a loss carry forward provision such that no incentive fee is paid unless all prior losses have been first recouped. One legacy account has a hurdle rate instead of a loss carry forward provision. The hurdle rate is a stated rate of return the account must earn before Balestra Capital is entitled to receive any incentive fee.

The fee structure for each separately managed account depends on the nature of the services provided, the amount of assets in the account and the circumstances of the relationship between the client and Balestra Capital. Management fee determinations are based on the market value of the account at the beginning of each quarter (net of liabilities) and are billed and payable quarterly, in advance. Incentive fees for the discretionary accounts are calculated as of the end of each calendar year and paid shortly thereafter. All fee structures for separately managed accounts are negotiable. Balestra Capital's investment advisory agreements with clients allow for termination if there is written notice by either the client or Balestra Capital. Adjustments and refunds of advisory fees are pro-rated and made when appropriate in the event of termination.

**C. PERFORMANCE-BASED COMPENSATION:**

With respect to any private investment fund and applicable separately managed discretionary account, all incentive fees and profit reallocations described above are based on the net realized and unrealized gains, income and appreciation of the respective fund's or account's portfolio over a twelve-month period. In general, pursuant to a loss carry forward provision, if the portfolio value depreciates in any such period, no incentive fee or profit reallocation may be earned or made in subsequent periods unless and until the portfolio value is restored to its former level (less the advisory fees previously paid and adjusted for new deposits into and withdrawals from the portfolio). All incentive fees and profit reallocations are charged in compliance with all applicable requirements of Section 205(b) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and Rule 205-3 promulgated by the SEC.

Discretionary clients and private fund investors should be aware that performance-based compensation arrangements may create an incentive for an investment adviser to make investments that are more speculative than would otherwise be the case in the absence of such arrangement and that, under our performance-based compensation arrangements, we may receive increased compensation with respect to unrealized appreciation as well as actual, realized capital gains.

**D. NON-DISCRETIONARY ADVISORY SERVICES:**

Balestra Capital also provides non-discretionary portfolio advisory services to several non-profit institutions under the trade name Landseer. For its non-discretionary advisory services, Landseer receives fee income that is negotiated on a case-by-case basis with each client based upon the nature of the services provided, the amount of assets under advisement and the circumstances of the relationship with the client. The compensation method is explained and agreed upon with clients before any services are rendered. Landseer's compensation ranges from 0.20% to 0.80% (on an annual basis) of client assets under advisement. Existing non-discretionary accounts are not subject to any performance-based compensation.

Fee determinations are based on the market value of the account at the beginning of each quarter (net of liabilities, if any) and are billed and payable quarterly, in advance. All fee structures for Landseer's advisory services are negotiable. Landseer's advisory agreements with its clients allow for termination if there is written notice by either the client or Landseer. Adjustments and refunds of advisory fees are pro-rated and made when appropriate in the event of termination.

**E. OTHER FEES AND EXPENSES:**

Each Balestra Fund is obligated to pay its organizational and initial offering fees and expenses. In addition, each Balestra Fund is obligated to pay all of its operating and investment-related fees, costs and expenses. Such fees, costs and expenses include, but are not limited to ongoing: legal and accounting fees and expenses, administration fees and expenses, custodial fees and expenses, audit fees and expenses, offering fees and expenses, investment-related expenses, regulatory expenses, including without limitation, the fees and expenses associated with any regulatory filings involving the Balestra Fund, the costs of quotation equipment and news wires, brokerage commissions, interest charges, borrowing charges and dividends payable with respect to securities sold short, dealer spreads, exchange fees, NFA fees, give-up fees, costs of data processing and research services, taxes, bank service charges, all other ongoing expenses related to the purchase, sale, clearance and holding of securities, and any other operational fees, costs and expenses as are necessary or advisable in connection with conducting the Balestra Fund's business. Moreover, each Balestra Fund is obligated to directly pay its extraordinary fees and expenses, if any. In addition to directly bearing such fees and expenses, each Balestra Spectrum fund of hedge funds will also indirectly bear its allocable share of similar costs through the underlying hedge funds in which it invests.

Prospective investors in any one of the Balestra Spectrum fund of hedge funds, should note that they will incur at least two layers of advisory fees: (i) the management fee and performance-

based compensation of Balestra Capital and BCM, respectively, as described further above in this Item, and (ii) the management fee and/or a performance-based compensation charged by the underlying hedge funds in which the Balestra Spectrum fund of hedge funds invests. This layering of fees is incorporated in the net income or loss of the Balestra Spectrum funds of hedge funds, is not readily apparent to investors, and will lower investors' overall return.

Money market mutual funds may be used to 'sweep' unused cash balances until they can be appropriately invested. Discretionary clients and private fund investors should recognize that all fees paid to Balestra Capital and its affiliates for investment supervisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each such mutual fund's or ETF's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee for mutual funds.

Prospective investors should refer to the appropriate offering and organizational documents for additional important information, terms, conditions and risks involved with investing in the Balestra Funds.

Each discretionary and non-discretionary account client will directly bear all of account operating and investment-related fees, costs and expenses as previously agreed to with our firm. Such fees, costs and expenses may include, but are not limited to ongoing: legal and accounting fees and expenses, administration fees and expenses, custodial fees and expenses, audit fees and expenses, investment-related expenses, regulatory expenses, including without limitation, the fees and expenses associated with any regulatory filings involving the account, the costs of quotation equipment and news wires, brokerage commissions, interest charges, borrowing charges and dividends payable with respect to securities sold short, dealer spreads, exchange fees, NFA fees, give-up fees, costs of data processing and research services, taxes, bank service charges, all other ongoing expenses related to the purchase, sale, clearance and holding of securities, and any other operational fees, costs and expenses as are necessary or advisable in connection with conducting the account's business. In addition to directly bearing such fees and expenses, to the extent any portion of an account's capital is allocated among third-party investment managers, such account will also indirectly bear its allocable share of similar costs imposed by such managers.

## **6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As we disclosed in Item 5 of this Firm Brochure, our firm or affiliates, accept performance-based compensation from the Balestra Funds. The performance-based compensation is calculated based on a share of capital gains and appreciation of the assets of the relevant fund. To qualify for this type of fee schedule, an investor must either demonstrate a net worth of at least \$2,000,000 (excluding primary residence assets and related debt) or must have at least \$1,000,000 under our management.

Existing and prospective fund investors and discretionary account clients should note that performance-based compensation can create an incentive for Balestra Capital to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Also, because the performance-based compensation is calculated on a basis which includes unrealized as well as realized appreciation of assets, such compensation may be greater than if it were based solely on realized gains.

Performance-based compensation will only be charged in accordance with the Advisers Act and provisions of Rule 205-3 promulgated thereunder.

#### *Side-by-Side Management*

Side-by-side management refers to multiple client relationships where an adviser manages more than one advisory client relationship or portfolio on a simultaneous basis. In such circumstances, potential conflicts of interests may arise for the adviser as a result of the various client portfolios having varying performance-based compensation arrangements.

At this time, we offer advisory services to clients with varying rates of management fees and performance-based compensation. For the separately managed discretionary accounts, client fee schedules may include either a management fee or a performance-based fee or both, which are lower than the fees applicable to the Balestra Funds. Moreover, Landseer's non-discretionary accounts are only charged a management fee based on a percentage of assets under advisement, which are similarly lower than the fees applicable to the Balestra Funds. Therefore, one may view us as having an incentive to favor higher performance-based compensation Balestra Funds over lower or non-performance-based compensation accounts.

Moreover, in theory, we could also have an incentive to favor a Balestra Fund paying higher aggregate performance-based compensation than a Balestra Fund in which officers and employees of the firm or their family members may have more of their personal assets invested. As part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts with respect to each of our clients:

1. We believe our recommendations are based solely on serving each client's best interests;
2. We manage account and client portfolios on an account-by-account and client-by-client basis;
3. We educate our employees regarding our responsibilities as a fiduciary, including the equitable treatment of all clients, regardless of their fee arrangement;
4. We collect, maintain and document accurate, complete and relevant investor background information to ensure that investment in the subscribed fund is appropriate for our investor's financial goals, objectives and risk tolerance and that the investor is qualified to invest;
5. We monitor portfolio activity and personal trading for the firm's principals and employees; and

6. We disclose to our investors and clients the existence of material conflicts of interests, including the potential for our firm and employees to earn more compensation from some clients than others.

In addition, to further avoid conflict of interests with Balestra Capital's discretionary investment supervisory services, Landseer does not recommend to its non-discretionary clients that they invest in a Balestra Fund or with another investment manager in which or with whom Balestra Capital has any ownership or financial interest.

## **7. TYPES OF CLIENTS**

Balestra Capital currently provides discretionary investment advice to BCP, BGL, BSP, BSP II and BSP Ltd, each a private investment fund sponsored by Balestra Capital or its affiliates, as further described in Item 4 above. Prospective investors should refer to the appropriate Balestra Fund offering documents for additional important qualifications requirements for investment.

In addition, Balestra Capital provides discretionary investment supervisory services on a separately managed account basis to institutions and high net worth individuals. Moreover, Balestra Capital dba Landseer provides non-discretionary portfolio advisory services to non-profit institutions such as endowments, foundations, and charitable trusts. The minimum initial account size for a new separate account is generally \$50,000,000, although our firm may agree to manage or advise accounts of a lesser initial size.

## **8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis**

#### **A. BALESTRA CAPITAL'S FLAGSHIP FUNDS**

The investment objective of our Flagship Funds is to achieve capital appreciation through investments based primarily on broad "macro-economic" themes, as well as on social, political, psychological, and other such factors. Investment themes will be implemented through selective purchases or short sales of instruments across the entire spectrum of derivatives and investment securities, including but not limited to, exchange-traded funds, options, physical commodities, such as gold, commodity futures, currencies, swaps (such as interest rate and credit default swaps) and other investment contracts, as well as traditional equities and debt instruments.

Although these funds have the ability to utilize leverage (by borrowing money to increase position sizes and enhance returns) in pursuing their respective investment objective, to date they have not, and do not anticipate doing so in the immediate future. Nevertheless, several of the instruments in which we may trade for these funds, such as options, futures and swaps as well as holding short securities positions contain embedded leverage. Although current income is not a

primary objective of these funds' investment strategy, we consider it as a factor in attempting to achieve a desirable total return on investments.

Our approach begins with the formation of an independent view of economic fundamentals around the globe and comparing that view with asset pricing around the globe. Our research process is driven by the review and analysis of economic, demographic, political and market data and pricing of governments, consumers and corporations throughout the world. We seek to identify underlying global macro-economic fundamentals and stay informed with respect to global markets and the major asset classes within those markets. We then narrow our focus to large-scale dislocations between market prices and their underlying fundamentals in order to identify a group of investable "themes". As a result of this methodology, our Flagship Funds frequently hold positions that are contrary to investor consensus. Our selection of specific securities within industry sectors is based on several factors, including fundamental and technical analysis, earnings and earnings growth expectations.

Our description of these funds' investment methodology and investment strategy is not intended to be exhaustive. Because these funds may employ investment techniques that entail a high degree of risk, we caution existing and prospective private fund investors to regard an investment in these funds as highly speculative and that an investment in the funds is intended only for sophisticated investors who are able to bear the risk of entire loss of their investment. Some of the primary risks of our investment strategy are outlined under the heading "Summary of Risks of Balestra Capital's Investment Strategy" further below in this Item 8 and described in more detail in each fund's respective private placement memorandum.

*As with any investment, we cannot provide any assurance that the investment strategy we utilize will result in any profits or avoid losses or that an investor will not lose a portion or all of its investment.*

## B. BALESTRA SPECTRUM

The investment objective of Balestra Spectrum is to seek optimum returns to investors, adjusted for risk. In pursuing this investment objective, the assets of the Balestra Spectrum funds of hedge funds will be invested primarily in underlying hedge funds managed by third party portfolio managers. Balestra Spectrum may also invest a portion of its assets in our Flagship Funds. In part to manage any perceived conflict from such investments, we do not charge any fees on Balestra Spectrum's capital investment at the Flagship Funds level.

In addition to investments in underlying hedge funds, we may allocate a portion of Balestra Spectrum's assets directly to the types of investments and securities described under the heading "Balestra Capital's Flagship Funds" immediately above, using the same investment methodology and strategy.

We select underlying hedge funds or other investment vehicles that conform to and facilitate Balestra Spectrum's strategy based on several factors. These factors include:



- the specific investment strategy of the underlying portfolio manager;
- the industry sector or asset class in which the portfolio manager focuses;
- the positive (long) or negative (short) orientation of the underlying manager's portfolio; and
- the investment acumen of the portfolio manager.

Although the Balestra Spectrum funds have the ability to utilize leverage (by borrowing money to increase position sizes and enhance returns) in pursuing their respective investment objective, to date they have not, and do not anticipate doing so in the immediate future. Nevertheless, the underlying portfolio managers with whom Balestra Spectrum invests may utilize leverage to enhance returns. Moreover, several of the instruments in which we may trade directly for Balestra Spectrum, such as options, futures and swaps as well as holding short securities positions contain embedded leverage.

We conduct due diligence with respect to the underlying portfolio manager of any prospective hedge fund prior to investment. We also monitor any selected portfolio manager on an on-going basis to determine and evaluate:

- the portfolio management team's background, experience and philosophy;
- the process by which the underlying manager makes investment decisions;
- how the underlying manager implements its decisions;
- the apparent integrity of the individual(s) managing the underlying portfolio(s);
- the manager's investment track record in both up and down markets;
- the manager's risk management controls, parameters and evaluation process; and
- the adequacy and effectiveness of the manager's operational controls and infrastructure.

Our decision whether or not to invest in (or increase an existing allocation to) or redeem from (or reduce an existing allocation to) an underlying manager depends on Balestra Spectrum's Investment Committee's overall assessment of the findings with respect to the factors above. These assessments tend to have significant qualitative components, rather than following a simple formulaic decision process, and vary over time in relation to changes to the factors above relating to the underlying manager. Nevertheless, we generally seek to avoid investing in any underlying hedge fund where we reasonably determine that its portfolio manager has failed to adopt certain minimal operational and risk controls and safeguards.

Our description of Balestra Spectrum's investment methodology and investment strategy is not intended to be exhaustive. Because Balestra Spectrum and the underlying hedge funds in which it invests may employ investment techniques that entail a high degree of risk, we caution existing and prospective private fund investors to regard an investment in Balestra Spectrum as highly speculative and that an investment in Balestra Spectrum is intended only for sophisticated investors who are able to bear the risk of entire loss of their investment. Some of the primary risks of Balestra Spectrum's investment strategy are outlined under the heading "Summary of Risks of Balestra Spectrum's Investment Strategy" further below in this Item 8 and described in more detail in each Balestra Spectrum fund's respective private placement memorandum.

*As with any investment, we cannot provide any assurance that the investment strategy we utilize for Balestra Spectrum will result in any profits or avoid losses or that an investor will not lose a portion or all of its investment.*

#### C. DISCRETIONARY MANAGED ACCOUNTS

Discretionary managed account clients' assets may be invested in a variety of instruments, including equity or fixed income securities, currencies, commodities, or related derivatives of any of these investments, depending on the individual needs and investment objectives of the particular client. Balestra Capital seeks to achieve a high rate of return to the extent consistent with the respective client's investment objectives and an acceptable level of risk, while seeking to preserve capital and maintain a reasonable cost structure.

When making investment decisions for discretionary managed accounts, we utilize substantially similar methods of analysis as those described above under the heading "Balestra Capital's Flagship Funds" in this Item 8. Moreover, to the extent we allocate a portion of an account's assets to underlying managers, we utilize substantially similar methods of analysis as those described above under the heading "Balestra Spectrum" in this Item 8.

In addition to retaining Balestra Capital for discretionary account management, our discretionary managed account clients may also elect to make direct investments of personal capital in the Flagship Funds or Balestra Spectrum.

#### D. NON-DISCRETIONARY ADVISORY SERVICES

Balestra Capital dba Landseer works closely with its clients on a non-discretionary basis to develop and implement all aspects of portfolio management including developing investment and spending policies; formulating an asset allocation strategy; investment manager research, selection and termination; asset/liability matching; and cash-flow planning. Landseer also recommends one or more third-party investment managers to implement its clients' objectives. All recommendations are made in collaboration with each client's investment committee and staff, after carefully weighing client circumstances, including needs, goals and risk tolerance.

Third-party investment managers recommended by Landseer are delegated full investment discretion and trading authority by each non-discretionary client and are solely responsible for implementing the client's investment program. Landseer does not place orders for transactions in its client's account or otherwise exercise any trading authority over the account at any time, including when any portion of the account is being managed by an independent investment manager.

#### **Summary of Risks of Balestra Capital's Investment Strategy**

The investments strategies that Balestra Capital uses for the Balestra Funds involve certain risks and conflicts of interests. The risks and conflicts of interests are set forth in detail in the



confidential private placement memorandum of each Balestra Fund. The discretionary managed accounts that Balestra Capital manages similarly share these risks and conflicts. Such risks and conflicts include, but are not limited to, the following:

- The investments of the Balestra Funds and discretionary accounts are subject to general volatility and swings of the markets in which they operate;
- The Balestra Funds and discretionary accounts are dependent on the services of our firm's partners and may be adversely affected if one or more of such partners are unable to act on our behalf for any reason;
- Balestra Capital's trading activity on behalf of the Balestra Funds and discretionary accounts may be made on the basis of short-term market considerations and involve significant turnover rates;
- The Balestra Funds and discretionary accounts may not be diversified, as diversification is not a primary consideration in the investment strategies utilized by Balestra Capital in managing the Balestra Funds and discretionary accounts;
- The prices of certain securities in which the Balestra Funds and discretionary accounts invest are sensitive to interest rate fluctuations, and unexpected interest rate fluctuations could cause the prices of long and short positions to move in unanticipated directions;
- The Balestra Funds and discretionary accounts engage in equities trading, and may take long or short positions in a wide range of equity securities. Equity securities can be subject to substantial volatility, and in the case of short positions, can involve the risk of unlimited loss;
- The Balestra Funds and discretionary accounts may utilize hedging techniques in an attempt to minimize the risk of loss in various portfolio positions. However, hedging techniques are not guaranteed to be successful and may be costly, which could result in lower returns for the Balestra Funds and discretionary accounts;
- Certain investments are inherently leveraged, such as futures, options and swaps. In addition, the Balestra Funds and discretionary accounts may use short-term margin borrowings. Declines in value could result in margin calls, and in certain circumstances, the Balestra Funds and discretionary accounts may not be able to exit positions quickly enough to pay down margin debt which could have adverse effects on returns;
- The Balestra Funds and discretionary accounts engage in futures trading, which may be illiquid and subject to suspension of trading by regulatory authorities;
- Futures trading is highly leveraged and small movements in price may result in immediate and substantial losses to investors in the Balestra Funds and discretionary account clients;

- The Balestra Funds and discretionary accounts may enter into over-the-counter transactions with various counterparties, and utilize various institutions in connection with trading activities, each of which subjects the Balestra Funds and discretionary accounts to counterparty risk;
- The Balestra Funds and discretionary accounts may engage in options trading, which in certain circumstances could subject the Balestra Funds and discretionary accounts to potentially unlimited losses, and are subject to greater volatility than an investment in the underlying security to which any such option relates;
- The Balestra Funds and discretionary accounts may enter into swap transactions, including credit default swaps, which involve counterparty risk and may become difficult to value in various circumstances;
- The Balestra Funds and discretionary accounts may incur losses resulting from the bankruptcy of third parties which hold the funds' or accounts' assets;
- The Balestra Funds' and discretionary accounts' investments may be subject to regulatory risks, including government intervention and regulation, as well as sovereign default; and
- Balestra Capital or its affiliate, as applicable, receives compensation based on the performance of the Balestra Funds and discretionary accounts, which creates an incentive for Balestra Capital to cause the Balestra Funds or discretionary accounts to make investments that are more speculative or subject to a greater loss than would be if no such performance-based compensation existed.

To the extent Landseer's clients choose to make direct investments rather than allocate their capital among third-party investment managers, they would be subject to various risks customarily associated with such investments and applicable markets similar to those summarized above.

### **Summary of Risks of Balestra Spectrum's Investment Strategy**

The Balestra Spectrum funds of hedge funds are subject to certain additional risks and conflicts in addition to those described immediately above. To the extent the discretionary accounts allocate a portion of their assets to Balestra Spectrum or one or more third-party investment managers, they are similarly subject to such additional risks and conflicts. These risks and conflicts include, without limitation, the following:

- Balestra Spectrum depends primarily on the performance of third-party managers and as such, its success depends on the ability of each of the third-party managers to develop and implement profitable investment strategies;

- The positive performance of one underlying manager in Balestra Spectrum may be neutralized by the poor performance of other managers. In addition, it is possible that Balestra Spectrum may pay incentive compensation to underlying fund managers during periods when the multi-manager fund of funds as a whole incurs losses;
- Underlying portfolio managers may take certain actions, such as taking undesirable tax positions or using excessive leverage, which may negatively impact portfolio assets;
- The underlying hedge funds in which Balestra Spectrum invests are dependent upon the knowledge and experience of the principals of the managers of such hedge funds, and the loss of the services of such individuals could have an adverse effect on the performance of the underlying funds and, consequently, Balestra Spectrum;
- Balestra Spectrum is subject to the risk that a portfolio manager or a portfolio fund in which Balestra Spectrum invests could commit fraud, fail to follow the disclosed investment strategy, provide false reports of operations or engage in other misconduct;
- We do not control the underlying manager's daily business and compliance operations and, therefore, it is possible for us to miss the absence of internal controls necessary to prevent fraud or other business, regulatory or reputational deficiencies; and
- Investors in Balestra Spectrum bear multiple levels of fees and expenses, including asset-based and performance-based compensation to the managers of the underlying funds as well as asset-based and performance-based compensation to Balestra Capital and its affiliates.

Third-party investment managers with whom Landseer's clients may choose to invest also pose investment risks similar to those summarized immediately above with respect to Balestra Spectrum as well as other general investment risks summarized further above with respect to the Balestra Funds.

## **9. DISCIPLINARY INFORMATION**

Our firm and its partners have no reportable disciplinary, regulatory or legal events to disclose.

## **10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Balestra Capital provides investment supervisory services to pooled investment vehicles (hedge funds and funds of funds) and separately managed accounts. Balestra Capital is registered as a commodity pool operator ("CPO") with the U.S. Commodity Futures Trading Commission (the "CFTC") and a member of the National Futures Association ("NFA") in such capacity. In connection with acting as a CPO for Balestra Capital's commodity pools, Balestra Capital relies on an exemption under CFTC Rule 4.7 from certain reporting and disclosure requirements with respect to the Balestra Funds. Such registration and membership does not imply that the CFTC

or the NFA has endorsed Balestra Capital's qualifications to provide investment supervisory services.

The following professionals are registered with the NFA in the capacities indicated next to their respective names, listed in alphabetical order:

<b>Name and Title</b>	<b>Associated Person</b>	<b>Principal</b>
Lydia Bell, Vice President	X	
Norman Cerk, Partner	X	X
Robert Chambers, Portfolio Manager	X	X
Matthew Luckett, Partner	X	X
Gabriel Mairzadeh, GC & CCO		X
Andrew Marra, CFO		X
James Melcher, President		X
Alexander Rosanelli, Analyst	X	

BCM, an affiliate of Balestra Capital which is commonly owned and controlled by the owners of Balestra Capital, serves as general partner or managing member of BCP, BSP and BSP II and has delegated its duties and responsibilities in connection with its status as a CPO with respect to these Balestra Funds to Balestra Capital.

Messrs. James L. Melcher, Norman J. Cerk and Matthew J. Luckett are the principals of BCM which is the general partner of BCP and the managing member of each of BSP and BSP II. Messrs. Melcher, Cerk, and Luckett are Directors of BGL and BSP Ltd, which are offshore feeder funds for BCP and BSP II, respectively. Mr. Melcher is also the member and manager of JLMCo LLC, which is a member of BCM.

BCA, an affiliate of Balestra Capital, may, from time to time, provide investment supervisory services to unaffiliated private investment funds or separate accounts. BCA is currently not providing any such services and is dormant. Matthew J. Luckett and Norman J. Cerk, each a partner of Balestra Capital, are partners of BCA.

Although Balestra Capital, BCM and BCA may conduct business as a commodity trading advisor ("CTA"), these entities rely on an exemption from registration with the CFTC as a CTA pursuant to Section 4m(1) of the U.S. Commodity Exchange Act, as amended, and CFTC Reg. 4.14(a)(10).

Mr. Melcher is the Chairman and a shareholder of mBLAST, Inc. mBLAST is a private interactive online technology company that offers enhanced communications, operations and database functions via various modules accessed through mBLAST. Mr. Melcher is not separately compensated for serving as Chairman of mBLAST.

Balestra Capital professionals devote substantially all their efforts and time to the activities of Balestra Capital, the Balestra Funds and other discretionary clients. Landseer professionals

devote substantially all their efforts and time to the activities of Landseer and its non-discretionary clients. If involved in any outside activities or non-firm affiliations, the individuals may receive separate and distinct compensation in their capacities as members, owners, officers or board members.

Outside activities of Balestra Capital and Landseer professionals include either passive investments with no active participation in the business of the underlying investee companies (including firms in the financial industry) or serving on advisory boards or directorships in financial and non-financial industry businesses. Any such activities or relationships are not material to Balestra Capital's or Landseer's respective business or clients. As a result, material potential or actual conflicts of interests are not present for these individuals except to the extent they spend a small portion of their time and efforts in these activities.

Generally, Balestra Capital, BCM, BCA and Landseer officers and investment professionals are required to devote to the firm and our clients only so much of their time as they deem necessary or appropriate in connection with carrying out their respective firm business, investment, or advisory activities.

## **11. CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS & PERSONAL TRADING**

Our firm has adopted a Code of Ethics which sets forth ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics provides for oversight, enforcement and recordkeeping. Further, our Code of Ethics includes the firm's insider trading policy which prohibits the misuse of material nonpublic information, *i.e.*, inside information.

Our Code of Ethics includes policies and procedures that require each employee to submit an initial and an annual securities holdings report, which is reviewed for actual or potential conflicts of interests. Each employee must also obtain pre-clearance before trading a reportable security to ensure that such trade does not conflict with Balestra Capital's fiduciary duty to its clients. In addition, our Code of Ethics also requires prior approval for any acquisition of securities in a limited offering (*e.g.*, private placement) or an initial public offering. From time to time, subject to our policies on personal trading as described immediately above, our employees may trade in the same security as our clients, albeit in significantly smaller amounts. We nevertheless manage the trading process to reduce or eliminate any potential impact of a related person's trading on our clients' portfolios.

A copy of our Code of Ethics is available to our existing and prospective clients, as well as existing and prospective investors in the Balestra Funds, upon request, by contacting Balestra Capital at its principal office address.

Although Balestra Spectrum's assets will be invested primarily in private investment funds or accounts managed by third-party investment managers, a portion of Balestra Spectrum's assets

may also be invested in BCP. The investment of a portion of Balestra Spectrum's assets in BCP presents certain inherent potential conflicts of interests. In order to mitigate such conflicts, the assets of Balestra Spectrum invested in BCP are not charged any management fees and are not subject to any net profits allocation to which an investment in BCP is otherwise subject.

Certain executive officers and/or other employees of Balestra Capital have invested or may invest a portion of their personal net worth in one or more Balestra Funds. It is our fiduciary duty and firm policy that no person employed by us may usurp an investment opportunity which may be appropriate for one or more of the Balestra Funds or separately managed or non-discretionary account clients without prior review and approval, particularly when there is limited availability for participation in the opportunity.

As the situations described above represent potential conflicts of interests, we have established the following restrictions and policies in light of our fiduciary responsibilities:

1. Our policies require that no officer or employee of our firm may prefer his or her own interest to that of an advisory client.
2. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing our investment advisory practices.
3. We maintain records of securities holdings and transactions for our firm and our employees and we compare them on a regular basis.
4. We disclose actual and potential conflicts of interests to our clients.
5. Employees must provide an annual attestation with respect to the conflicts to which they are subject.
6. Any individual not in observance of our policies and restrictions may be subject to disciplinary action up to and including termination of employment.

The Advisers Act makes it unlawful for any investment adviser, directly or indirectly, acting as principal for its own account, to knowingly sell any security to, or purchase any security from, a client without disclosing to the client in writing the capacity in which the adviser is acting and obtaining the client's consent to the transaction. This rule may apply to certain transactions involving accounts in which investment advisers have interests, such as private fund investments by the firm's owners, principals, or employees. The SEC has indicated that when an investment adviser and/or its controlling persons own more than 25% of a private fund's outstanding securities, it would be effectively treated as a principal transaction if such an account were to engage in a trade with another client account or private fund.

Balestra Capital has adopted policies for prohibiting principal trading and procedures for monitoring the level of proprietary ownership in each private fund it manages in order to obtain

the requisite consent before engaging in any transaction that would be considered a principal transaction under applicable SEC interpretations.

## **12. BROKERAGE PRACTICES**

### **Selection of Brokers**

Brokers are selected on the basis of several factors including commission rate, the nature of the securities being traded, the execution, clearance and settlement capabilities of the particular broker and the research services provided.

Balestra Capital generally attempts to effect securities transactions for the Balestra Funds and discretionary accounts in the over-the-counter market through one or more market makers in the security. However, we may, on occasion, effect transactions through a broker that does not make a market in the security to be bought or sold. In such cases, the accounts for which transactions are effected will be required to pay a higher total transaction cost to the client than would be the case if the transaction was effected directly through a market maker. This would depend upon the difference of the market maker's markup for wholesale and retail clients and the brokerage commission. We may use brokers rather than market makers for various reasons including maintaining anonymity, broker services in locating investments and negotiating pricing, among other reasons.

Landseer does not effect any securities transactions for its non-discretionary advisory clients and is not involved in the selection of broker-dealers. If a non-discretionary client finds Landseer's recommendation to be acceptable, the client is at all times responsible for (i) effecting all purchases or sales of its securities transaction(s) directly with its own desired counterparties or (ii) allocating its investment capital among unaffiliated third-party investment managers.

### **Aggregation of Transactions**

Balestra Capital may aggregate orders of the Balestra Funds and discretionary client accounts for trade execution and thereafter allocate the securities on an average price basis among such fund and account portfolios. Brokerage commission rates may not be reduced as a result of such aggregation. In some instances, average pricing may result in higher or lower execution prices than otherwise obtainable by a single client. We believe that aggregation is consistent with our duty to seek best execution for all clients.

### **Allocation of Brokerage**

Portfolio transactions for the Balestra Funds and discretionary accounts will be allocated by Balestra Capital to brokers on the basis of favorable price and execution and the provision of research services, which are generally of benefit to the Balestra Funds and discretionary account clients. Not all such brokerage-related services which are paid for with commission dollars of



any one Balestra Fund or discretionary account will necessarily be of direct benefit to such Balestra Fund or account client.

### **Research and Soft Dollar Services**

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain investment brokerage and research services which provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities.

In selecting brokers and dealers to execute particular transactions, Balestra Capital may consider "brokerage and research" services and other information, services, or products provided by brokers and dealers. Research may include, among other things, proprietary research from brokers, which may be written, oral or on-line, and research provided by independent providers. Research products may include, among other things, computers or terminals, computer databases and quotation equipment, in each case, to access research or which provide research directly. Research services may include, among other things, research concerning market, economic and financial data, statistical information, data on pricing and availability of securities, financial publications, electronic market quotations, performance measurement services, analyses concerning specific securities, companies or sectors, and market, economic and financial studies and forecasts. Research services may be in written or oral form or on-line. All products and services received by Balestra Capital from brokers and dealers are within the “safe harbor” provided under Section 28(e) of the Securities Exchange Act of 1934, as amended.

During the prior fiscal year, the following products and services were obtained by us with client brokerage commissions: Bloomberg services, research provided by independent providers, and computer and quotation services.

Research services received from brokers may be used by Balestra Capital in servicing all of its clients and accounts and not all such services which are paid for with commission dollars of any Balestra Fund or discretionary account client will necessarily be used for the exclusive benefit of such fund or account client. Similarly, one or more Balestra Funds or discretionary account clients may benefit from the research services received from brokers retained by Balestra Capital for its other Balestra Funds and account clients.

Balestra Capital's use of client brokerage commissions to obtain research or other products or services, including those within the Section 28(e) safe harbor described above, provides a financial benefit to our firm because we do not otherwise have to produce or pay for the research, products or services that we receive from our brokers. As a result, although pursuant to the governing offering and constitutional documents of the Balestra Funds and discretionary account clients, each such client is responsible for its own research costs, we may be viewed to have a conflicting incentive to select a broker-dealer based on our perceived interest in receiving the research or other products or services, rather than our clients' interest in receiving best execution. Moreover, the use of soft dollars may cause our clients to pay higher commissions than they otherwise might through other brokers.



### **13. REVIEW OF ACCOUNTS**

#### **Account Reviews**

Balestra Capital's senior investment team for the Flagship Funds consists of Mr. James L. Melcher, Balestra's President, and Messrs. Norman J. Cerk and Matthew J. Luckett, Balestra Capital's Partners.

Balestra Spectrum's Investment Committee consists of Mr. Robert Chambers, Balestra Spectrum's Portfolio Manager, Mr. James L. Melcher, Balestra's President, and Messrs. Norman J. Cerk and Matthew J. Luckett, Balestra's Partners.

The senior investment team for Landseer consists of David A. Boyum and Dana E. Craver, each a co-Director of Landseer.

One or more members of Balestra Capital's senior investment team for the Flagship Funds or Investment Committee for the Balestra Spectrum funds of hedge funds reviews, on at least a quarterly basis, the most significant holdings of the discretionary portfolios under management. These holdings are monitored in light of trading activity, significant market developments and other activities which may warrant a change in portfolio positions. If a decision is made to purchase a security or sell a particular holding, the relevant portfolios are reviewed prior to such purchase or sale. In addition, discretionary managed accounts are either reviewed periodically from the standpoint of specific investment objectives of the client or as particular situations may warrant. There is no maximum number of accounts which may be assigned to a reviewer.

One or more members of Landseer's senior investment team similarly reviews, on a quarterly basis, all non-discretionary portfolios under advisement and monitors client holdings in light of significant developments and other activities which may warrant a rebalancing. Landseer communicates regularly with its clients' investment committee chair and other members of the respective clients' investment committee, and participates in ongoing client investment committee meetings, which typically take place on a quarterly basis.

More frequent meetings may be arranged at either the client's, Balestra Capital's or Landseer's request.

#### **Client Reports**

Investors in the Balestra Funds receive unaudited reports on the performance of their investment on a monthly basis, and completed annual K-1 tax statements (or equivalent). Investors also receive annual audited financial statements prepared by the private investment funds' respective independent public accounting firm.

Clients with discretionary managed account relationships receive confirmations of each transaction effected for their account and at least quarterly statements directly from the account custodian showing the client's securities, cash positions and all trading activity for the period. In addition, Balestra Capital separately prepares and provides discretionary managed account clients, at a minimum, with quarterly statements and an annual statement which includes a summary of account performance.

Clients with discretionary account relationships with Balestra Capital should carefully review each statement. To ensure that all account transactions, holdings and values are correct and current, we urge clients to compare the statements we prepare internally with the statements they receive directly from their independent brokerage or bank qualified custodian.

Landseer's non-discretionary advisory clients receive official account statements directly from the broker-dealers, banks, custodians, third party investment managers and other counterparties through or with whom they ultimately choose to maintain account(s) and invest. In addition, Landseer provides customized monthly performance summaries. Landseer works with its clients to design the format of any such report.

#### **14. CLIENT REFERRALS AND OTHER COMPENSATION**

From time to time, the firm utilizes several placement agents to assist it with raising capital for the Balestra Funds. In connection with their services, such placement agents receive a percentage of the management fees, incentive fees and/or performance reallocations received by Balestra Capital or its affiliates. The fees payable by Balestra Capital's private fund investors are not otherwise increased as a result of any referral arrangements. The terms of all existing referral arrangements are properly documented and retained by Balestra Capital. In the event third-party solicitors are paid for client referrals, Balestra will comply with Rule 206(4)-3 and related disclosures and recordkeeping requirements.

#### **15. CUSTODY**

Because we act as investment adviser to the Balestra Funds and because we have an affiliated party who acts as general partner and managing member to the US-domiciled Balestra Funds, we are deemed to have custody of client assets under current applicable regulatory interpretations. As an adviser with custody, we have each of the Balestra Funds audited on an annual basis by an independent public accountant that is both registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board (PCAOB). For Balestra Capital's Flagship Funds, we seek to send the audited financials to each investor within 120 days of each fund's fiscal year end. For Balestra Spectrum funds of hedge funds, we seek to send the audited financials to each investor within 180 days of each fund's fiscal year end.

Neither Balestra Capital, BCM nor BCA have direct access to client funds. Each of the Balestra Funds are administered by a third party administrator and maintained with an independent custodian. Similarly, the assets of all discretionary managed accounts are maintained with an independent custodian. The Balestra Funds' administrator calculates the relevant management fee or performance-based compensation payable, if any, to Balestra Capital, BCM, or BCA and sends a letter of authorization to the respective fund's custodian, while Balestra Capital or its affiliates separately submits its own letter of authorization to the custodian. Upon the fund custodian's receipt of both letters of authorization, the custodian then debits each fund's account with respect to the relevant management fee or performance-based compensation.

With respect to the discretionary managed accounts, Balestra Capital calculates the fee and submits its calculation to the underlying account client for review and approval. Once the fee is approved by the relevant managed account client, the fee calculation is submitted to the custodian who will debit the applicable managed account.

With respect to the non-discretionary advisory clients, Landseer prepares and submits an invoice directly to its clients for review and payment. Upon its approval of the invoice, each client remits its payment directly to the firm.

Clients with discretionary managed account relationships receive confirmations of each transaction effected for their account and at least quarterly statements directly from the account custodian showing the account's securities, cash positions and all trading activity for the period. In addition, Balestra Capital separately prepares and provides discretionary managed account clients, at a minimum, with quarterly statements and an annual statement which includes a summary of account performance.

Clients with discretionary account relationships with Balestra Capital should carefully review each statement. To ensure that all account transactions, holdings and values are correct and current, we urge our discretionary clients to compare the statements we prepare internally with the official statements clients receive directly from their independent brokerage or bank qualified custodian.

Landseer does not have any access to non-discretionary advisory client funds, and pursuant to its non-discretionary advisory agreements, Landseer does not have custody of any client assets. Rather, custody of Landseer's non-discretionary advisory client assets is maintained by one or more unaffiliated broker-dealers and/or banks, as custodian, designated by the applicable client. Moreover, these non-discretionary advisory clients receive all official account statements directly from the counterparties with whom they have the ultimate responsibility to execute their investment transactions.

## **16. INVESTMENT DISCRETION**

As investment manager to the Balestra Funds and discretionary managed account clients, Balestra Capital is granted the discretionary authority in the relevant organizational documents

and/or investment management agreements to determine which securities and amounts of securities to be bought or sold and the broker-dealers to be used to effect investment transactions. Landseer does not exercise any discretion with respect to its non-discretionary advisory services.

In consultation with discretionary managed account clients, limitations may be set on Balestra Capital's authority to determine the securities to be bought or sold and the amount of such securities by limiting total amount of money to be invested, the amount to be invested in any one security and the general level of risk that is acceptable to the client.

## **17. VOTING CLIENT SECURITIES & LEGAL PROCEEDINGS**

### **Proxy Voting**

For any client account for which Balestra Capital retains proxy voting responsibility, Balestra Capital seeks to vote proxies, if any, in a manner that furthers the best economic interests of its clients. Proxy statements are forwarded to Balestra Capital by the custodians who hold client portfolios. Each corporate proxy statement is reviewed by at least one Balestra Portfolio Manager. The Portfolio Manager or a delegate gives instruction as to how each item is to be voted.

Balestra Capital votes proxies in accordance with the Portfolio Manager's determination of what outcome is in the best economic interest of the particular fund or discretionary account client. Such decisions are made on a case-by-case basis, taking into account relevant factors, including:

- the anticipated impact on the returns of the underlying company and Balestra Capital's clients;
- the anticipated impact on the underlying company's operating costs or share value;
- the potential impact on the cost of investment in the underlying company;
- the potential attraction of additional capital to the underlying company;
- the alignment of interests of the underlying company's management with its shareholders;
- the costs associated with voting the proxy; and
- industry business or practices.

Balestra Capital maintains a record of each vote and an explanation for the vote for a period of five years.

Voting is subject to the advisory agreements of the respective funds and discretionary managed accounts. For the Balestra Funds, no single investor can direct Balestra Capital to vote proxies in a particular manner. To date, no discretionary managed account client has directed Balestra Capital to vote a proxy in a specific manner. If a discretionary managed account client were to make a specific direction, we would reasonably seek to follow such instruction. Landseer does not have any proxy voting discretion with respect to its non-discretionary client accounts.

With respect to shareholder governance, covenants, social issues and other votes, it is the policy of Balestra Capital to discuss each of these votes and issues in order to determine its position on a case by case basis. Balestra Capital may, upon occasion, delegate the right to vote on particular issues to the investment professional monitoring that investment.

Balestra Capital will seek to identify conflicts, if any, it may have in voting proxies. In the event of a conflict, Balestra Capital will either: a) abstain from voting if the vote is not likely to be affected; b) retain a disinterested third party adviser to advise on the vote; c) vote the shares in proportion to other “yes” and “no” votes received by the issuer; or d) take such other actions, as may be appropriate in the particular context.

Existing or prospective clients may obtain a copy of Balestra Capital’s proxy voting policy and related information, including Balestra Capital’s past voting decisions, by contacting Balestra Capital at 212-768-9000.

### **Legal Proceedings**

With regard to certain discretionary clients, Balestra Capital is responsible for responding to corporate actions, including notices of class action litigation on behalf of shareholders. As a fiduciary, Balestra Capital responds timely to such corporate actions upon the relevant Portfolio Manager’s determination of the desired course of action. If a corporate action arises and Balestra Capital concludes that a response is required, Balestra Capital will ensure that the filing deadline is met and will maintain a log of all such corporate actions. Copies of corporate actions will be maintained in a centralized file in accordance with the firm’s book and recordkeeping procedures.

## **18. FINANCIAL INFORMATION**

As matter of firm policy and practice, Balestra Capital will not charge or earn advisory fees in excess of \$1200 six or more months in advance of the services rendered.

Also, our firm and its partners have no financial events or proceedings to disclose.

## SUPPLEMENTAL INFORMATION

### Privacy Notice

At Balestra Capital, Ltd., maintaining the trust and confidence of our clients is of paramount importance. We are committed to safeguarding our clients' personal information and providing them with facts and options about how this information may be shared.

This notice replaces all previous statements of our consumer privacy policy, and may be amended at any time. We will provide our clients with annual reminders of our policies and with revised policies if there are any changes in how we handle our clients' personal information. If a client ends its relationship with us, we will continue to adhere to the policies and practices described in this notice. If existing or prospective clients have any questions about this privacy policy, they can contact Balestra Capital at (212) 768-9000.

Information That We Collect. In connection with providing our clients with our services, we obtain nonpublic and public information about our clients, which may include the following:

- Information that we receive from clients in subscription documents or other forms including name, address, social security number, assets, and income.
- Information about clients' investments with us, our affiliates or others.
- Information that we may obtain about clients from a consumer reporting agency.

Information That We Share. We, along with our affiliates, use or share information in a limited and carefully controlled manner. We do not disclose any nonpublic information about our prospective, existing or former clients to anyone, except as permitted or required by law or requested by a regulatory agency. Instances in which we may be required or requested to share client information include:

- Disclosure to companies that provide services necessary to effect a transaction that clients request or to service client accounts, such as prime brokers, accountants, attorneys, or administrators.
- Disclosure to government agencies, courts, parties to lawsuits, or regulators in response to requests or subpoenas. In such cases, we share only the information that is reasonably necessary to satisfy the request or that we are required or authorized to share.

Confidentiality and Security. Only those persons who need client information to perform their jobs have access to it. In addition, we maintain physical, electronic, and procedural security measures that comply with federal regulations to protect client information. Our employees have limited access to clients' personal information based upon their responsibilities. All employees are instructed to protect the confidentiality of clients' personal information as described in these policies, which are strictly enforced.