

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**November 7, 2014**

**Gratia Capital, LLC**  
**2029 Century Park East, Suite 1180**  
**Los Angeles, CA 90067**  
**Phone: 310-733-2500**  
**Fax: 310-843-9414**

**This Brochure provides information about the qualifications and business practices of Gratia Capital, LLC (“Gratia”). If you have any questions about the contents of this Brochure, please contact us at 310-733-2500. 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.**

**Gratia is registered as an investment adviser with the U.S. Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

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

## **ITEM 2 – MATERIAL CHANGES**

This Brochure dated November 7, 2014 has been updated to reflect the fact that Gratia has entered into soft dollar arrangements with certain parties. This item reflects the material changes since the last version of the Brochure dated March 26, 2014.

## ITEM 3 – TABLE OF CONTENTS

| <b><u>Item</u></b>   | <b><u>Page</u></b> |
|--|--------------------|
| ITEM 2 – MATERIAL CHANGES .....  | i                  |
| ITEM 3 – TABLE OF CONTENTS .....   | ii                 |
| ITEM 4 – ADVISORY BUSINESS .....   | 1                  |
| ITEM 5 – FEES AND COMPENSATION.....  | 4                  |
| ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....  | 7                  |
| ITEM 7 – TYPES OF CLIENTS .....  | 8                  |
| ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....                               | 9                  |
| ITEM 9 – DISCIPLINARY INFORMATION .....  | 16                 |
| ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....                                     | 17                 |
| ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS<br>AND PERSONAL TRADING ..... | 18                 |
| ITEM 12 – BROKERAGE PRACTICES .....  | 21                 |
| ITEM 13 – REVIEW OF ACCOUNTS.....  | 25                 |
| ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION .....  | 25                 |
| ITEM 15 – CUSTODY .....  | 26                 |
| ITEM 16 – INVESTMENT DISCRETION.....   | 27                 |
| ITEM 17 – VOTING CLIENT SECURITIES.....  | 28                 |
| ITEM 18 – FINANCIAL INFORMATION .....  | 30                 |

## ITEM 4 – ADVISORY BUSINESS

|                 |   |
|-----------------|---|
| <b>Item 4.A</b> | <p>Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).</p> <p>Gratia Capital, LLC (“Gratia”) is a Delaware limited liability company that began operations in April 2012. Gratia is a multi-strategy, value and event-oriented asset management firm based in Los Angeles, California. Steve Pei is the managing member and principal owner of Gratia.</p> <p>Gratia provides discretionary investment management services to its clients (the “Advisory Clients”), which include the following private investment funds (each a “Fund” and collectively, the “Funds”):</p> <ul style="list-style-type: none"> <li>(i) Gratia Capital Partners Master Fund Ltd., a Cayman Islands exempted company (the “Master Fund”);</li> <li>(ii) Gratia Capital Partners, LP, a Delaware limited partnership (the “U.S. Feeder”) that acts as a feeder fund for the Master Fund; and</li> <li>(iii) Gratia Capital Partners, Ltd., a Cayman Islands exempted company (the “Offshore Feeder”), that also acts as a feeder fund for the Master Fund;</li> </ul> <p>The U.S. Feeder and the Offshore Feeder (the “Feeder Funds”) invest all or substantially all of their assets in, and conduct their investment activities through, the Master Fund.</p> <p>Gratia serves as the investment manager to the Funds. An affiliate of Gratia (the “Affiliated GP”), serves as the general partner of the U.S. Feeder. The Affiliated GP and its employees and personnel will be subject to the Investment Advisers Act of 1940 (the “Advisers Act”) and the rules thereunder and to all of Gratia’s compliance policies and procedures. As such, references to Gratia in this Brochure should also be considered references to the Affiliated GP in the appropriate context.</p> <p>In addition, Gratia provides discretionary investment management services for a sub-advisory account of R-2 Investments, LDC, a private investment vehicle principally managed by an external investment adviser (the “Sub-Advisory Account”); Gratia is a sub-adviser to the Sub-Advisory Account. The Sub-Advisory Account has an identical strategy as the Master Fund and invests side-by-side with the Master Fund. The term “Advisory Clients” is used throughout this Brochure to refer collectively to the Funds and the Sub-Advisory Account.</p> <p>Each Feeder Fund is governed by a limited partnership agreement, articles of association, or similar document (as applicable) that sets forth the specific guidelines and restrictions applicable to each Fund (the “Governing Documents”). In addition, investors in each Feeder Fund are provided with offering documents prior to their investment, which also contain information regarding the intended investment program for such Fund.</p> |
|-----------------|---|

|                        |  |
|------------------------|--|
| <p><b>Item 4.B</b></p> | <p>Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.</p> <p>Gratia generally has broad and flexible investment authority with respect to the investment portfolios that it manages for Advisory Clients. Gratia seeks to achieve strong, risk-adjusted returns for its Advisory Clients primarily through long and short investments in securities. Gratia will attempt to achieve this objective by investing across the capital structure, with a focus on equities and corporate credit; other investable securities include but are not limited to preferred equity, options and credit-default swaps. Gratia will seek to achieve its objectives through thoughtful, fundamental research of single name investments (long and short). Please refer to Item 8 of this Brochure for additional information regarding the investment strategies pursued by Gratia and their associated risks.</p> <p>The above description is merely a summary and you should not assume that any descriptions of the specific activities in which the Funds may engage are intended in any way to limit the types of investment activities which the Funds may undertake or the allocation of Funds capital among such investments. Gratia and its affiliates reserve the right to alter any of the Funds' investment policies or strategies as deemed appropriate from time to time in its discretion without obtaining investor approval.</p> <p><b>It is critical that investors refer to the relevant Fund's confidential private offering memorandum, explanatory memorandum and other Governing Documents for a complete understanding of Gratia's advisory services. The information contained herein is a summary only and is qualified in its entirety by such documents.</b></p> |
| <p><b>Item 4.C</b></p> | <p>Explain whether (and, if so, how) you tailor your advisory services to the individual needs of <i>clients</i>. Explain whether <i>clients</i> may impose restrictions on investing in certain securities or types of securities.</p> <p>Gratia neither tailors its advisory services to the individual needs of investors in the Funds, nor accepts investor-imposed investment restrictions.</p> <p>Gratia (or its affiliates) may from time to time enter into agreements with certain investors, that may in each case provide for terms of investment that are more favorable to the terms described in the respective Fund's governing documents. Such terms may include, without limitation, the waiver, reduction or rebate of fees, the provision of additional information or reports, more favorable transfer rights and more favorable liquidity rights, including additional permitted dates for withdrawals/redemptions and the waiver or reduction of notice periods. Gratia (or its affiliates) may also offer additional Series of interests that are subject to different fee, reporting or liquidity terms.</p> <p>Each of the Feeder Funds has issued multiple series of interests or shares (as applicable): Series A and Founders Series. Investors that subscribed for Founders Series interests or shares of the Feeder Funds are subject to different fee and liquidity terms, as described in Item 5 below, but are otherwise subject to the</p>   |

|                 |   |
|-----------------|---|
|                 | <p>same terms as investors holding Series A interests or shares. The Feeder Funds may in the future offer additional series of interests or shares (as applicable) that may subject the holders of such interests or shares to different fee, liquidity or other terms than those applicable to other series. Please refer to the respective Feeder Funds' Governing Documents for additional information.</p>  |
| <b>Item 4.D</b> | <p>If you participate in <i>wrap fee programs</i> by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.</p> <p>Gratia does not participate in wrap fee programs.</p>  |
| <b>Item 4.E</b> | <p>If you manage <i>client</i> assets, disclose the amount of <i>client</i> assets you manage on a <i>discretionary basis</i> and the amount of <i>client</i> assets you manage on a <i>non-discretionary basis</i>. Disclose the date "as of" which you calculated the amounts.</p> <p>As of December 31, 2013 Gratia manages approximately \$521,000,000 of client assets on a discretionary basis. Gratia does not manage any assets on a non-discretionary basis.</p> |

## ITEM 5 – FEES AND COMPENSATION

|                 |  |
|-----------------|--|
| <b>Item 5.A</b> | <p>Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.</p> <p><u>Management Fee</u></p> <p>Gratia is generally compensated for its advisory services through an investment management fee (the “Management Fee”) based on a percentage (generally 1.5% - 2.0%) of assets under management. The Management Fee will be paid quarterly in advance, based on the value of the net assets of the Fund as of the first business day of each calendar quarter. Since the Management Fee will be paid at the Master Fund level, no management fee will be paid at the Feeder Fund level. The Management Fee will be prorated for any period that is less than a full quarter and will be deducted in calculating the net profit or net loss of the Funds.</p> <p><u>Incentive Allocation</u></p> <p>In addition, consistent with the relevant provisions of the Advisers Act and Rule 205-3 adopted thereunder, at the end of each fiscal year, the Affiliated GP, as the holder of certain allocation class shares in the Master Fund, is entitled to receive at the Master Fund level an annual incentive allocation based on a percentage (generally 15% - 20%) of the net profits (including both realized and unrealized gains and losses), if any, attributable to each investor (the “Incentive Allocation”). The Incentive Allocation is subject to loss carryforward provision such that no allocation will be made with respect to an investor until any net loss allocated to such investor during the period is first recovered (taking into account interim withdrawals and distributions).</p> <p>When calculating the Incentive Allocation at the Master Fund level, net profits will be reduced by the Management Fee, and all items of income, loss and expense incurred at the Feeder Fund level will be taken into account. Since the Affiliated GP will receive the Incentive Allocation at the Master Fund level, no incentive fee or allocation will be paid or made at the Feeder Fund level.</p> <p>Please note that the fees for the Sub-Advisory Account were individually negotiated and may be substantially different from those applicable to the Funds, as described above.</p> <p>Fees may be negotiable for certain investors under certain circumstances. In addition, the Management Fee and/or Incentive Allocation may be waived or reduced for investors that are members, employees or affiliates of Gratia, relatives of such persons, and for certain strategic investors.</p> <p><b>It is critical that investors refer to the relevant Fund’s confidential private offering memorandum, explanatory memorandum and other Governing Documents for a complete understanding of how Gratia is compensated for its advisory services. The information contained herein is a summary only and is qualified in its entirety by such documents.</b></p> |
|-----------------|--|

|                        |  |
|------------------------|--|
| <p><b>Item 5.B</b></p> | <p>Describe whether you deduct fees from <i>clients'</i> assets or bill <i>clients</i> for fees incurred. If <i>clients</i> may select either method, disclose this fact. Explain how often you bill <i>clients</i> or deduct your fees.</p> <p>Fees are deducted from each Fund's assets. Investors do not have the ability to choose to be billed directly for fees incurred. The Management Fee is generally payable quarterly in advance and will be prorated in the event of a contribution or withdrawal during the quarter. The Incentive Allocation is calculated and charged at the end of each fiscal year (or at the time of an investor withdrawal or redemption).</p> <p><b>It is critical that investors refer to the relevant confidential private placement memorandum, explanatory memorandum and other governing documents for a complete understanding of how fees are deducted from their assets. The information contained herein is a summary only and is qualified in its entirety by such documents.</b></p>   |
| <p><b>Item 5.C</b></p> | <p>Describe any other types of fees or expenses <i>clients</i> may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that <i>clients</i> will incur brokerage and other transaction costs, and direct <i>clients</i> to the section(s) of your <i>brochure</i> that discuss brokerage.</p> <p>Gratia will render its services to the Funds at its own expense and will be responsible for its overhead expenses including: office rent; utilities; furniture and fixtures; stationery; secretarial/internal administrative services; salaries and bonuses; entertainment expenses; employee insurance and payroll taxes.</p> <p>Subject to certain limitations and expense cap policies described in the Governing Documents, all other expenses will be paid by the Feeder Funds (or by the Master Fund and allocated to the Feeder Funds) and will include: (i) legal, compliance, administrator, audit and accounting expenses (including third party accounting services); (ii) risk management expenses; (iii) Fund-related insurance costs (including D&amp;O and E&amp;O insurance for Gratia and the Affiliated GP and outside directorship liability); (iv) research fees and expenses (including research-related travel); (v) the Management Fee; (vi) investment expenses such as commissions, interest on margin accounts and other indebtedness; (vii) borrowing charges on securities sold short; (viii) custodial fees; (ix) bank service fees; and (x) any other expenses related to the purchase, sale or transmittal of Fund assets.</p> <p>The Master Fund will bear transaction fees and costs in connection with its investments and trading. The U.S. Feeder and the Offshore Feeder will each generally bear its pro rata share of these costs and expenses. To the extent investment activities occur at the Feeder Fund level, each Feeder Fund will bear its pro rata share of such costs and expenses.</p> <p><b>It is critical that investors refer to the relevant confidential private offering memorandum, explanatory memorandum and other governing documents for a complete understanding of expenses. The information contained herein is a summary only and is qualified in its entirety by such documents.</b></p> |



|                   |   |
|-------------------|---|
| <b>Item 5.D</b>   | <p>If your <i>clients</i> either may or must pay your fees in advance, disclose this fact. Explain how a <i>client</i> may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.</p> <p>As described in Item 5.A., the Management Fee is paid quarterly in advance, adjusted for any contributions made during the quarterly. In the limited circumstances when a withdrawal is made as of a date other than the end of a calendar quarter, the Management Fee will be appropriately <i>prorated</i> and the excess returned to the investor.</p> <p>With respect to terminating the advisory relationship, investors generally may withdraw/redeem all or a portion of its capital account on a quarterly basis, subject to certain limitations, including but not limited to: required notice periods (generally 45 days' prior written notice), suspensions of withdrawal/redemptions, retentions of reserves, delays in payment and/or distributions in kind.</p> <p><b>It is critical that investors refer to the relevant confidential private offering memorandum, explanatory memorandum and other governing documents for a complete understanding of their withdrawal/redemption rights and when fees are charged. The information contained herein is a summary only and is qualified in its entirety by such documents.</b></p> |
| <b>Item 5.E</b>   | <p>If you or any of your <i>supervised persons</i> accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.</p> <p>Not applicable.</p>   |
| <b>Item 5.E.1</b> | <p>Explain that this practice presents a conflict of interest and gives you or your <i>supervised persons</i> an incentive to recommend investment products based on the compensation received, rather than on a <i>client's</i> needs. Describe generally how you address conflicts that arise, including your procedures for disclosing the conflicts to <i>clients</i>. If you primarily recommend mutual funds, disclose whether you will recommend "no-load" funds.</p> <p>Not applicable.</p>   |
| <b>Item 5.E.2</b> | <p>Explain that <i>clients</i> have the option to purchase investment products that you recommend through other brokers or agents that are not affiliated with you.</p> <p>Not applicable.</p>  |
| <b>Item 5.E.3</b> | <p>If more than 50% of your revenue from advisory <i>clients</i> results from commissions and other compensation for the sale of investment products you recommend to your <i>clients</i>, including asset-based distribution fees from the sale of mutual funds, disclose that commissions provide your primary or, if applicable, your exclusive compensation.</p> <p>Not applicable.</p>   |
| <b>Item 5.E.4</b> | <p>If you charge advisory fees in addition to commissions or markups, disclose whether you reduce your advisory fees to offset the commissions or markups.</p> <p>Not applicable.</p>   |

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

If you or any of your *supervised persons* accepts *performance-based fees* – that is, fees based on a share of capital gains on or capital appreciation of the assets of a *client* (such as a *client* that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your *supervised persons* manage both accounts that are charged a *performance-based fee* and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your *supervised persons* face by managing these accounts at the same time, including that you or your *supervised persons* have an incentive to favor accounts for which you or your *supervised persons* receive a *performance-based fee*, and describe generally how you address these conflicts.

As described in Item 5 above, the Affiliated General Partner is entitled to receive performance-based compensation from investors in the Funds in the form of an Incentive Allocation at the Master Fund level.

The fact that affiliates of Gratia could receive performance-based compensation creates a potential conflict of interest in that it may create an incentive for Gratia to effect transactions in investments that are riskier or more speculative than would be the case if compensation were based solely on a flat percentage of capital. In addition, the terms of the Incentive Allocation were not the product of an arm's length negotiation with any third party. The Incentive Allocation is generally calculated on a basis that includes unrealized appreciation of the Funds' assets; such compensation may be greater than if it were based solely on realized gains.

Gratia presently provides investment management services only to Advisory Clients that are subject to a performance-based fee or allocation arrangement. As such, the conflict of interest related to managing accounts that charge performance-based fees alongside accounts that do not charge performance-based fees does not apply to Gratia.

Gratia recognizes that it is a fiduciary and as such must act in the best interests of its clients. Further, Gratia recognizes that it must treat all clients fairly and must refrain from favoring one client's interests over another's. Gratia regularly assesses the allocation of its resources, including investment personnel, to ensure adherence to its fiduciary duties.

## ITEM 7 – TYPES OF CLIENTS

Describe the types of *clients* to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.

Gratia provides investment advisory services solely to pooled investment vehicles operating as private investment funds. Each investor in the Gratia Funds must meet certain eligibility provisions.

Interests in the U.S. Feeder will generally be offered and sold only to sophisticated investors that are (i) “accredited investors” within the meaning of Rule 501 of Regulation D of the Securities Act of 1933, as amended (the “Securities Act”), and (ii) “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). Shares in the Offshore Feeder will generally be offered only to persons who are neither citizens nor residents of the United States and to a limited number of U.S. investors, consisting of qualified pension, profit sharing and other retirement trusts, charities and other tax-exempt entities. Admission to the Funds is not open to the general public.

The minimum initial investment amount is \$1,000,000. Gratia or its affiliates may, in their sole discretion, accept lesser amounts.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

|                 |   |
|-----------------|---|
| <b>Item 8.A</b> | <p>Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that <i>clients</i> should be prepared to bear.</p> <p><u>Methods of Analysis</u></p> <p>Gratia’s investment philosophy centers on single-name fundamental value and event-oriented investing. Gratia invests across the corporate capital structure and focuses its investments primarily in the consumer, industrials, and real estate sectors, defined broadly. Gratia’s investment process is driven by a disciplined yet flexible approach to idea generation, research/analysis, portfolio construction, and risk management. Gratia utilizes various methods of analysis in formulating its investment management decisions.</p> <p>Gratia adopts a fundamental approach to idea generation, focused on due diligence of individual companies. Internal sources of idea generation include: equity and credit screens, ongoing top-down idea generation based on themes, bottom-up tracking of relative and fundamental value in core names that are followed by the team, opportunities in one part of the capital structure driven by events in another part of the capital structure (either same company or in peers), and active hedges to existing positions. External resources include: news flow, buy- and sell-side research, conferences, management meetings, sector-specific publications, and industry forums.</p> <p>Gratia makes use of all publically available information when researching investments. Gratia may also utilize Bloomberg, trade publications, published research, industry consultants, newspapers, SEC filings, company presentation materials, capital market professionals, suppliers and customers, and broadcast news and internet services. Gratia also makes use of relevant sell-side research provided by broker-dealers, including macro, sector, and company-specific research covering both equities and credit.</p> <p><u>Investment Strategies</u></p> <p>The investment strategies are set forth in the respective offering materials and governing documents that are provided to investors. Gratia will be highly flexible in its ability to select and dispose of investments in response to market opportunities and other circumstances.</p> <p>Gratia generally pursues a value and event-oriented strategy, focusing on both individual and thematic investment opportunities (long and short) in three core sectors: consumer &amp; services, industrials, and real estate. Gratia will also assess relative value between equity and credit opportunities on a company-specific, sub-sector specific (among peer groups), and macro level to identify strong, risk-adjusted investments. Gratia intends to invest opportunistically across the capital structure and may at times employ equity positions as a hedge to credit positions, or vice versa.</p> |
|-----------------|---|

|                 |   |
|-----------------|---|
|                 | <p>In general, long position opportunities will be value or event-oriented in nature. This means that Gratia believes that such investment opportunities exhibit compelling characteristics that, in Gratia's opinion, will lead to mark-to-market price appreciation and/or capital return (dividends, interest, etc.). Generally, Gratia expects to take long positions in companies that are perceived to have stable prospects and attractive, growing free cash flow yields and good valuation multiples. Gratia will prefer shorts in businesses that are perceived to have weak or declining business prospects, or business prospects dwarfed by peers, with respect to which Gratia has taken a long position. Gratia may make investments outside of these general criteria depending on valuation and other factors.</p> <p>Investments will primarily be focused in the United States although Gratia will opportunistically invest in other developed markets. In non-U.S. markets, Gratia will primarily trade equities, and to a limited extent, corporate credit. Most common non-U.S. markets that Gratia expects to trade in include: Canada, Australia, United Kingdom, France, and Germany. In normal market conditions, Gratia targets equity-like returns and, very broadly speaking, will likely hold more gross equity exposure than gross credit exposure. However, as Gratia seeks to be opportunistic in its weighting of equity versus credit, the proportions could change. In addition, Gratia may borrow money to purchase securities on margin.</p> <p>Gratia has broad and flexible investment authority with respect to the investments made by the Funds. The Funds may pursue other strategies or engage in other activities than those described herein.</p> <p>Please note that an investment in the Funds is deemed highly speculative and is not intended as a complete investment program. Investing in the securities markets in general and in the Funds advised by Gratia in particular involves significant risk. Investments in the Funds are designed only for experienced and sophisticated persons who are able to bear the economic risk of the loss of their investment and who have a limited need for liquidity.</p> <p><b>It is critical that investors refer to the relevant confidential private offering memorandum, explanatory memorandum and other governing documents for a complete understanding of Gratia's investment strategies and methods of analysis. The information contained in this Item 8 is a summary only and is qualified in its entirety by such documents.</b></p> |
| <b>Item 8.B</b> | <p>For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.</p> <p>All investing and trading activities risk the loss of capital. While Gratia attempts to moderate these risks, there can be no assurance that the Funds will be able to invest fully on attractive terms or that the Funds will not suffer losses. The following discussion sets forth some of the more significant risks associated with the investment strategies pursued by Gratia.</p> <p><b><i>Nature of Investments.</i></b> Gratia has broad discretion in making investments for its Advisory Clients. Investments will generally consist of equity securities, equity-</p>   |

|  |  |
|--|--|
|  | <p>related instruments and other assets and financial instruments that may be affected by business, financial market or legal uncertainties. There can be no assurance that Gratia will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Funds' activities and the value of investments. In addition, the value of the portfolio may fluctuate as the general level of interest rates fluctuates.</p> <p><b><i>Concentration in Consumer &amp; Services, Industrials, and Real Estate Sectors.</i></b> Because Gratia will focus its investment in securities of U.S. companies in the consumer &amp; services, industrial and real estate sectors, the value of the portfolio may rise and fall more than the value of a similar investment vehicle that invests more broadly. The value of equity securities in these sectors is also affected by changing commodity prices, which can be highly volatile and are subject to risks of oversupply and reduced demand. Accordingly, the investment portfolio may be subject to more rapid change in value than would be the case if it were required to maintain a wide diversification among industries, types of securities and issuers.</p> <p><b><i>Use of Leverage.</i></b> As noted above, the Funds may utilize leverage. Leverage increases returns if the Fund earns a greater return on investments purchased with borrowed funds than the Fund's cost of borrowing such funds. However, the use of leverage exposes the Fund to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses. In an unsettled credit environment, Gratia may find it difficult or impossible to obtain leverage for the Fund. In such event, the Fund could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in Gratia being forced to unwind the Fund's positions quickly and at prices below what Gratia deems to be fair value for such positions.</p> <p><b><i>Portfolio Turnover.</i></b> The investment strategy pursued by Gratia may require it to actively trade Advisory Client portfolios, and as a result, turnover and brokerage commission expenses may significantly exceed those of other investment entities of comparable size.</p> <p><b><i>Lack of Diversification.</i></b> Gratia will invest primarily in securities of U.S. companies in consumer, retail, industrial and real estate sectors, and is not required to diversify Advisory Client holdings among a wide range of issuers, industries, geographic areas or types of securities. Therefore, the investment portfolio of Advisory Clients may be subject to more rapid change in value than would be the case if Gratia were required to maintain a wide diversification among issuers, industries, investment areas, types of securities and issuers.</p> |
|--|--|

|                        |  |
|------------------------|--|
| <p><b>Item 8.C</b></p> | <p>If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.</p> <p><i><b>Equity Related Instruments and Equity Securities in General.</b></i> Investments in equity securities may include a broad variety of issuers and instruments. There will be no overall requirements with respect to earnings, revenues, market capitalization or other criteria to limit Gratia's particular types of equity investments. Accordingly, equity investments may include many securities which are speculative or are of higher risk than those of the most mature or prominent companies. Long/short strategies and other strategies that may be employed, such as pairs trading, depend largely upon identifying securities with appropriate features of negative correlation, i.e., that a loss in one position (whether long or short) will be more than outweighed by a gain in a related position. Similar to various types of arbitrage, if the anticipated pattern of price correlation does not in fact occur, or if the positions are not appropriately weighted, losses may occur. Gratia may use equity-related instruments in its investment program. Certain options and other equity-related instruments may be subject to various types of risks, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, equity-related instruments can involve significant economic leverage and may, in some cases, involve significant risks of loss.</p> <p><i><b>Short Sales.</b></i> Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase. There is also the risk that the securities borrowed in connection with a short sale must be returned to the securities lender on short notice. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and Gratia may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. The inability to continue to borrow securities previously sold short may also force Gratia to unwind other elements of an investment position, possibly at a loss. From time to time regulatory or legislative action taken by regulators around the world may restrict the ability of Gratia to enter into short sales.</p> <p><i><b>Debt Securities.</b></i> Gratia may take positions in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. Gratia may take positions in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Advisory Clients will therefore be subject to credit and liquidity risks.</p> <p><i><b>Investing in High-Yield Debt Securities and Lower Rated Loans.</b></i> Gratia may invest in "high yield" bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally</p> |
|------------------------|--|

|  |   |
|--|---|
|  | <p>considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.</p> <p><b><i>Investing in Mezzanine Debt Securities.</i></b> Mezzanine debt securities are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Mezzanine debt securities are typically issued in traditional private placements or in connection with acquisitions and other business combinations and have no trading market. Moreover, mezzanine debt securities are generally unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high-yield debt securities. Adverse changes in the financial condition of the obligor of mezzanine debt securities or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Issuers of mezzanine debt securities may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.</p> <p><b><i>Warrants.</i></b> Warrants are derivative instruments that permit, but do not obligate, the holder to subscribe for other securities. Warrants do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants may be considered more speculative than certain other types of investments. In addition, the value of a warrant does not necessarily change with the value of the underlying securities or commodities, and a warrant ceases to have value if it is not exercised prior to its expiration date.</p> <p><b><i>Special Situations and Distressed Securities.</i></b> Gratia may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss of the entire investment in such companies.</p> <p><b><i>Convertible Securities.</i></b> Gratia may invest in convertible securities, securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period.</p> |
|--|---|



|  |  |
|--|--|
|  | <p>Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatories, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase and conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.</p> <p><b><i>Interest Rate Risk.</i></b> Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Investment Manager may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Investment Manager will be successful in fully mitigating the impact of interest rate changes.</p> <p><b><i>Non-U.S. Securities.</i></b> Investing in securities of non-U.S. governments and companies that are generally denominated in non-U.S. currencies and 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, foreign government restrictions, 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.</p> <p><b><i>Currency Risks.</i></b> Investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment, capital appreciation and political developments. The General Partner may try to hedge these risks, but there can be no assurance that it will implement a hedging strategy, or if it implements one, that it will be effective.</p> <p><b><i>Derivatives and Counterparty Risk.</i></b> To the extent that Gratia invests in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, there may be a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.</p> |
|--|--|

***Credit Default Swap Agreements.*** The "buyer" in a credit default contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the "par value" (full notional value) of the reference obligation. The contingent payment may be a cash settlement or by physical delivery of the reference obligation in return for payment of the face amount of the obligation. If no credit event occurs, the buyer may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. The seller receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligations. Credit default swaps involve greater risks than an investment in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value.

***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 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.

**It is critical that investors refer to the relevant confidential private offering memorandum, explanatory memorandum and other governing documents for a complete understanding of the material risks involved in relation to the types of securities that Gratia invests in on behalf of the Funds. The information contained herein is a summary only and is qualified in its entirety by such documents.**

## ITEM 9 – DISCIPLINARY INFORMATION

If there are legal or disciplinary events that are material to a *client's* or prospective *client's* evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.

Gratia is required to disclose all material facts regarding any legal or disciplinary events that would be material to an investor's evaluation of Gratia or the integrity of its management. Gratia has no legal or disciplinary information to disclose at this time.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

|                  |  |
|------------------|--|
| <b>Item 10.A</b> | <p>If you or any of your <i>management persons</i> are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.</p> <p>Not applicable. Neither Gratia nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.</p>   |
| <b>Item 10.B</b> | <p>If you or any of your <i>management persons</i> are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.</p> <p>Not applicable. Neither Gratia nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of such entities.</p>  |
| <b>Item 10.C</b> | <p>Describe any relationship or arrangement that is material to your advisory business or to your <i>clients</i> that you or any of your <i>management persons</i> have with any <i>related person</i> listed below. Identify the <i>related person</i> and if the relationship or arrangement creates a material conflict of interest with <i>clients</i>, describe the nature of the conflict and how you address it.</p> <ol style="list-style-type: none"> <li>1. broker-dealer, municipal securities dealer, or government securities dealer or broker</li> <li>2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)</li> <li>3. other investment adviser or financial planner</li> <li>4. futures commission merchant, commodity pool operator, or commodity trading advisor</li> <li>5. banking or thrift institution</li> <li>6. accountant or accounting firm</li> <li>7. lawyer or law firm</li> <li>8. insurance company or agency</li> <li>9. pension consultant</li> <li>10. real estate broker or dealer</li> <li>11. sponsor or syndicator of limited partnerships</li> </ol> <p>Gratia serves as the investment manager to the Funds. Gratia, its employees, affiliates or their related persons may also invest directly in some or all of the Funds. An affiliate of Gratia serves as the general partner of the U.S. Feeder.</p> |
| <b>Item 10.D</b> | <p>If you recommend or select other investment advisers for your <i>clients</i> and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.</p> <p>Not applicable.</p>   |

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

|                  |   |
|------------------|---|
| <b>Item 11.A</b> | <p>If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any client or prospective client upon request.</p> <p>Gratia has adopted a Code of Ethics (the “Code”), which is a part of Gratia’s compliance manual and has been designed to comply with Rule 204A-1 of the Advisers Act. The Code applies to Gratia’s “Access Persons.” Access Persons include, generally, any partner, officer or director of Gratia and any employee or other supervised person of Gratia who, in relation to the Funds, (1) has access to non-public information regarding any purchase or sale of securities, or non-public information regarding securities holdings or (2) is involved in making securities recommendations, executing securities recommendations, or has access to such recommendations that are non-public. All of Gratia’s employees are deemed to be Access Persons.</p> <p>The Code sets forth a standard of business conduct that takes into account Gratia’s status as a fiduciary and requires Access Persons to place the interests of Advisory Clients and investors above their own interests. The Code is designed to: (i) establish guidelines for professional conduct and personal trading procedures; (ii) prevent improper personal trading by Gratia’s Access Persons; (iii) prevent improper use of material, non-public information about securities recommendations made by Gratia or securities holdings of the Funds; (iv) identify conflicts of interest; and (v) provide a means to resolve any actual or potential conflict in favor of the Funds and their investors.</p> <p>The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of Gratia’s Chief Compliance Officer. All Access Persons are provided with a copy of the Code and are required to acknowledge receipt of the Code on at least an annual basis.</p> <p>The Code also sets forth certain reporting and pre-clearance requirements with respect to personal trading by Access Persons. It should be noted that Access Persons are generally prohibited from purchasing single name public securities (“Stocks”). In addition Access Persons must divest all holdings in Stocks within ninety (90) days of becoming an Access Person (subject to certain exceptions in the Code of Ethics, including an exception for Stocks held in a “blind account”, an account managed entirely by a third-party money manager pursuant to a written agreement) Access Persons must provide the Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an Access Person. In addition, Access Persons must provide annual holdings reports and quarterly transaction reports in accordance with Advisers Act Rule 204A-1.</p> <p>Investors or prospective investors may obtain a copy of Gratia’s Code of Ethics by contacting the Chief Compliance Officer at 310-733-2500.</p> |
|------------------|---|

|                         |   |
|-------------------------|---|
| <p><b>Item 11.B</b></p> | <p>If you or a <i>related person</i> recommends to <i>clients</i>, or buys or sells for <i>client</i> accounts, securities in which you or a <i>related person</i> has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.</p> <p>As explained in Item 10.C above, Gratia serves as the investment adviser to the Funds. Gratia, its employees, affiliates or their related persons may also invest directly in any one, some or all of the Funds. An affiliate of Gratia serves as the general partner of certain of the Funds.</p> <p>The fact that Gratia, its employees, affiliates or their related persons have a financial ownership interest in the Funds creates a potential conflict in that it could cause Gratia to make different investment decisions than if they did not have such a financial ownership interest. Further, Gratia charges fees based on a percentage of assets under management. Such asset-based fee is payable without regard to the overall success or income earned by the Advisory Clients and therefore may create an incentive on the part of Gratia to raise or otherwise increase assets under management to a higher level than would be the case if Gratia were receiving a lower or no management fee. The receipt of performance-based compensation by the Affiliated General Partner may create an incentive for Gratia to make investments that are riskier or more speculative than would be case in the absence of a performance-based fee structure.</p> <p>Such potential conflicts are discussed in Item 6 and addressed by the personal securities transaction pre-clearance and reporting requirements described in Item 11.A. and 11.C.</p>                 |
| <p><b>Item 11.C</b></p> | <p>If you or a <i>related person</i> invests in the same securities (or related securities, <i>e.g.</i>, warrants, options or futures) that you or a <i>related person</i> recommends to <i>clients</i>, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.</p> <p>Gratia and its Access Persons are strictly prohibited from investing in the same securities that Gratia recommends to the Funds. Further, as noted above in Item 11.A, Access Persons are generally not permitted to engage in transactions in Stocks, with limited exceptions.</p> <p>Access Persons are subject to preclearance requirements with respect to certain transactions in personal accounts. Access Persons must obtain the prior written approval of the Chief Compliance Officer before engaging in any direct or indirect purchase or sale of beneficial ownership in a security in a limited offering or initial public offering.</p> <p>Gratia maintains a “Restricted List” of companies about which a determination has been made that it is prudent to restrict trading activity. Securities included on the Restricted List may include securities held by or being considered for purchase or sale on behalf of an Advisory Client or securities of a company about which investment personnel may have acquired material nonpublic information or a position where Gratia may have a securities filing obligation. In general, transactions in the securities of a company appearing on the Restricted List (whether on behalf of Advisory Clients or in personal accounts of Access Persons) will not be allowed except with the prior written approval of Gratia’s Chief Compliance Officer or his designee.</p> |

|                         |   |
|-------------------------|---|
| <p><b>Item 11.D</b></p> | <p>If you or a <i>related person</i> recommends securities to <i>clients</i>, or buys or sells securities for <i>client</i> accounts, at or about the same time that you or a <i>related person</i> buys or sells the same securities for your own (or the <i>related person's</i> own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.</p> <p>Gratia and its related persons conduct investment activities for their own accounts and may serve as investment advisers or investment managers to other clients in the future. Such other activities or accounts may have investment objectives or may implement investment strategies similar to those of the Advisory Clients. Gratia and its principal owners have a significant investment in certain Gratia Funds and may have investments in certain other entities managed by Gratia or its affiliates from time to time.</p> <p>In addition, Gratia may, at some point in the future, provide discretionary investment advisory services to additional accounts. The trades made by any other funds or accounts managed by Gratia or its affiliates in the future, may compete with trades for the Advisory Clients' portfolios. Gratia will generally determine the allocation of assets pro rata based on assets under management or in some other manner which Gratia determines is fair and equitable under the circumstances.</p> <p>Please see Item 11.C above for a description of how Gratia manages the personal trading aspect of this conflict via its Code of Ethics.</p> |
|-------------------------|---|

## ITEM 12 – BROKERAGE PRACTICES

|                           |  |
|---------------------------|--|
| <p><b>Item 12.A</b></p>   | <p>Describe the factors that you consider in selecting or recommending broker-dealers for <i>client</i> transactions and determining the reasonableness of their compensation (e.g., commissions).</p> <p>When performing investment management services for the Funds, Gratia has full discretion to place buy and sell orders with or through such brokers or dealers as it may deem appropriate. It is the policy and practice of Gratia to strive for the best price and execution that are competitive in relation to the value of the transaction (“best execution”). In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer’s services.</p> <p>Gratia will place trades for execution only with approved brokers or dealers. In selecting a broker, dealer or other intermediary, Gratia will consider such factors that in good faith and judgment it deems reasonable under the circumstances. Some of the factors Gratia considers in selecting a broker or dealer include without limitation: (i) price, (ii) the broker-dealer’s facilities, reliability and financial responsibility, (iii) the ability of the broker-dealer to effect securities transactions, particularly with regard to such aspects as timing, order size and execution of orders and (iv) the research, brokerage and other services provided by such broker-dealer.</p>   |
| <p><b>Item 12.A.1</b></p> | <p><u>Research and Other Soft Dollar Benefits.</u> If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”), disclose your practices and discuss the conflicts of interest they create.</p> <ol style="list-style-type: none"> <li>a. Explain that when you use <i>client</i> brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.</li> <li>b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your <i>clients’</i> interest in receiving most favorable execution.</li> <li>c. If you may cause <i>clients</i> to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.</li> <li>d. Disclose whether you use soft dollar benefits to service all of your <i>clients’</i> accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to <i>client</i> accounts proportionately to the soft dollar credits the accounts generate.</li> <li>e. Describe the types of products and services you or any of your <i>related persons</i> acquired with <i>client</i> brokerage commissions (or markups or markdowns) within your last fiscal year.</li> <li>f. Explain the procedures you used during your last fiscal year to direct <i>client</i> transactions to a particular broker-dealer in return for soft dollar benefits you received.</li> </ol> <p>In selecting brokers or dealers to execute transactions, Gratia need not solicit competitive bids and does not have an obligation to seek the lowest available</p> |



|                    |  |
|--------------------|--|
|                    | <p>commission cost. Gratia may select a broker-dealer in recognition of the value of various services or products, beyond transaction execution, that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. The amount of compensation paid to such broker-dealer may be higher than what another, equally capable broker-dealer might charge. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.”</p> <p>Gratia currently has soft dollar arrangements in place. Although customary, these arrangements present potential conflicts of interest in allocating securities transactional business to broker-dealers in exchange for soft dollar benefits, including an incentive to select a broker-dealer based on Gratia’s interest in receiving research or other products or services, rather than on the Funds’ interest in receiving the most favorable execution.</p> <p>Pursuant to Section 28(e) of the Securities Exchange Act of 1934, as amended, Gratia may use soft dollars to acquire a variety of research and brokerage services and products from a broker-dealer, provided that the commissions paid are reasonable in light of the value of the brokerage and research products or services provided, as determined by Gratia in good faith. Gratia will generally limit the use of “soft dollars” to obtain research and brokerage services which constitute eligible research and brokerage within the meaning of Section 28(e). For these purposes, eligible “brokerage” services and products are those used to effect securities transactions for the Funds or to assist in effecting those transactions. Eligible “research” means services or products used to provide lawful and appropriate assistance to Gratia in making investment decisions for the Funds. Research services may involve research reports on particular industries and companies, economic surveys, securities recommendations, and other services providing lawful assistance to Gratia in making investment decisions.</p> <p>In the event any products or services obtained by Gratia with client commissions have “mixed uses,” (<i>i.e.</i>, for research and non-research purposes), Gratia will make a good faith and reasonable allocation of the cost of the product according to its use, in accordance with the SEC’s interpretive guidance. Although Gratia will make a good faith and reasonable allocation of the eligible costs of the product or service for brokerage or research, the allocation determination itself poses a potential conflict of interest since Gratia may have an incentive to overestimate the soft dollar portion allocated to the “mixed use” product or service in order to avoid paying for such brokerage or research with hard dollars.</p> <p>Gratia has established prime brokerage arrangements on behalf of the Funds with one or more registered broker-dealers (each a “Prime Broker”). Under these arrangements, the Prime Broker, among other things, settles and clears trades, extends margin and securities loans, maintains custody of cash and securities held by the Funds, and provides detailed portfolio and related reports. Gratia and its affiliates may, in their sole discretion, change the Prime Brokers, alter the terms of the arrangements with the Prime Brokers, or make alternative arrangements to receive the services provided by the Prime Brokers. Gratia may also use additional brokers (in addition to the Prime Brokers) to execute transactions.</p> <p>Gratia periodically evaluates the execution performance of broker-dealers to ensure that the services provided are consistent with best execution.</p> |
| <b>Item 12.A.2</b> | <b>Brokerage for <i>Client Referrals</i>.</b> If you consider, in selecting or recommending  |

|                    |  |
|--------------------|--|
|                    | <p>broker-dealers, whether you or a <i>related person</i> receives <i>client</i> referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.</p> <ol style="list-style-type: none"> <li>Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving <i>client</i> referrals, rather than on your <i>clients'</i> interest in receiving most favorable execution.</li> <li>Explain the procedures you used during your last fiscal year to direct <i>client</i> transactions to a particular broker-dealer in return for <i>client</i> referrals.</li> </ol> <p>Gratia may place transactions with a broker or dealer that (i) provides Gratia 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 Gratia (or an affiliate), if otherwise consistent with seeking best execution; provided Gratia is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors.</p> <p>Because such referrals, if any, are likely to benefit Gratia and its affiliates but may provide an insignificant (if any) benefit to investors, Gratia will have a conflict of interest with the Funds when allocating brokerage business to a broker who has referred investors to the Funds. To prevent brokerage commissions from being used to pay investor referral fees, Gratia will not allocate Fund brokerage business to a referring broker unless Gratia determines in good faith that the commissions payable to such broker is consistent with seeking best execution.</p>  |
| <b>Item 12.A.3</b> | <p><u>Directed Brokerage.</u></p> <ol style="list-style-type: none"> <li>If you routinely <u>recommend, request or require</u> that a <i>client</i> direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their <i>clients</i> to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of <i>client</i> transactions, and that this practice may cost <i>clients</i> more money.</li> <li>If you <u>permit</u> a <i>client</i> to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of <i>client</i> transactions. Explain that directing brokerage may cost <i>clients</i> more money. For example, in a directed brokerage account, the <i>client</i> may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the <i>client</i> may receive less favorable prices.</li> </ol> <p>Gratia does not permit or require clients to direct brokerage. Gratia has complete discretion in deciding what brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds will pay. As noted above, a prime brokerage relationship has been established on behalf of the Funds.</p> <p>Gratia is not required to allocate either a stated dollar or stated percentage of transactions to any broker-dealer for any minimum time period, and will review such relationships periodically. As outlined above, Gratia recognizes its duty to seek “best execution” in effecting transactions on behalf of the Funds.</p> |
| <b>Item 12.B</b>   | Discuss whether and under what conditions you aggregate the purchase or sale of  |

|  |  |
|--|--|
|  | <p>securities for various <i>client</i> accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to <i>clients</i> of not aggregating.</p> <p>When appropriate, Gratia may, but is not required to, aggregate purchase and sale orders of securities held by the Funds with similar orders being made simultaneously for other accounts to achieve more efficient execution or to provide for equitable treatment among accounts. Accounts participating in aggregated trades will generally be allocated securities based on the average price achieved for such trades. Gratia may make investment allocations among the accounts in any manner which it considers to be fair under the circumstances, including, without limitation, allocations based on relative account sizes, available cash, the degree of risk involved in the securities acquired and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.</p> <p>In addition, Gratia may (but generally does not and is not obligated to) cause the Funds or Sub-Advisory Accounts to effect “cross” transactions with one another (i.e., cause an Advisory Client to buy or sell securities directly from or to another Advisory Client), subject to applicable law or regulation. Gratia may effect such transactions if it believes that the cross transaction will be beneficial to both parties.</p> |
|--|--|

## ITEM 13 – REVIEW OF ACCOUNTS

|                  |  |
|------------------|--|
| <b>Item 13.A</b> | <p>Indicate whether you periodically review <i>client</i> accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the <i>supervised persons</i> who conduct the review.</p> <p>The Funds’ portfolios are under ongoing review by Gratia’s investment team and portfolio review meetings are held weekly. In addition, Gratia’s Chief Investment Officer and Chief Risk Officer hold quarterly Risk Management meetings.</p> <p>The investment team reviews the portfolios on an ongoing basis to assure conformity with the Funds’ objectives and guidelines. In addition, all portfolios are reviewed in light of emerging trends and developments as well as market volatility. Further, the Chief Compliance Officer periodically reviews the firm’s trading to ensure consistency with applicable laws and regulations.</p> |
| <b>Item 13.B</b> | <p>If you review <i>client</i> accounts on other than a periodic basis, describe the factors that trigger a review</p> <p>Please see Item 13.A above. The accounts are reviewed regularly.</p>   |
| <b>Item 13.C</b> | <p>Describe the content and indicate the frequency of regular reports you provide to <i>clients</i> regarding their accounts. State whether these reports are written.</p> <p>Each investor in the Funds will receive monthly unaudited reports of the performance and risk, quarterly letters detailing events of the previous quarter, and annual audited year-end financial statements. Gratia will also communicate changes in key personnel, changes in its ownership structure, changes in investment strategy and changes in service providers, if any, as soon as is practicably possible.</p>   |

## ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

|                  |  |
|------------------|--|
| <b>Item 14.A</b> | <p>If someone who is not a <i>client</i> provides an economic benefit to you for providing investment advice or other advisory services to your <i>clients</i>, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.</p> <p>Not applicable.</p>   |
| <b>Item 14.B</b> | <p>If you or a <i>related person</i> directly or indirectly compensates any <i>person</i> who is not your <i>supervised person</i> for <i>client</i> referrals, describe the arrangement and the compensation.</p> <p>Gratia has not currently entered into arrangements pursuant to which it compensates third parties for investor referrals; however, Gratia may enter into such arrangements in the future. All such agreements will be conducted in a manner that is consistent with relevant SEC guidance. All fees paid to solicitors, if any, will be fully disclosed to investors consistent with applicable law.</p> |

## ITEM 15 – CUSTODY

If you have *custody* of *client* funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your *clients*, explain that *clients* will receive account statements from the broker-dealer, bank or other qualified custodian and that *clients* should carefully review those statements. If your *clients* also receive account statements from you, your explanation must include a statement urging *clients* to compare the account statements they receive from the qualified custodian with those they receive from you.

Gratia will be deemed to have custody of Advisory Client assets because the Affiliated GP is a related person of Gratia that acts as general partner (or the equivalent) of one or more Funds, and in such capacity has legal ownership of, or access to, Advisory Client funds or securities.

The qualified custodians presently utilized for the Funds' cash and securities are:

J.P. Morgan Securities Inc.  
560 Mission Street  
San Francisco, CA 94105

Bank of America Merrill Lynch  
101 California Street - 14th Floor  
San Francisco, CA 94111

JPMorgan Chase Bank, N.A.  
555 Mission Street  
San Francisco, CA 94105

To ensure compliance with Rule 206(4)-2 under the Advisers Act, Gratia will ensure that the Funds are subject to annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board in accordance with its rules and that the Funds' audited financial statements prepared in accordance with generally accepted accounting principles are distributed to all investors within 120 days of the end of each fiscal year. The Funds are also subject to audit upon liquidation and the audited financial statements are distributed to all investors promptly after the completion of such audit. Investors should carefully review such audited financial statements.

## **ITEM 16 – INVESTMENT DISCRETION**

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

Gratia has discretionary authority to manage the Funds. Gratia's is authorized to make purchase and sale decisions for the Funds. Investors in the Funds do not have the ability to impose limitations on Gratia's discretionary authority.

Each Fund's investment strategy is set forth in detail in such Fund's offering memorandum (or similar document). Prospective investors are provided with an offering memorandum prior to their investment and are encouraged to carefully review the offering memorandum, along with all other relevant offering materials, to be sure that the proposed investment is consistent with their investment goals and tolerance for risk. Prospective investors should also consult with their legal, tax, or other advisors prior to making any investment. Prospective investors must also execute a subscription agreement, in which they make various representations, including representations regarding their suitability to invest in a high-risk investment.

## ITEM 17 – VOTING CLIENT SECURITIES

|                         |   |
|-------------------------|---|
| <p><b>Item 17.A</b></p> | <p>If you have, or will accept, authority to vote <i>client</i> securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your <i>clients</i> can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your <i>clients</i> with respect to voting their securities. Describe how <i>clients</i> may obtain information from you about how you voted their securities. Explain to <i>clients</i> that they may obtain a copy of your proxy voting policies and procedures upon request.</p> <p>Gratia provides investment advisory services to its Advisory Clients, and invests Advisory Client assets in securities issued by public and private issuers. Gratia has authority to vote proxies relating to such securities on behalf of Advisory Clients.</p> <p>Gratia understands and appreciates the importance of proxy voting. To the extent that Gratia has discretion to vote proxies on behalf of Advisory Clients, Gratia’s policy is to vote any such proxies in a manner that serves the best interests of the Advisory Clients, as determined by Gratia in its discretion, and taking into account relevant factors, including, but not limited to:</p> <ul style="list-style-type: none"> <li>• the impact on the value of the securities;</li> <li>• the anticipated costs and benefits associated with the proposal;</li> <li>• the effect on liquidity; and</li> <li>• customary industry and business practices.</li> </ul> <p>In evaluating proxy issues, Gratia will use information gathered as a result of the in-depth research and ongoing company analyses performed by our investment team in making buy, sell and hold decisions for our Advisory Client portfolios. This process includes periodic meetings with senior management of portfolio companies. Gratia may also consider information from other sources, including the management of a company presenting a proposal, shareholder groups, and other independent proxy research services. Unless a particular proposal or the particular circumstances of a company suggest otherwise, proposals regarding routine matters (such as the election or re-election of Board members, changes in capitalization, and the approval of auditors) generally shall be voted in accordance with voting guidelines that have been formulated by our investment team. Non-routine matters may be reviewed and voted by Gratia on a case-by-case basis.</p> <p>Proxies for securities on loan through securities lending programs will generally not be voted, unless Gratia can obtain these securities in advance of the relevant record date.</p> <p>Prior to voting any proxies, Gratia will determine if there are any conflicts of interest related to the proxy in question. If a conflict is identified, the Chief Compliance Officer will then make a determination (which may be in consultation with outside legal counsel) as to whether the conflict is material or not. If no material conflict is identified pursuant to its set procedures, the Chief Compliance Officer, with input from Gratia’s investment team, will make a decision on how to vote the proxy in question. In cases where a conflict of interest has been determined to exist, Gratia generally will have no discretion to vote any portion of</p> |
|-------------------------|---|

|                  |   |
|------------------|---|
|                  | <p>the proxy.</p> <p>Gratia keeps a record of its proxy voting policies and procedures, proxy statements received, votes cast, all communications received and internal documents created that were material to voting decisions and each client request for proxy voting records and Gratia's response for the previous five years.</p> <p>If you have any questions about Gratia's proxy policy, its proxy record-keeping procedures or if you would like any detailed information about how proxies were actually voted, please call the Chief Compliance Officer at 310-733-2500.</p> |
| <b>Item 17.B</b> | <p>If you do not have authority to vote <i>client</i> securities, disclose this fact. Explain whether <i>clients</i> will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) <i>clients</i> can contact you with questions about a particular solicitation.</p> <p>Not applicable.</p>   |



## ITEM 18 – FINANCIAL INFORMATION

|                  |  |
|------------------|--|
| <b>Item 18.A</b> | <p>If you require or solicit prepayment of more than \$1,200 in fees per <i>client</i>, six months or more in advance, include a balance sheet for your most recent fiscal year.</p> <ol style="list-style-type: none"> <li>1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.</li> <li>2. Show parenthetically the market or fair value of securities included at cost.</li> <li>3. Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X.</li> </ol> <p>Not applicable.</p> |
| <b>Item 18.B</b> | <p>If you have <i>discretionary authority</i> or <i>custody</i> of <i>client</i> funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per <i>client</i>, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to <i>clients</i>.</p> <p>Gratia is not currently aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Advisory Clients.</p>  |
| <b>Item 18.C</b> | <p>If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.</p> <p>Not applicable.</p>  |