

**FIRM BROCHURE**  
**FOR**  
**NS ADVISORS, LLC**

A Connecticut limited liability company

**CONTACT INFORMATION:**

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Part 2A of Form ADV: Firm Brochure  
July 2014

**This brochure provides information about the qualifications and business practices of NS Advisors, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at (203) 227-9898 or by email to [gfrancoeur@northstarlp.com](mailto:gfrancoeur@northstarlp.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

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

**Although this document may refer to NS Advisors, LLC as “registered” or a “registered investment adviser,” registration does not imply a certain level of skill or training.**

## **ITEM 2: MATERIAL CHANGES**

The purpose for this other-than-annual-amendment to NS Advisors' Form ADV is to report the replacement of Fred Kuehendorf as Chief Compliance Officer due to his retirement and the designation of Gregory Francoeur as his successor. No other material changes to this Form ADV Part 2A have been made since the March 2014 annual-amendment. If NS Advisors, LLC makes any material changes to its Form ADV Part 2A in the future, NS Advisors, LLC will revise this section to include a summary of such changes and reference the date of such changes.

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#### **ITEM 4: ADVISORY BUSINESS**

NS Advisors, LLC (“NS Advisors”) is a Connecticut limited liability company formed in January 1996 with its principal place of business located at 274 Riverside Avenue, Westport, CT 06880. NS Advisors is controlled by Mr. Andrew Jones who has the overall responsibility for the day-to-day supervision and management of NS Advisors’ business.

At this time, NS Advisors provides investment advice to two private investment funds, North Star Partners, L.P. and North Star Partners II, L.P., both Delaware limited partnerships (the “Funds”). North Star Partners, L.P. is what is commonly referred to as a 3c-1 fund (referring to a section of the Investment Company Act of 1940, as amended (the “Investment Company Act”)) and is open to investors who are “accredited investors” as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and satisfy the “qualified client” standard of the Investment Advisers Act of 1940, as amended (the “Advisers Act”). North Star Partners II, Ltd. is what is commonly referred to as a 3c-7 fund and is open to investors who satisfy the “qualified purchaser” standard of the Investment Company Act. NS Advisors also serves as the general partner of the Funds.

NS Advisors directs the investment program of the Funds on a discretionary basis using a “value” based investment strategy, as described in *Item 8: Method of Analysis, Investment Strategies and Risk of Loss*. NS Advisors conducts its own fundamental research of a wide range of companies to determine their qualification for initial and continuing investment by the Fund. As part of its investment strategy, the Funds have a broad mandate to invest and trade in a variety of securities, including equity, debt or convertible securities, options, domestic and foreign securities and non-publicly traded securities.

NS Advisors provides portfolio advisory and management services to the Funds based on their investment objectives, not based on the criteria or investment objective of any individual investor that contributes assets to the Funds (an “Investor”). Services are provided to the Funds in accordance with the Agreement of Limited Partnership of each Fund (each a “Limited Partnership Agreement”).

Although NS Advisors does not typically manage client assets under individually managed accounts, it does currently provide investment advice to one separately managed account (the “Managed Account”). The terms of the Managed Account including fees, authorizations and any trading restrictions are set in a negotiated investment management agreement. NS Advisors has full discretion over the investments of the Managed Account. The investment objectives and the portfolios of the Funds and the Managed Account are substantially similar. The client of the Managed Account directs the custody and administration of the Managed Account’s assets.

NS Advisors does not participate in wrap fee programs.

As of December 31, 2013, NS Advisors managed approximately \$213,000,000 on a discretionary basis for the Funds and the Managed Account. NS Advisors does not manage any assets on a non-discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

The offering documents for the Funds set forth the specific fees and other material terms regarding an investment in the Funds. All Investors must pay a management fee to NS Advisors. The management fee for the Funds is charged quarterly at the rate of 0.25% of the net assets attributable to each of the Investors. The management fee is payable on the last day of each calendar quarter. NS Advisors also receives an annual performance-based allocation from each Investor in either of the Funds in the amount of 20% of the net profits allocated to the investor for each calendar year. This performance-based allocation is more fully described in *Item 6: Performance-Based Fees and Side-by-Side Management*. Neither the management fee nor the performance-based allocation is negotiable, but NS Advisors has the sole discretion to waive or reduce either of these with respect to any Investor.

Under the terms of its Limited Partnership Agreement with each Fund, NS Advisors deducts the management fee mentioned above directly from each Investor's capital account in each Investor's capital account in the Fund. If an Investor withdraws during a calendar quarter, then a pro-rated management fee is calculated and charged as of the date of withdrawal. Investors are not charged any redemption fees.

Through each Fund, each Investor indirectly pays for its share of all costs and expenses directly related to investment transactions, including legal (including costs arising in connection with any litigation or regulatory investigation (including damages and settlement costs) against the Funds or the General Partner), accounting, auditing and other professional expenses, administration fees and expenses, research expenses, investment expenses (such as commissions, interest on margin accounts and other indebtedness), governmental fees, taxes, custodial fees, bank service fees, Fund-related insurance costs (including D&O and E&O insurance), direct fees and expenses (such as legal fees and due diligence expenses related to the analysis, purchase or sale of investments whether or not the investment is consummated), and other reasonable expenses related to the purchase, sale or transmittal of Fund assets.

With regard the Managed Account, provisions related to account expenses and the payment and timing of NS Advisors' compensation were negotiated and included in the investment management agreement.

Neither NS Advisors nor its principal or any executive officer or employee accepts commissions or other compensation for the sale of interests in the Funds or in connection with the purchase or sale of any securities for the Funds.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

In addition to the management fee, NS Advisors receives a non-refundable performance-based allocation (the "Performance-Based Allocation") from Investors in the Funds who meet the requirements of "qualified clients" under the Advisers Act or have been grandfathered under the provisions thereof. Subject to the loss carryforward provision discussed below, if for any calendar year an Investor has a net profit allocated to its capital account (including net unrealized gains), a Performance-Based Allocation equal to 20% of each Investor's share of such net profit shall be

allocated from the Investor's capital account to NS Advisors' account as general partner as of the end of such calendar year. In the event that an Investor withdraws (in whole or in part) at any time other than at the end of a calendar year, such allocation will be made with respect to such withdrawn amount on the date of the Investor's withdrawal as though it were being made at the end of a calendar year.

Under a loss carryforward provision contained in the Limited Partnership Agreement for each Fund, no Performance-Based Allocation from an Investor's capital account with respect to a calendar year will be made until any net loss previously allocated to the capital account of such Investor has been offset by subsequent net profits. Any such loss carryforward will be subject to reduction for withdrawals in the manner described in the Partnership Agreement.

The existence of performance based fees could theoretically incentivize NS Advisors to manage the Fund portfolios in a more aggressive, risky manner; however, NS Advisors attempts to minimize this risk by ensuring that it is managing the accounts in accordance with the stated investment objectives of each Fund. In addition, the performance based fee received by NS Advisors is based on both realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that Investors may never realize.

NS Advisors has the authority to manage the accounts of other clients and funds, including the Managed Account. Additionally, since each Investor (other than certain affiliates of NS Advisors) is subject to a Performance-Based Allocation, NS Advisors is not subject to any conflict of interest that could otherwise be present if some accounts or Investors were charged a Performance-Based Allocation and others were not. NS Advisors performs its responsibilities in accordance with its fiduciary duties and does not allow any potential conflicts to influence that performance. Allocations between accounts are allocated on a pro rata basis based on assets under management or in some other manner as NS Advisors determines to be fair and equitable under the circumstances.

## **ITEM 7: TYPES OF CLIENTS**

NS Advisors provides investment advisory services to the Funds and not individually to the Investors in the Funds. The Funds require newly admitted Investors to be "accredited investors" under Regulation D of the Securities Act and "qualified clients" under the Advisers Act or "qualified purchasers" under the Investment Company Act, as applicable. Additionally, the Funds have a minimum investment requirement of \$1,000,000 for Investors, although this minimum may be waived or reduced as provided in the Funds' offering documents.

## **ITEM 8: METHOD OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

All Investors receive a Private Placement Memorandum ("PPM") and other offering documents for either of the Funds before being given the opportunity to invest in the Funds. Each PPM discusses in detail the investment objectives, investment strategy and risk factors relating to an investment in the Funds. The Funds have virtually identical investment objectives and portfolios that are virtually identical except for variations due to assets under management of each Fund. The

following is a summary of the information that appears in more detail in the PPMs, which should be reviewed by all potential Investors.

## Introduction

NS Advisors' investment objective is to achieve superior long-term capital appreciation while minimizing the risk of permanent capital loss. This objective is pursued by purchasing securities at significant discounts to NS Advisors' estimate of their true economic value. This approach to investing is commonly referred to as "value investing." NS Advisors believes that a diligent and disciplined application of this investment approach will produce favorable returns to long-term Investors. Regardless of the investment strategy, potential Investors should be aware that investing in securities involves risk of loss that Investors must be prepared to bear.

## INVESTMENT STRATEGY

The Funds trade in substantially parallel fashion and seek to attain their investment objectives by utilizing a value-based strategy which they apply in an opportunistic manner. Value investing is the discipline of buying securities that, in the opinion of NS Advisors, are selling at an appreciable discount from their underlying value and holding them until some or all of their value is realized. NS Advisors estimates what it believes to be the real economic value of a company by applying a thorough fundamental business analysis. From this economic value, NS Advisors calculates what it believes to be the appropriate valuation of a share of the company. When market conditions result in a significant discount in the market price of a company's shares, the shares are purchased and held until the disparity in valuation is eliminated through a rise in the stock price.

By purchasing securities at significant discounts from their conservatively appraised underlying value, NS Advisors hopes to provide a "margin of safety" that mitigates the possibility of permanent capital loss. This margin is achieved by purchasing securities when they sell at a discount to their intrinsic or economic values. Any specific security may not turn out to be a good investment, due to changes in the company's or industry's prospects or an error in the initial evaluation, but a portfolio of securities purchased with a margin of safety may guard against capital loss and ultimately provide for capital appreciation.

NS Advisors also searches for attractive opportunities to sell "short" securities that it believes are significantly overvalued, meaning that, in the opinion of NS Advisors, they are selling at an appreciable premium to their fundamental value. The Funds do not seek to create an equal dollar weight of long and short positions (i.e. market neutral) and historically have had a "net long" bias, meaning that the majority of their portfolio holdings have consisted of "long" positions.

Although not a focus of its investment strategy, NS Advisors at times does use modest levels of leverage afforded by margin borrowings. Leverage involves the use of borrowed funds to increase the amount of invested capital in its long or short securities positions. The use of leverage magnifies the investment results achieved, whether positive or negative, as compared to what would be achieved if no leverage were employed.

NS Advisors also believes that the Funds are better served by concentrating on a smaller number of securities which NS Advisors knows a great deal about rather than focusing on a broader universe of less familiar securities. The Funds' portfolios are not highly diversified and substantial positions may be taken in the securities of one or a few select companies. However, NS Advisors currently anticipates that no investment (at cost) will have a value of more than 20% of the Fund's total equity.

#### Identification of Investment Opportunities

NS Advisors concentrates its research efforts on smaller market capitalization companies (typically under \$2.5 billion). It is often the case that a depressed stock price will result in a company's market capitalization falling below the level where it makes economic sense for large institutional investors to spend their resources doing research. Small companies may not provide an opportunity for investment of sufficient funds to have a meaningful impact on the institutions' overall investment results, so these companies are often simply ignored. This lack of interest can lead to attractive stock valuations. The relatively small size of the Funds allows them to pursue smaller market capitalization companies and make meaningful investments in them when NS Advisors believes the valuation parameters are appropriate. Smaller capitalization companies have historically offered attractive investment opportunities for value investors. A substantial portion of the investments held by each Fund are typically in smaller capitalization companies.

#### Types of Investments

The Funds' capital is invested primarily in U.S. equity securities purchased "long" or sold "short" at what NS Advisors estimates to be a significant disparity to their true economic value. Nevertheless, in the interest of both preserving capital and taking advantage of profit opportunities, NS Advisors retains the flexibility to invest in a variety of situations and securities and use a broad range of specialized investment techniques.

Although the Funds' primary investment focus is on equity securities, the research process may uncover other securities, such as debt instruments or preferred stocks, which NS Advisors believes are priced such that they may offer equity-like returns. These are likely to be "special situations" where the trading prices reflect perceived problems at the particular company as opposed to "straight" debt and preferred securities whose value is most affected by the overall level of interest rates.

The Funds may invest in the securities of foreign issuers, including those traded overseas as well as those traded in the United States, and in exchange-traded funds ("ETFs") which are used primarily for hedging purposes. While the Funds generally focus their investment activities on U.S. equity securities, the Funds have broad and flexible investment authority. Accordingly, the Funds' investments may at any time include long or short positions in U.S. or non-U.S. publicly traded or privately issued common stocks, preferred stocks, stock warrants and rights, corporate debt (including bank debt), bonds, notes and other debentures, convertible securities, options (purchased and sold), swaps, futures contracts, commodities, forward contracts and other derivative instruments, partnership interests, and other securities or financial instruments including those of investment companies.



## RISKS RELATING TO INVESTMENT STRATEGY AND TECHNIQUE

Investing in the Funds involves a high degree of risk for the Investor and is suitable only for persons having substantial financial resources who understand the long-term nature, the consequences, and the risks associated with the investment strategy utilized by NS Advisors. Some of those risks are summarized below. Prospective Investors should carefully consider all the risks, which are described in detail in the PPMs of the Funds which are distributed to all potential Investors in advance of their decision whether to invest. Prospective Investors are also advised to consult their own legal, tax, and financial advisers about these risks and generally about an investment in the Funds.

Overall Investment Risk and Economic and Market Conditions. Securities investing, trading and other investment activities involve a high degree of risk of loss that Investors must be prepared to bear. There can be no assurance that the Funds will be profitable or that the Funds will not incur losses or that any future distribution will be made to Investors. The profitability of a significant portion of the Funds' investment programs depend to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that NS Advisors will be able to predict accurately these price movements.

NS Advisors' Approach. Although NS Advisors may attempt to mitigate market risk through the use of long and short positions or other methods, there is always some, and occasionally a significant, degree of market risk. Because NS Advisors intends to implement and remain committed to a value investing strategy, there may be quarters or years where the Funds' investment results "underperform" market averages or other popular investment strategies. NS Advisors may err in its assessment of the underlying value of particular investments. Further, the perceived discount to intrinsic value of the Funds' investments may remain wide or widen further. This risk is heightened if the Funds become fully invested at the beginning of an extended decline in market averages, i.e. a "bear market."

Risk of Underperformance. By its nature, value investing is a contrarian approach that requires its practitioner to make investments that are out of favor with the majority of investors. Because NS Advisors intends to implement and remain committed to a value investing strategy, there may be quarters or years where the Funds' investment results "underperform" market averages or other popular investment strategies such as momentum investing, sector rotation and leveraged macro investing. These periods of underperformance may be particularly apparent in speculative bull markets.

Long Term Nature and Illiquidity of Investment. The successful implementation of a value-based investment strategy requires a long term investment horizon and the willingness to trade illiquidity for a bargain price. Investors that foresee short term cash needs, or are uncomfortable with illiquid investments, should not invest in the Funds.

Non-Diversification. While the Funds' portfolios will generally contain both long and short positions, the Funds will be invested primarily in U.S. equity securities, and it is possible that, at a given time, positions (long or short) in a concentrated number of issuers may comprise substantially

all of the Funds' portfolios. Accordingly, the investment portfolios of the Funds may be subject to more rapid change in value than would be the case if the Funds were required to maintain a wide diversification among issuers, market capitalizations, industries, types of securities and geographic areas.

*Risks of Options.* The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity, or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

*Foreign Investments.* NS Advisors may invest in the securities of foreign issuers that trade either in foreign markets or in the United States as ADRs (American Depositary Receipts). Investing in securities of non-U.S. governments and companies which are generally denominated in non-U.S. currencies and the utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

*Hedging Risks.* NS Advisors may employ various hedging techniques, from time to time, in an effort to reduce the risk of holding investments in securities. There remains a risk, however, that appropriate hedging techniques may not always be available, may be available but not used by NS Advisors for various reasons or may be used but prove to be completely ineffective in limiting losses and in fact may exacerbate losses.

*Short Selling.* Short selling, or the sale of securities not owned by the Funds, necessarily involves certain additional risks. Such transactions expose the Funds to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and, in the case of equities, without effective limit. There is the risk that the securities borrowed by the Funds in connection with short sales would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Funds might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

*Leverage.* While the use of certain forms of leverage including margin borrowing, structured products or derivative instruments can substantially improve the return on invested capital, such use may also increase the adverse impact to which the Funds' portfolios may be subject. Borrowings will

usually be from securities brokers and dealers and will typically be secured by the Funds' securities and other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the Funds' obligations and if the Funds were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Funds' obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Funds' borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the profitability of the Funds.

In an unsettled credit environment, NS Advisors may find it difficult or impossible to obtain leverage for the Funds. In such event, the Funds could find it difficult to implement their strategies. In addition, any leverage obtained, if terminated on short notice by the lender, could result in NS Advisors being forced to unwind the Funds' positions quickly and at prices below what NS Advisors deems to be fair value for such positions.

*Certain Additional Risks.* In addition, Investors face potential indemnification of NS Advisors by the Funds, potential conflicts of interest, limited transferability of their interests in the Funds and restrictions on withdrawals of capital. The PPMs of the Funds describe these and other risks in more detail.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that would be material to an Investor's or prospective Investor's evaluation of NS Advisors' advisory business or the integrity of its management.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither NS Advisors, nor its principal or any executive officer is registered or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer, a futures commission merchant, a commodity pool operator, a commodity trading advisor or an associated person of any of the foregoing entities.

NS Advisors and the General Partner are controlled by the same person and are therefore related entities. Additionally, the Funds themselves may be considered related entities of NS Advisors. Other than as described in other sections of this Brochure, neither NS Advisors, nor its principal or any executive officer believe they have any relationship or arrangement with a related person that is material to its advisory business or Investors or could create a material conflict of interest with Investors.

NS Advisors and its principal are required to devote only so much of their time to the affairs of the Funds as they reasonably believe is necessary in good faith. Such persons are not prohibited from engaging in any other existing or future business or in other investment activities but these persons owe the Funds' investors an affirmative duty of utmost good faith, undivided loyalty, full and fair disclosure of all material facts, and an affirmative obligation to employ reasonable care to avoid misleading them.

NS Advisors' Code of Ethics also addresses potential conflicts of interest in cases where NS Advisors' employees serve as Directors of companies whose securities NS Advisors or NS Advisors' supervised persons may purchase or sell on behalf of the Funds.

Neither NS Advisors, nor its principal, recommends or selects other investment advisers for the Fund.

#### **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

NS Advisors recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its Investors; (ii) its long-term business interests are best served by adherence to the principle that the interests of Investors come first; and (iii) it has a fiduciary duty to its Investors to act for their benefit. All NS Advisors personnel must put the interests of the Funds and its Investors before their own personal interests and must act honestly and fairly in all respects in dealings with Investors. All NS Advisors personnel must also comply with federal securities laws.

Accordingly, NS Advisors has adopted a written code of ethics ("Code of Ethics" or "Code") designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act, which requires that investment advisers adopt a code of ethics setting forth standards of business conduct and compliance with federal securities laws by all employees. NS Advisors' Code of Ethics has three primary objectives, namely to ensure that NS Advisors' employees: (1) place the interests of advisory clients first; (2) avoid taking inappropriate advantage of their position in the firm; and, (3) prevent insider trading by protecting material non-public information.

NS Advisors' employees must also avoid any personal interest outside of NS Advisors which could be placed ahead of their fiduciary obligation to NS Advisors and to NS Advisors' advisory clients. Conflicts may exist even when there is an appearance of a conflict and no wrongdoing. The opportunity to act improperly may be enough to create the appearance of a conflict. NS Advisors recognizes and respects an employee's right of privacy concerning personal affairs, but requires full and timely disclosure of any situation which could result in a conflict of interest or even the appearance of a conflict. Whether or not a conflict exists will be determined by the Chief Compliance Officer on a case-by-case basis.

The Code of Ethics includes detailed provisions to comply with the securities laws and to address conflicts of interest, such as the following:

- Reporting of personal securities transactions to the Chief Compliance Officer;
- Maintaining a Restricted List of securities and restricting employees' and advisory client trading subject to certain exemptions;
- Blackout period restrictions on employee trading subject to certain exemptions;

- Employee certification of compliance;
- Employee restrictions on the giving and receiving of gifts and entertainment;
- Approval of employee outside business interests; and
- Restrictions on employee political and charitable contributions.

NS Advisors' Chief Compliance Officer periodically monitors Access Persons, employees and employee-related accounts and advisory client trades against the Restricted List and other restrictions for any violations of the "Code of Ethics and the Policy Statement on Insider Trading."

NS Advisors' employees may from time to time purchase and sell securities for their own personal accounts which they may also be recommending for the Fund, subject to the NS Advisors' Code of Ethics policies. Employees of NS Advisors may also serve as directors of companies whose securities NS Advisors or NS Advisors' supervised persons may purchase or sell on behalf of the Funds and they are entitled to receive for their personal benefit any fees or securities earned in such capacity. Also, by reason of its activities, NS Advisors will not be free to disclose or act upon such confidential activities where NS Advisors may acquire confidential information or be restricted from transacting in certain information and as a result may not initiate a transaction in which it otherwise might have engaged.

NS Advisors will provide a copy of its Code of Ethics upon request to the address or telephone number listed on the first page of this Brochure.

## **ITEM 12: BROKERAGE PRACTICES**

NS Advisors has discretionary authority to determine the broker or dealer to be used for each securities transaction for the Funds. For purposes of this Section, the Managed Account is treated similar to a separate Fund. In selecting brokers or dealers to execute transactions, NS Advisors need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not NS Advisors' practice to negotiate "execution only" commission rates, thus the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Except for services that would be Fund expenses, NS Advisors limits the use of "soft dollars" to obtain research and brokerage services within the meaning of Section 28(e). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution;

and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an investment manager and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations. The use of commissions arising from the Funds' investment transactions for services other than research and brokerage will be limited to services that would otherwise be a Fund expense. The use of commissions to obtain such other services would be outside the parameters of Section 28(e).

Research and brokerage services obtained by the use of commissions arising from the Funds' portfolio transactions may be used by NS Advisors in its other investment activities and thus, the Funds may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

NS Advisors periodically evaluates the quality of services received from broker-dealers. In order to satisfy NS Advisors' fiduciary obligations, NS Advisors must consider the full range of factors and quality of a broker-dealer's services, including NS Advisors' ability to obtain a favorable best price and the ability to effect securities transactions, particularly with regard to: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread on commission, if any); (ii) the execution, clearance, and settlement and error-correction capabilities of the broker-dealer; (iii) the broker-dealer's willingness to commit capital; (iv) the broker-dealer's reliability, integrity and financial strength; (v) transaction size; (vi) availability of securities to borrow for short sales; (vii) their expertise in particular markets; (viii) the comprehensiveness and frequency of available research services considered to be of value; and (ix) the competitiveness of commission rates in comparison with other brokers satisfying NS Advisors' other selection criteria. Although NS Advisors generally seeks the competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent.

NS Advisors may place transactions with a broker or dealer that (i) provides it (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Funds or other products advised by the NS Advisors (or an affiliate), if otherwise consistent with seeking best execution; provided NS Advisors is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors.

#### Trade Errors

Although there exists no standard definition of what constitutes trading errors, examples of trade errors include the following:

- Purchasing securities not legally permitted for a Fund, or not within a Fund's investment guidelines;
- Purchasing or selling securities for the wrong Fund; and
- Purchasing or selling the wrong quantity of securities for a Fund.

NS Advisors has established trade processes and procedures designed to reduce the likelihood of errors and, in its sole discretion, will determine what constitutes a trade error.

NS Advisors' general policy is to seek to identify and correct any trade errors promptly and in a way that mitigates any losses. Trade errors in a Fund's account will be borne by that Fund unless an error is the result of bad faith, gross negligence, or willful misconduct by NS Advisors. Lost opportunity is not a reimbursable loss. NS Advisors will not be responsible for any indirect, consequential or punitive damages for purposes of this policy.

NS Advisors will use reasonable methods to calculate the reimbursement due to a Fund, if any. NS Advisors' process to correct trade errors may involve procedures required by applicable law, which may be complex and require coordination with multiple parties, and therefore NS Advisor's ability to correct trade errors promptly will be based on the specific circumstances of the error.

#### Aggregation and Allocation of Orders

When appropriate, NS Advisors may, but is not required to, aggregate client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price achieved for such trades. For ease of trading and administration, NS Advisors typically aggregates client orders as between the Funds and the Managed Account. Trades are allocated as between clients generally on a pro rata basis, giving effect to a number of factors, such as differences in investment objective, portfolio composition and available cash.

### **ITEM 13: REVIEW OF ACCOUNTS**

Andrew Jones, the managing member of NS Advisors and portfolio manager of the Funds, reviews the investment strategies and portfolio decisions of the Funds on an ongoing basis. There is no particular set of circumstances or factors that trigger a review. Instead, Mr. Jones maintains daily oversight of positions held, risk exposure and proper settlement.

Investors of the Funds generally receive the following regular reports: (i) after the end of each fiscal year of the Funds, annual audited financial statements (including a balance sheet, income statement and statement of changes in net assets) for the recently completed fiscal year; (ii) a quarterly letter reviewing the investment performance; and (iii) annual tax information necessary for the completion of Investor's US federal, state and local income tax returns, if applicable.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

NS Advisors currently offers interests in the Funds directly to potential Investors who generally have a preexisting relationship with NS Advisors or its affiliates or agents; however, NS Advisors may sell interests through broker-dealers, placement agents and other persons (“third-party marketers”). In this case, NS Advisors may pay a marketing fee or commission in connection with these activities, including ongoing payments, at NS Advisors’ own expense. Payments by NS Advisors may include fees otherwise payable to NS Advisors. In certain cases, NS Advisors reserves the right to pay a one-time fee or sales charge, on a fully disclosed basis, to a broker-dealer or placement agent based upon the capital contribution of the referred Investor. Any such sales charge would be assessed against the referred Investor and would reduce the amount actually invested by the Investor in the Funds. Under no circumstances may NS Advisors make payments in any form to any Investor or other person having influence on the decision-making process of that Investor or person (unless the person exercising influence is an employee of NS Advisors or has a solicitor relationship as described above) for the purpose of obtaining or retaining that Investor or person as an investor in the Fund.

NS Advisors may effect securities transactions through a number of broker-dealers. By virtue of it conducting business with broker-dealers, NS Advisors may receive certain economic benefits from such broker-dealers which would not be received if it did not transact through the broker-dealers. These benefits may include, but are not limited to: access to an electronic communication network for order entry and account information; receipt of proprietary research; and participation in broker-dealer sponsored research and capital introduction conferences. NS Advisors understands the benefits received through its relationship with the broker-dealers (including its prime brokers) generally do not depend upon the amount of transactions directed to, or amount of assets custodied by, the broker-dealers.

Other than as described herein, NS Advisors does not currently have any arrangements with any third parties that involve any economic benefit to NS Advisors.

## **ITEM 15: CUSTODY**

NS Advisors currently utilizes Goldman Sachs Execution & Clearing, L.P. as the qualified custodian for the Fund’s assets. NS Advisors may change the custodian at any time. NS Advisors has the authority to wire cash from the Funds and would be deemed to have custody under the Advisers Act. NS Advisors has in place internal controls relating to its wiring authorizations. The custodian does not send account statements directly to Investors. The Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with generally accepted accounting principles, issued with an unqualified opinion, and distributed within 120 days of the Funds’ fiscal year ends.

## **ITEM 16: INVESTMENT DISCRETION**

NS Advisors buys and sells securities and other instruments for the Funds and the Managed Account on a discretionary basis in a manner consistent with each Fund’s investment objectives and restrictions, as set forth in the governing agreements and documents of each Fund or pursuant



to the Managed Account agreement. NS Advisors is authorized to make the following determinations in accordance with each Fund's objectives and restrictions without obtaining prior consent of any Fund or Investor: (1) which securities or instruments to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction, and (4) the commission rates or commission equivalents charged for transactions.

#### **ITEM 17: VOTING CLIENT SECURITIES**

NS Advisors will vote proxies for the Funds when voting would be in the best interest of the Funds, as determined by NS Advisors in its sole discretion. The proxy voting policy of NS Advisors is to vote all Investor proxies in the Investor's best interest on a case-by-case basis, considering the facts it deems material. Each proxy proposal is reviewed on a case-by-case basis by a member of the portfolio management team. Generally, the objective of NS Advisors is to vote proxies, in its judgment, in a manner that is most likely to maximize the value of the Funds' investments. It is NS Advisors' policy generally to vote against any management proposals that it believes could prevent companies from realizing their maximum market value, or would insulate companies or management from accountability to shareholders or prudent regulatory compliance. NS Advisors will generally support proposals to authorize standard and necessary aspects of business operations, which will not typically have a significant effect on the value of the investment, such as name changes, elections of directors and employee stock purchase or ownership plans. The proxy voting policy also contains provisions regarding the steps it will take if it identifies a conflict of interest regarding voting.

Mr. Gregory Francoeur, the Chief Compliance Officer of NS Advisors, oversees the process by which it votes proxies. NS Advisors' proxy voting policy is available upon request. An Investor may obtain the proxy voting policy or a record of the proxy voting for such Investor by contacting Mr. Francoeur at 203-227-9898.

#### **ITEM 18: FINANCIAL INFORMATION**

NS Advisors does not require or solicit prepayment of fees by clients six or more months in advance and is therefore not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.