

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

March 12, 2014

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Nokomis Capital, L.L.C. is an investment advisor that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Nokomis Capital, L.L.C. If you have any questions about the contents of this brochure, please contact us at 972-590-4100. 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.**

**Additional information about Nokomis Capital, L.L.C. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Material Changes**

Since our previous annual update to our Part 2A of Form ADV, we have had no material changes; however, we recommend that you read this Part 2A of Form ADV in its entirety.

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## **1. Advisory Business**

Nokomis Capital, L.L.C., founded in October 2007, is an investment services firm specializing in investment management for hedge funds and managed accounts. The principal owner of our firm is Brett A. Hendrickson.

We perform a detailed analysis and modeling of individual companies for our clients against a backdrop of analysis of pricing trends for various markets. We utilize a range of investment strategies for our clients, including investing in publicly traded equity securities, both long and short, as well as in a broad array of other securities in public markets. We employ a long/short strategy to both mitigate risk as well as maximize returns.

For more information on the investment strategy of our clients, please see Item 5: Method of Analysis, Investment Strategy and Risk of Loss.

Our firm tailors our advisory services in accordance with each client's needs and investment strategy as disclosed in its offering document or managed account agreement.

We do not participate in any wrap fee programs.

As of January 31, 2014, we manage \$289,900,000 of client assets on a discretionary basis. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

Our firm or one of our affiliates typically receives two types of compensation from our clients – an asset-based management fee and performance-based compensation. Generally, each year, we charge clients an asset-based management fee of 1.0% of each client's assets that we manage and performance-based compensation of up to 20% of each client's net realized and unrealized profits, subject to a "high water mark" limitation. This means that we only receive performance-based compensation from our clients for any year when the value of a client's account for that year has recovered any losses from all prior years (reduced pro rata by any withdrawn or redeemed capital). In addition, the performance-based compensation we receive from certain managed account clients may be subject to a guaranteed rate of return, or "hurdle rate," before we receive any performance-based compensation.

Our fees are generally not negotiable. We have the general discretion to waive all or a portion of the asset-based management fee and/or the performance-based compensation. We do not charge performance-based fees to non-qualified investors in client funds, per Rule 205-3 of the Investment Advisers Act of 1940, as amended. In addition, we may enter into side letter arrangements with certain investors in our client funds, in which we grant them preferential terms.

Our firm and our affiliates do not pay asset-based or performance-based fees.

We deduct the asset-based management fee described above from our fund client's account quarterly at the beginning of each quarter. We also deduct the performance-based compensation described above from our fund client's account at the end of each year or when investors make a withdrawal or redemption (but only for the amount withdrawn or redeemed).

We deduct the asset-based management fee described above from our managed account client's account quarterly at the beginning of each quarter. We also deduct the performance-based fee from our managed account client's account at the end of each year or when a client makes a withdrawal (but only for the amount withdrawn). The managed account client also receives an invoice for the amounts of our asset-based management fees and performance-based fees reflecting the amounts deducted from its account.

In connection with our hedge fund advisory services, our fund clients bear all of their own organizational and operational expenses. The list below details some these expenses, but does not include every possible expense our fund clients may incur.

- legal fees (including settlement costs);
- costs of any litigation or investigation involving our fund clients' activities;
- accounting costs (including tax preparation and audit expenses);
- administration costs;
- insurance;
- costs associated with reporting and providing information to existing and potential investors;
- any governmental fees imposed on our fund clients; and
- withholding and/or transfer taxes.

These fund clients also pay for expenses related to the investment of their assets, such as:

- proxy expenses;
- interest and commitment fees on loans and debit balances;
- borrowing charges on securities sold short;
- custodial fees;
- brokerage commissions;
- trade processing fees, including clearing and settlement charges;

- research fees and materials (including online news and quotation services);
- costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific transactions;
- bank charges; and
- other ordinary miscellaneous research and trade-related expenses.

We may choose to absorb some of these costs on behalf of our clients in our sole discretion.

Our managed account client pays for all of its own operating expenses. This includes all expenses incurred with its account transactions, such as custodial fees, brokerage commissions, taxes and any applicable registration fees.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

The asset-based management fee that we charge our clients is payable at the beginning of each quarter. Investors in our fund clients may only withdraw or redeem capital at the end of each quarter. Accordingly, we do not need to provide fee refunds to underlying investors in our fund clients before the end of a billing period, because they do not pay a fee in excess of what they owe. Our clients do not pay any performance-based compensation in advance.

Investors in our fund clients may be subject to a sales charge of up to 2% of the total amount of their investment. We may pay this amount to authorized dealers, placement agents or independent third parties for services provided in connection with the referral of investors in our fund clients. We deduct any applicable sales charge from the investor's capital contribution to the applicable fund client, and we do not reduce our firm's asset-based management fee by the amount of any sales charge. This practice may present a conflict of interest, because it gives our firm an incentive to recommend an investment in our fund clients based on the compensation we receive, rather than on an investor's needs. Although it is not our practice to charge an investor in our fund clients for this sales charge, we mitigate any potential conflict of interest by understanding each investor's needs prior to their investment in our fund clients and through our firm's investment in our fund clients.

Other than the sales charge discussed above, if applicable, neither our firm nor any of our principals or employees receives any compensation for the sale of securities or other investment products.

### **3. Performance-Based Fees and Side-By-Side Management**

Our firm or our affiliates receive performance-based compensation in the form of a performance fee or a performance allocation from our fund clients and managed account. Please see Section 2: Fees and Compensation for a detailed explanation of our

performance-based compensation. The existence of the performance fee or allocation may create an incentive for our firm or our affiliates to make riskier or more speculative investments. Our firm's investment in our fund clients aids in aligning our interests with the interests of our clients. We do not manage any clients that do not pay performance-based compensation.

#### **4. Types of Clients**

All of our clients are either hedge funds or managed accounts. Our fund clients rely on certain exclusions from the definition of "investment company" in the Investment Company Act of 1940, as amended. Accordingly, none of our fund clients or managed accounts are registered as investment companies with the Securities and Exchange Commission.

##### Investment Requirements

Investors in our fund clients must generally make a minimum investment of \$1,500,000. We have the discretion to, and on occasion may, accept investments for a lesser amount.

We also provide investment advisory services to a separately managed account. We decide whether to open a separately managed account on a case by case basis.

This firm brochure is not an offer to invest in our fund clients.

#### **5. Method of Analysis, Investment Strategies and Risk of Loss**

In managing our fund clients and managed account, we utilize an outsized focus on fundamental, bottom-up research on individual (primarily U.S. based) companies. This research process generally includes extensive quantitative research linked with extensive qualitative research. We make a concerted effort to make money on both sides of our clients' portfolios, short and long, at all times.

On the short side, our research process essentially finds fundamentally flawed businesses that are masquerading as solid companies. In addition, our research process allows our firm to discern the proper timing of an investment for our clients, which we believe plays a critical role on the short side of investing.

On the long side, our research process allows our clients to get involved with situations that other institutional investors find too complex, and also to find situations where the future cash flows of a business have the potential to significantly outperform the real and implied expectations of Wall Street.

In addition to prudent management of overall net exposure, we take a disciplined approach to risk management for our clients in terms of overall gross exposure, sector exposure and the sizing of individual positions and the correlation of individual positions to each other. We seek to create low risk, below-market volatility that generates superior absolute and relative returns over the intermediate and long terms for our clients regardless of the equity market environment.

Our investment style can be best described as “value” and “growth at a reasonable price.” In addition, a contrarian view of the world tends to color both our stock selection and the way in which we direct resources within the research process. We utilize a strong bottom-up focus on both the long and short side (as opposed to market or sector timing), with intensive company-specific and industry research. This investment style excludes getting caught up in short-term “over trading,” and we believe that this longer-term approach—in concert with the intense research process—gives our firm a competitive advantage for our clients. The mix of investments that we recommend for our clients typically tilts towards small-cap companies, as we have historically found the greatest market inefficiencies in securities for companies of this size.

Our research process can best be described as intense company-specific and industry research on both the quantitative and qualitative sides constantly working in concert. Research on the quantitative side leads to further probing and discovery on the qualitative side and vice-versa. The quantitative side of the research process comes primarily from intensive financial modeling. This financial modeling includes historical and projected future financial results across several reporting periods with a focus not only on a company’s expected revenue and earnings per share, but also its working capital needs/tendencies; free cash flow; earnings before interest, taxes, depreciation and amortization; and “discretionary cash flow.” The modeling process also includes analysis and forecasting of a company’s various operating segments and a detailed reading and understanding of the disclosures in a company’s SEC filings. Further, the quantitative portion of process often goes beyond numbers actually reported by the company including, but not limited to, the following exercises: 1) using third-party data to track the raw materials and other input costs of the company against its reported margins; 2) benchmarking the company’s financial metrics against those of other companies in the industry; 3) analyzing the impact of changes in import duties and tariffs; 4) measuring/estimating the impact of changes in implied manufacturing utilization; and 5) utilizing county appraisal records to estimate real (versus stated) asset values.

Further, we constantly support the continual adjustment of our financial projections with the qualitative side of our research process. A thorough evaluation of management’s capabilities takes place at the start of our due diligence process and continues on as we initiate and maintain the investment position for our clients. Further, we believe that truly valuable qualitative research on a company includes “grassroots” research efforts. Our grassroots research may include face-to-face and telephonic conversations with a company’s competitors, suppliers, customers, customers of its customers (where applicable) and former employees, as well as industry consultants and trade associations. Additionally, our attendance at a given industry’s trade shows and other events serves as ideal venues not only for gathering information, following up with existing contacts and viewing new products or technologies, but also for networking and developing relationships with new people who might be helpful to our firm and our clients over time. Finally, depending on the type of company, grassroots research also may include extensive visits to a company’s locations or properties.

Despite our thorough research and analysis and comprehensive investment strategies, investing in any security involves a risk of loss that clients and investors in our clients



must be prepared to bear. Please see below for a detailed explanation of some of the significant risks associated with the investment strategies we employ.

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and option trading can, in certain circumstances, substantially increase the impact of unfavorable price movements of our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.
- *Dependence on our Firm.* The success of the fund clients and the managed account is largely dependent upon our firm. There is no guarantee that our firm or the individuals employed by our firm will remain willing or able to provide advice to the clients' accounts or that trading on this advice will be profitable in the future. The performance of our firm depends upon certain key personnel. If any of these personnel become incapacitated, the performance of the fund clients and the managed account may be adversely affected.
- *Financial Markets and Regulatory Change:* The instability in global financial markets has increased the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.

The following is a description of the various strategies that we utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategies.

- *Equity Securities:* We buy, on our clients' behalf, undervalued equity securities, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets.

Because of this, our clients may suffer losses if they invest in equity instruments of issuers whose performance diverges from our expectations.

- *Small and Mid-Cap Stocks.* We may invest in small and mid-capitalization stocks on behalf of our clients. Investments in small and mid-capitalization stocks involve greater risk than is customarily associated with larger, more established companies. These companies often have sales and earnings growth rates that exceed those of large companies. These growth rates may be reflected in more rapid share price appreciation. However, smaller companies often have limited product lines, markets or financial resources, and they may be dependent upon small management teams. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general.
- *Short Selling:* We may sell short securities on behalf of our clients. Short selling of securities occurs when we borrow securities, promising to buy them at a later date. If the price drops, we can buy the securities at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at the higher price, and the investment loses money. Buying the securities can itself cause the price of the securities to rise further which would exacerbate the potential for loss.
- *Options:* We may take long or short positions in call and/or put options on behalf of our clients. There are risks associated with the sale and purchase of options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated the price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period. A seller of an uncovered option may have to pay substantial additional margin, and bears an unlimited risk of loss, since the seller must deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.
- *Leverage/Borrowing.* Subject to applicable margin and other limitations, we may borrow funds in order to make additional investments for our clients. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to

be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Derivatives:* At times, we may invest in derivative contracts on behalf of our clients. A derivative is a financial instrument that is a contract between two parties, the value of which is linked to another security or commodity, or an “underlying asset.” Some of the derivatives in which we may trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs.

Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the price of the underlying asset can result in a loss to our clients that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in a derivative contract. Finally, derivative contracts present additional risks because, ultimately, their success depends in part on the counterparty’s financial condition, that is, the counterparty’s ability to turn over the cash flow it promised.

- *Illiquid Investments:* From time to time we may make illiquid investments on behalf of our clients. Illiquid investments are investments that are not heavily traded and cannot easily be converted to cash. If any of our clients requires cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.
- *Foreign Securities:* We may invest in foreign securities on behalf of our clients. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients’ income.

We do not recommend primarily any single type of security. Our clients’ generally hold a diverse range of investments, yet we still encourage our clients as well as their investors

to consider all of the risk factors we have described above. Any investment can be risky and our clients and investors in our clients must be prepared to assume any potential loss.

## **6. Disciplinary Information**

Neither our firm nor any of our management persons has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any of our management persons has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither our firm nor any of our management persons has subject to a proceeding before any self-regulatory organization.

## **7. Other Financial Industry Activities and Affiliates**

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

We manage the following master-feeder fund structure, which are our related persons:

- Nokomis Capital Partners, L.P.;
- Nokomis Capital Offshore Fund, Ltd.; and
- Nokomis Capital Master Fund, L.P.

Nokomis Capital Advisors, L.P, an affiliate of our firm, acts as the general partner to Nokomis Capital Partners, L.P. and Nokomis Capital Master Fund, L.P.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest, or have other business relationships with them that create a material conflict of interest.

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

We have adopted a Code of Ethics in accordance with the Securities and Exchange Commission requirements. Our Code of Ethics works to ensure that our principal and employees act in accordance with our firm's fiduciary duty to our clients and ensures that our principal and employees act in a manner as to avoid actual or potential conflicts of

interest or any abuse of an individual's position of trust and responsibility. Our Code of Ethics prohibits personal trading on individual equity securities by individuals on our investment team, and investments made by any person covered by our Code of Ethics while in possession of material, non-public information. We also require preclearance before purchasing authorized investments for a personal securities account of individuals on our investment team. We also require all persons covered by our Code of Ethics to submit periodic reports of securities holdings and transactions. We require prompt internal reporting to our Chief Compliance Officer of any violation of our Code of Ethics. This paragraph only represents a summary of key provisions in our Code of Ethics. We provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our clients that requests one.

Principals and employees of our firm do not recommend to clients, nor do they buy or sell for client accounts, securities in which they have a material financial interest.

Principals and employees of our firm do not buy and sell for themselves securities that they also buy and sell for our clients.

## **9. Brokerage Practices**

We direct a large portion of our brokerage business to the broker-dealers with the lowest cost of execution. However, in selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, our firm generally tries to obtain the best execution for our clients' portfolios and we also take into account the following factors:

- The broker-dealer's ability to effect prompt and reliable executions at favorable prices (including the applicable profit or commission, if any);
- The operational efficiency with which transactions are effected, considering the size of the order and difficulty of execution;
- The financial strength, integrity and stability of the broker-dealer;
- The firm's risk in positioning a block of securities;
- The quality, comprehensiveness and frequency of available research services considered to be of value; and
- The competitiveness of commission rates in comparison with other broker-dealers that satisfy our selection criteria.

We Have the Authority to Utilize Research and Other Soft Dollar Benefits. We are authorized to pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us or our affiliates with certain investment and research information. Research services furnished by broker-dealers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal

services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. We are not required to weigh any of these factors equally.

In addition to research services, we may be offered other non-monetary benefits by broker-dealers. These benefits may take the form of incidental meals and entertainment, quotation services and all other trading related expenses.

We have the option to use “soft dollars” generated by our clients to pay for the research and non-research related services described above. The term “soft dollars” refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment manager. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a “safe harbor” to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities. The products that we use soft dollars to obtain include company-specific research reports, industry research reports, access to the analysts who write the reports, corporate access events such as conferences where we access the management teams of the companies in which we invest for our clients. Additionally, we use soft dollars to pay for services that help us in investment-decision making. These services include access to an expert network, an insider trading aggregation service, technology industry consultants and oil & gas engineers advising us on the prospects for specific oil & gas fields. We intend to limit our soft dollar use to fall within Section 28(e) of the United States Securities Exchange Act of 1934, as amended.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. If we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients’ interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research services and to pay for other costs and expenses that our firm might otherwise incur creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

We May Consider Referrals in Selecting or Recommending Broker-Dealers. We direct execution business to broker-dealers partially-based on the referral of clients. This presents an inherent conflict of interest, as we might have an incentive to direct business to brokerage firms with low-quality or high-cost execution. However, we mitigate this conflict due to the fact that the brokers that provide us with client referrals generally offer our firm the lowest-cost execution of any brokers we do business with.

Our Clients Do Not Direct Brokerage. Our firm does not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer.

We strive to manage the investment program of all of our clients equally, and allocate all investment opportunities to each client. Therefore, we aggregate the purchase or sale of the securities for the various client accounts. We then allocate the securities purchased (or sold) among our clients so that each client receives the same terms. We also seek to execute orders for all clients on an equitable basis. We place combined orders for all client accounts, and, if all these orders are not filled at the same price, we average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under current market conditions, we allocate the trade among the different accounts on a basis that we consider equitable. Ultimately, clients can benefit when we aggregate trades because they get volume discounts on execution costs. On the other hand, situations may occur where one client could be disadvantaged because of the investment activities we conduct for other clients.

## **10. Review of Accounts**

Our principal, Brett A. Hendrickson, reviews all of our fund client accounts and our managed account on daily basis or as triggered by economic and market conditions. Where applicable, these reviews include an assessment of daily profit and loss reports with respect to our clients' investment positions. Mr. Hendrickson evaluates our clients' investments in a manner consistent with the investment goals of our clients.

We will also review accounts in certain extraordinary events, such as natural disasters, extreme political and economic events (i.e. a market crash) and any other event we believe creates abnormal market conditions. See the paragraph immediately above for a description of the other factors that may trigger reviews of client accounts.

We provide investors in our clients with monthly performance data and quarterly investment letters. We also provide investors in our fund clients with account balances and written annual reports that contain audited financial statements and tax information. We reserve the right to provide more frequent reporting as we deem necessary.

Our managed account client has the ability to check account balances, transactions and profit and loss of its account daily through our service provider's website.

## **11. Client Referrals and Other Compensation**

We may receive certain economic benefits from broker-dealers and prime brokers which we conduct business with that might not be received otherwise. These benefits may include: company-specific research reports, industry research reports, access to the analysts who write the reports, corporate access events such as conferences where we access the management teams of the companies in which we invest for our clients. Additionally, we may receive access to an expert network, an insider trading aggregation service, technology industry consultants and oil & gas engineers advising us on the prospects for specific oil & gas fields. While broker-dealers generally provide these products and services at no additional cost, we may select certain broker-dealers due to receipt of these services. We address this conflict of interest by always seeking best execution from broker-dealers for our clients' transactions regardless of the products and services provided to us by the broker-dealers.

Our firm does not, nor do any principals or employees of our firm, compensate any person for client referrals.

## **12. Custody**

Due to our access to our fund clients and authority to deduct fees and other expenses from a fund client's account, we are deemed under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, to have custody of the clients' funds.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of these clients. We also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities.

When we open an account for a client under its name as agent or trustee, we notify the client in writing of the qualified custodian's name and address and the manner in which the funds or securities are maintained, and also notify them in writing of any changes. In addition, we maintain a separate record for each account which shows the dates and amount of all deposits and withdrawals and a list of each client's beneficial interest in the account.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement with respect to our fund clients because all fund clients managed by our firm are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we distribute audited financial statements to all investors in our fund clients within 120 days of the end of the fiscal year of the client.

We do not custody the assets of our managed account client. This client receives access to its account statements directly from its custodian and should review them carefully. It should compare the account statements from its custodian with any reports that we send it.



### **13. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, the broker through which we effect trades and the commission rates at which we effect trades. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' offering documents and/or managed account agreement. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist and the degree of risk assumed by a client's portfolio.

Before accepting their subscriptions for interests in or shares of a fund client, we provide all potential investors with an offering document that sets forth, in detail, our investment strategy and program for the fund client. By completing our subscription documents to acquire an interest or shares in one of our fund clients, investors give us complete authority to manage their investments in accordance with the offering document that they each received.

Prior to providing investment advice to a managed account client, we require each client to appoint us as agent and attorney-in-fact of its portfolio. This gives us complete discretionary authority to buy and sell any investment securities and instruments in the amounts and at the prices that we determine, subject to the pre-approval for the purchase of certain types of securities and any other limitations that may be imposed in certain client's managed account agreement.

### **14. Voting Client Securities**

Because clients have delegated the power to vote their securities to our firm, we have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We always strive to vote client proxies in a manner consistent with each client's best interests. Our officers, directors and employees will not be influenced by outside sources whose interests conflict with our clients' interests. We vote in a manner that we believe reasonably furthers the best interests of the client and is consistent with the client's investment philosophy as set forth in the relevant investment management documents.

If a proxy vote creates a material conflict between our interests of and the interests of a client, we will resolve the conflict before voting the proxies. We will either disclose the conflict to the client and obtain consent or take other steps designed to ensure that a decision to vote the proxy was based on our determination of the client's best interest and was not the product of the conflict. We maintain records of how we vote all proxies on behalf of our clients. These records are available to the clients, including any investor in a fund client, upon request.

### **15. Financial Information**

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.