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Brochure / Form ADV 2A

1 – INTRODUCTION

City Financial Investment Company Limited ("City Financial" or the "Firm") is authorised and regulated by the UK Financial Conduct Authority ("FCA"), and is registered with the U.S. Securities and Exchange Commission ("SEC"), the U.S. Commodity Futures Trading Commission and the National Futures Association. This brochure provides information about the qualifications and business practices of City Financial. Any questions about the contents of this brochure should be addressed to City Financial at: Tel: +44 20 7451 9600 or email: enquiries@cityfinancial.co.uk.

The information in this brochure has not been approved or verified by the SEC or any state or foreign securities authority. Registration does not imply that City Financial, or its associates, have attained a certain level of skill or training. This brochure provides information for our U.S. Funds (as defined below). Most provisions of the U.S. Investment Advisers Act of 1940 (the "Advisers Act") and of this brochure do not apply to our clients that are not US Funds.

Additional information about City Financial is also available on the SEC's website at www.adviserinfo.sec.gov.

2 – MATERIAL CHANGES

This Form ADV Part 2A (“Form ADV 2”) is dated March 25, 2014. Since the last annual update on March 27, 2013, City Financial has undergone the following material changes.

As a result of the Firm’s acquisitions of pooled assets and the organic growth (fund performance and net subscriptions from investors) of its portfolios, its client base, assets under management and total number of employees has increased substantially. The Firm also launched a Delaware feeder fund in July 2013.

In addition to the changes noted above, numerous changes have been made in the way our information is presented and disclosed regarding our advisory business and clients in this Form ADV 2. As such, we recommend that you read this document in its entirety.

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4 – ADVISORY BUSINESS

A privately owned company registered in the United Kingdom, City Financial was acquired in 2006 by Robert Hain and Andrew Williams (previously of Invesco Perpetual), who serve as City Financial's Chairman and Chief Executive Officer, respectively, and together own 17% of the Firm. The Firm's principal owner is MPI Capital (UK) Inc., which owns 42%.

City Financial provides investment advisory services to: pooled investment vehicles with US investors ("US Funds"); pooled investment vehicles with no US investors ("Non US Funds") and separately managed accounts that largely follow the same strategy of some of the US Funds ("SMAs") (collectively, the "Hedge Funds"). The US Funds are 3(c)(7) funds and are therefore exempt from registration as an Investment Company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). City Financial also serves as the investment adviser to UK registered mutual funds ("UK Funds").

The Firm tailors its advisory services in accordance to each fund's investment strategy as disclosed in its private placement memorandum. The Hedge Funds deal in varying asset classes, geographies and strategies, with the objective of producing risk-adjusted returns with minimal correlation to equity and fixed income markets.

The aim of City Financial is to grow assets under management both organically (through healthy fund performance and net subscriptions), and through strategic acquisitions of pools of assets or companies. City Financial acquired the assets of Foresters Investment Funds ICVC in October 2006. Neptune Investment Management Limited's multi-manager business was acquired in October 2007. In December 2010, City Financial acquired the rights to the pH Investment Portfolio from Unizone Financial Solutions Limited. In September 2012, City Financial secured the Octopus Investment Fund range from Capita Financial Management Limited. In October 2012, City Financial acquired the wealth management division of Eden Financial Limited, as well as three pools of assets from PCE Investors Limited. In April 2013, having bought OPM Fund Management Limited, City Financial also became the investment manager of the funds previously managed by that company. The purchase of fund management businesses allows City Financial to create value from cost and revenue synergies and capital market trends.

City Financial does not participate in any wrap fee programs.

As of December 31, 2013, City Financial's discretionary asset under management totalled \$1,515,871,673, of which approximately \$622,085,727 consisted of the Hedge Funds' assets, and the remainder is in UK Funds.

Please note: Except where noted, the information disclosed below relates strictly to the Hedge Funds.

5 – FEES AND COMPENSATION

City Financial charges each of the Hedge Funds a management fee ("Management Fee") which usually ranges from 1% to 2% of assets under management on an annualized basis, depending on the terms of the particular fund, and is normally payable monthly in arrears. Fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be

incurred by the fund. In addition, the Hedge Funds may incur certain charges imposed by custodians, brokers, directors, auditors, etc., and other fees and taxes on brokerage accounts and securities transactions - none of which will be receivable by City Financial.

The specific manner in which fees are charged by City Financial is established in each fund's Investment Management Agreement (or Sub-Investment Management Agreement, or Advisory Agreement, as the case may be), and is also detailed in the fund's private placement memorandum.

Neither the Firm nor any of its or employees receives compensation for the sale of securities or other investment products.

6 – PERFORMANCE-BASED FEES AND SIDE BY SIDE MANAGEMENT

City Financial will charge the Hedge Funds an incentive fee or performance allocation (the "Performance Fee"). The Performance Fees range from 10% to 20% of profits made and may be charged quarterly or annually in arrears. These fees are usually subject to a high water mark. The Performance Fee relevant to the Hedge Funds is disclosed to investors in the funds' private placement memorandum. The Performance Fee of certain funds is subject to a "clawback" (meaning that a proportion of the Performance Fee earned by City Financial is held as "Refund Shares" that in subsequent periods may crystallise for payment to the Firm or be repayable to the fund, depending on whether performance in those subsequent periods is above or below the high water mark).

While the Firm believes that performance-based fee arrangements align its interests with the interests of clients who are subject to these fees, performance-based compensation may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, the performance on which performance-based compensation is calculated will include unrealized appreciation and depreciation of investments that may not ultimately be realized. City Financial has adopted policies and procedures that seek to mitigate any such conflicts presented by performance-based fee arrangement and to ensure that all clients are treated fairly.

Side letters have been agreed with early and/or significant investors in certain funds. In these circumstances, there is a risk that some investors may be favoured over the others. However, any potentially material terms (which would, for example, give an investor an enhanced ability to decide on whether or not to increase or reduce its investment in the fund) are either built into the private placement memorandum so that all investors benefit, or are specifically disclosed to all investors.

As all the Hedge Funds are subjected to a Performance Fee, there are minimal conflicts, if any, regarding Side-by Side Management of the Hedge Funds.

7 – TYPES OF CLIENTS

As City Financial is an adviser to pooled investment vehicles, its clients are considered to be the Hedge Funds. US investors in the US Funds must be “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act.

As of December 31, 2013, City Financial’s clients were comprised of the following:

US Funds

Akamatsu Fund
Akamatsu Bonsai Fund
Cumulus Energy Fund (feeder fund of Cumulus Energy Master Fund)
Cumulus Energy Fund LP (feeder fund of Cumulus Energy Master Fund)

Non US Funds

<u># of Accounts</u>	<u>Type of Account</u>
2	Unregistered hedge funds
6*	SMA's
20	UK Funds

*The SMA's may follow the same investment strategy as their reference fund, which may be a US Fund.

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

City Financial uses a wide range of sources of information and types of analysis, from purely quantitative methods using only price data to highly qualitative methods using independent analytical work or direct research on the companies or instruments being assessed.

Sources of information include:

- Broker and investment bank research
- Market data from vendors such as Reuters, Bloomberg and DataStream
- Other independent research houses, and
- Internal analysis and data gathering

Strategies include (but are not limited to):

- Stock picking strategies (with both long and short positions)
- Themed investment (eg weather driven), and
- Fixed income strategies

More detail is provided in the promotional material of the individual fund, which can be provided to qualified investors on request.

The Firm will generally invest, on behalf of the Hedge Funds, in listed securities and listed derivatives and, to a lesser degree, in unlisted securities and over-the-counter derivatives. Investments in

securities may be in both mature and emerging markets, including but not limited to: sovereign and corporate debt, hybrid securities, convertible bonds, long-dated subordinated debt, preference shares, exchange-listed securities, foreign issuers, warrants and commercial paper.

Investment Strategies

Subject to the investment restrictions and other parameters set out in each fund's private placement memorandum, City Financial makes use of certain investment techniques. These can include:

Short Selling – for certain accounts, City Financial is permitted, subject to the rules of the local regulator and/or exchange, to sell securities short, in the expectation of covering the short sale with securities acquired in the open market at a price lower than that received from the short sale. The possible losses from short selling are unlimited. This differs from the possible losses that could be incurred from taking long positions in securities, which are limited to the total amount invested. In addition, short selling can cause downward price pressure on a stock and could therefore pose a potential conflict of interest if some client accounts were selling short the same security other client accounts hold long (and vice versa). One fund may be short in a stock in which another fund has a long position. Although this would appear to be a conflict of interest for City Financial, the portfolio of each fund is actually managed separately, using the fund's strategy and limited by the investment restrictions as set out in each fund's prospectus, and the portfolio's adherence to this is monitored daily by the Firm.

Use of Leverage – In managing certain accounts, City Financial may also use leverage, such as investing monies borrowed on margin or taking positions in certain types of derivatives that involve leverage. The Firm may also invest client accounts in certain ETFs (exchange-traded funds) that provide leveraged exposure to their underlying indexes. Use of leverage can cause portfolio values to rise and fall faster than if leverage were not used. Use of leverage also involves the risk that securities in an account will have to be liquidated in order to meet margin calls or maintain sufficient asset coverage, at a time when it may not be desirable or advantageous to sell.

Concentrated or Non-Diversified Positions - Investments in accounts managed by City Financial may be concentrated in certain issuers within the same country, industries, sectors or markets. An adverse economic, business or political development may affect a fund's investment more than if its investments were not so concentrated. Investments may also be focused on the securities of a particular issuer such that the account is relatively non-diversified. Concentration and non-diversification pose increased risk of loss to the extent that the account is more susceptible to adverse events affecting the industry or issuer on which the account is focused.

Options Trading - The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation either to 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.

Risk of Loss

Although City Financial endeavours to minimise risk, investing in securities involves a risk of loss that investors should be prepared to bear. Investors in the Funds should be aware of the following types of risk considered by City Financial:

Market Risk

Market risk is the exposure of the fund to movements in net asset value as a result of changes in factors that affect the price of the underlying assets in the fund. While investors should expect market risk that occurs as a result of applying the fund's investment policy to meet its investment objectives, the deployment of derivatives will bring different parameters into the market risk equation. For example, the value of an option will not necessarily move on a one for one basis with the underlying security but with the delta of the option. In addition, other external factors that may not affect the underlying security will have a bearing on the value of the derivative such as interest rates, volatility, time to maturity and dividend yield.

Valuation Risk

The Hedge Funds may engage in transactions involving the purchase and sales of commodities or commodity futures, forwards, options, swaps, derivatives or other similar transactions. These instruments may be illiquid and thus difficult to value. Moreover, during periods of limited liquidity and high price volatility, the Portfolio Manager's ability to acquire or dispose of investments at a price and time that deemed advantageous may be hampered.

Most portfolio positions are in instruments which are either themselves quoted on a recognised investment exchange or are derivatives of such instruments, and are therefore easily valued by the independent third-party fund Administrator through pricing sources such as Bloomberg etc. OTC instruments will be the subject of contracts with market counterparties, and the value of those instruments will be supported by corroborating documentation from those counterparties.

However, there may be positions which the Administrator has difficulty obtaining valuations and thus may require fair valuation. The Firm has implemented valuation procedures which detail the process for valuing these securities. The Valuation Procedures require the Primary Evaluator assigned to the security (who may be the Portfolio Manager) to obtain a quote from at least two independent pricing services. In the event that a quote cannot be obtained, the Primary Evaluator - on a continuing basis - shall provide his written valuation determinations, which shall be recorded on a Valuation Worksheet. This worksheet is reviewed and approved by the Valuation Committee. In addition, on a monthly basis the Risk Management Committee meet to review the valuations of the positions that were fair valued and the methodology used to arrive at the stated fair values.

Counterparty/Credit Risk

The Hedge Funds' counterparty risk can be broken down into two elements:

- i) the credit risk of the counterparty (i.e. the counterparty to a financial instrument such as a derivative contract may fail to discharge an obligation or commitment that it has entered into with the fund), and
- ii) the requirements on maximum counterparty exposure as laid down in the fund prospectus. .

The credit strength of each entity should also be assessed. This will typically be expressed as a rating from an agency such as Standard & Poor's, Moody's or Fitch. The Firm may determine a minimum rating requirement for the counterparty. Should the counterparty fall below a certain level, then the derivative can be closed out or suitable collateral demanded from the counterparty to increase the comfort to the fund.

Consideration should also be taken of other assets held by the fund that expose it to non-derivative exposure, to take into account the overall exposure limits to counterparties. The counterparty assessment should also take into consideration any substantial delays in settling collateral or derivative trades and timely submission of documentation, as this increases the potential credit risk on the counterparty (see specific risks covered elsewhere) should one of these risks be realised.

Conflicts of Interest

Portfolio Managers may invest in the Hedge Funds that they manage. In theory, this represents a conflict of interest and may influence the way that they manage the fund's portfolio; however, external investors would typically view this as an alignment of interests, demonstrating that the Portfolio Managers were prepared to risk their own capital alongside that of the other investors. In any case, the way that Portfolio Managers carry out the strategy and keep within the investment restrictions of the Hedge Funds are monitored by City Financial's Compliance Department and is under the ultimate supervision of the Directors of the fund concerned.

Some supervised persons may have other external activities and business interests. This conflict of interest has the potential risk that these individuals may not provide the necessary time and attention to the regulated business of the Firm. City Financial has a policy where all such activities and interests must be disclosed and reported regularly to the Firm's Compliance Department who will ensure that these activities are peripheral and take a minimal amount of the individual's time. Strict confidentiality clauses signed by all individuals should ensure that there is no risk that information obtained from their work for the Firm is used in other capacities.

Documentation Risk

This is the risk that the documentation of the derivative contract does not match what the fund thought it had entered into. Document risk is monitored by the Compliance Department, with the assistance of, where appropriate, external counsel. City Financial's policy is to have general derivative documentation signed and in place prior to the Portfolio Manager entering into any derivative contract on behalf of the fund concerned.

Certain points in particular need to be addressed, specifically:

- **Counterparty Exposure**

Where closing out the position is not practical then alternative arrangements such as suitable collateral requirements or partial cash settlement can be considered.

- **Closing Positions**

The derivative counterparty must agree that it will unwind the derivative position at the prevailing market price at any time that is required. This might be as a result of when (a) the derivative position no longer meets the investment objectives of the company, (b) cannot be considered to be appropriately covered, (c) liquidity is required to meet redemptions, or (d) counterparty exposure is exceeded. For certain funds, due consideration should also be given to the minimum size of partial unwinds of derivative positions to ensure that the fund does not deviate away from its stated investment objectives through holding an inappropriate amount of derivative position as investors subscribe for more or divest units in the fund.

- **Pricing**

The documentation must state that the counterparty will supply a price for the derivative as of the dealing time on each dealing date of the fund and a price at any other time that it might so be requested. The basis for the price should be specified and this may relate to the unit pricing of the specific fund e.g. bid/offer for two way pricing or mid market for single priced funds. The source of the third party independent pricing or at least the requirement for the counterparty to provide a third party source should also be documented.

- **Collateral**

As part of this documentation the parties should also consider whether a Credit Support Annex should be put in place.

Key Man Risk

City Financial may rely on certain key personnel to execute the Hedge Funds' investment objectives and strategies. The departure of any such key personnel or their inability to fulfil certain duties may adversely impact the management of the Hedge Funds. However, the Firm has operational procedures, which are detailed in the operations manual of each fund. The aim of the operations manual is to ensure that the smooth operation of each fund is not reliant on key individuals who may not always be at the organisation. The operations manual outlines the correct procedures that should be put in place by each fund. This shows the various parties what is expected of them during certain events (e.g. the unwinding of a derivative, or the calling for more collateral) and how they should implement it. Operational manuals will vary in content according to the complexity of the underlying schemes; however, at the very least, they will include a complete list of contacts at City Financial, the Portfolio Manager and any third party such as a derivative counterparty or collateral provider.

Basis Risk

This risk is important for the Risk Management Process (RMP) where a fund is relying on assets that do not or may not in the future exactly match the derivative exposure it is taking on (e.g. writing a call option on the FTSE 100 index while holding the underlying stocks to cover the position). The danger is that the composition of stocks diverges away from the index as a result of a re-composition or rebalancing of the index. The potential impact is that it may be a breach of the investment policy of the fund. City Financial is mindful of this risk and it has been discussed with the Portfolio Managers.

Liquidity Risk

Liquidity risk arises when the Portfolio Manager is unable to trade an asset because there is no interest in entering into the trade from other market participants. Liquidity risk becomes particularly important when the fund holds or is about to hold an asset, since it may affect its future trading ability.

Liquidity risk also arises when the Portfolio Manager is unable to meet the requirement to provide liquidity for withdrawals, and to meet the fund's liabilities to deliver assets or cash under derivative contracts. The Risk Management Committee monitors this risk to ensure that the former is not unduly affected by the latter. This may also have an impact on the temporary borrowing requirements of the fund that need to be monitored to ensure that limits are not breached.

In order to control liquidity risk, City Financial and the Portfolio Managers employ cash monitoring procedures.

Cash Flow Risk

The Portfolio Managers' remit is to manage the investment of the monies flowing into the fund but must also be mindful of the requirement to provide liquidity for withdrawals and to meet the fund's liabilities to deliver assets or cash under derivative contracts. The Risk Management Committee should ensure that the former is not unduly affected by the latter.

Regulatory Risk

Laws and regulations affecting the Firm's business continue to evolve in an unpredictable manner. Moreover, changes in laws and regulations applicable to the Hedge Funds may place restrictions on and/or impact the Firm's ability to achieve certain fund objectives.

Reputational Risk

A firm's reputation is one of its most valuable assets. Reputational risk can result in damages to the Firm's reputation, loss of clients, vendors, revenue, and shareholder value.

9 – DISCIPLINARY INFORMATION

As an SEC registered company, City Financial is required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of the Firm or the integrity of its management. No events have transpired applicable to this Item.

10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Affiliations

City Financial is the owner of two investment advisors: CFIC Cayman Limited ("CFIC Cayman") and City Financial Investment Company (Hong Kong) Ltd. ("CFIC Hong Kong").

CFIC Cayman is registered with the Cayman Island Monetary Authority and acts as the investment manager of one of the Non US funds listed above. City Financial serves as the sub-investment manager to that fund, with all powers of discretionary management fully delegated to City Financial. CFIC Cayman is also the General Partner of Cumulus Energy Fund LP.

CFIC Hong Kong was formed in December 2013 and is registered with the Hong Kong Securities and Futures Commission. CFIC Hong Kong acts as the investment manager to a fund that launched in March 2014.

Joint Venture

City Financial has a joint venture agreement (“JVA”) with each of the Hedge Funds’ Portfolio Management teams (the “PM Teams”). Under the terms of each JVA, the PM Team seconded its staff and intellectual property to City Financial for the day-to-day portfolio management of the fund or funds concerned. The JVA specifies that the fees earned by City Financial, for acting as the regulated investment manager of the funds, are shared between City Financial and the PM Team.

It is understood that where individuals from the PM Teams are seconded to City Financial in order to manage the portfolio of the Hedge Funds, those secondees will be members or employees of a JVA entities, and this is seen as an inherent part of the Firm’s operating structure. Furthermore, it is also understood that as secondees to the City Financial, the individuals concern will come under the Firm’s compliance supervision.

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

City Financial has adopted a Code of Ethics (the “Code”) that applies to all employees and secondees from the JVA entities, and any other access person (collectively, “Staff”). The Code sets general standards of conduct for City Financial’s Staff and imposes specific requirements aimed at preventing, detecting and correcting fraudulent activity, market abuse or activities that would pose a conflict of interest in connection with personal securities transactions. The Code prohibits Staff from engaging in conduct commonly known as “insider trading” and restricts their giving and receiving of gifts and their ability to accept certain positions with external organisations.

Staff may, from time to time, buy or sell securities for themselves, even if the securities are identical to those traded in the portfolio of one of the Hedge Funds. However, these transactions require pre-clearance prior to execution. Additionally, the Code restricts a Portfolio Manager from trading ahead of the fund which he or she manages. Personal account trading by Staff may only be undertaken in line with City Financial’s Personal Account Dealing policy, which is contained in the Firm’s Compliance Manual and also further developed in the Code. It is the express policy of City Financial that no Staff should place his or her interests ahead of those of the Funds.

In order to monitor compliance by City Financial’s personnel with the Code and applicable law, Staff are required to provide City Financial with duplicate copies of their personal account trading contract notes or order memorandum, which are reviewed by the Firm’s Compliance Department. In addition, Staff are required to sign statements to acknowledging that they have read, understood and will abide by the terms of the Compliance Manual and the Code, as well as the Firm’s insider trading and money-laundering policies.

City Financial does not, at this time, invest its own capital or share in transactions. However, CFIC Limited, as General Partner, has a nominal interest in the Cumulus Energy Fund LP.

This is only a summary of City Financial’s Code. The entire Code will be made available to clients upon request.

12 – BROKERAGE PRACTICES

A. Brokerage Partners and Best Execution

Portfolio investments may normally be purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the investments. Securities transactions will be executed by brokers or counterparties selected by City Financial or its appointed Portfolio Managers in its sole discretion. In placing portfolio transactions and negotiating commission rates, where applicable, City Financial will seek to obtain the best execution for the Hedge Funds, taking into account the following factors: the ability to effect prompt and reliable executions at favourable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity, reputation in the industry, infrastructure and stability of the broker; the firm's risk in positioning a block of securities and committing its capital; efficiency of error resolution; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying City Financial's selection criteria.

City Financial places orders for execution in accordance with its best execution policy, procedures and criteria (see below). The Firm's brokerage policy seeks to achieve the most favourable net results for clients on each transaction. City Financial believes that the key components to achieve the most favourable net results are transaction specific and dependent upon the broker's ability to accommodate special transaction needs. Trades may involve specialized services on the part of the broker-dealer involved and entail higher commissions than would be the case with other trades requiring more routine services, and therefore may not always be executed at the lowest available price or commission.

City Financial uses the following factors when selecting and evaluating brokers and counterparties: financial standing, regulatory status and best execution policy. The Firm requires evidence that they are regulated by their national regulator, confirmation that they will classify City Financial as a professional client, a copy of their best execution and conflict of interest policies, and a copy of their latest audited financial statements.

In certain cases, a fund may trade with another. This conflict of interest has a potential risk that one fund may be favoured at the expense of another. However, this is normally done as part of a routine rebalancing exercise, eg at the beginning of the month to reflect changes in the assets under management ("AUM") of the relevant funds as a result of subscriptions/redemptions. Generally, these trades are carried out using the previous day's closing prices, either through the prime broker outside market trading hours (in order to minimise transaction charges), for the benefit of the funds concerned. In any case, no direct crosses are carried out between funds unless specifically approved by the Boards of those funds.

B. Soft dollars

City Financial may pay a broker a commission in excess of that which another broker may have charged for effecting that transaction, in recognition of the value of the research and/or brokerage services provided by that broker. This is commonly referred to as "soft dollars" and is the subject of Commission Sharing Agreements between City Financial and certain brokers for trades carried out for specific funds, subject to a strict policy in line with FCA and SEC rules (see below) that ensures

such commissions are used solely for the enhancement of investment research to the benefit of those funds.

This use of commissions or soft dollars to pay for certain research products or services is within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934 and COBS 11.6 of the FCA Handbook. Products or services received from brokers as a result of clients' transactions may be used by a fund's Portfolio Manager in servicing other accounts. In the past year, City Financial has used soft dollars to purchase broker, investment bank and third-party research that both addresses economic trends and analyses specific markets, sectors and issuers.

In selecting a broker providing research or brokerage services to execute client transactions, City Financial will make a good faith determination that the amount of the commission charged is reasonable in relation to the value of the research and brokerage services received, viewed either in terms of the specific transaction or the Firm's overall responsibility to the accounts over which it exercises investment discretion. City Financial may choose on a case-by-case basis to place a trade with a particular broker when, for example, a research analyst at that broker has provided valuable perspective or advice regarding a specific company or security or its trading market. In order to have continued access to that type of perspective and advice, the Firm may develop relationships with brokers who have research and analytical expertise relevant to the needs of City Financial and its clients.

C. Aggregate Trade Allocations

A fund may share part or all of its strategy with another fund or managed account. This conflict of interest has a potential risk that one fund may be favoured at the expense of another fund regarding the trade allocation. Because of this, City Financial has a clear allocation policy, with trades apportioned based on pre-agreed splits (normally *pari passu* with the AUM of the funds).

City Financial will execute transactions on an aggregated basis when it believes this will allow it to obtain best execution and negotiate more favourable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. When orders are aggregated, all of the Firm's clients will be treated in a fair and equitable manner, and the prices obtained may be averaged so that all clients involved in the transaction pay or receive the same average price. This may result in one fund obtaining on some occasions a more favourable transaction price and others a less favourable transaction price than had that fund's order been effected separately.

City Financial will not aggregate orders unless aggregation is consistent with the Firm's duty to obtain best execution. No account will be favoured over any other client; however, a variety of factors will determine whether or not a particular fund may or may not be included in a particular aggregated transaction. These factors include, but are not limited to: investment objectives and strategies, position weightings, cash availability and risk tolerance. Because of these factors, there may be differences in portfolio allocations from a strict *pro rata* basis even between client accounts following the same strategy.

When City Financial determines that order aggregation is in the best interest of its clients, the following guidelines generally are followed for all portfolios which are participating in the execution under the same trading circumstances (e.g., price limits and time of entry). Aggregated orders filled in their entirety or partially will be allocated within strategy among the participating accounts *pro-*

rata by account market value. In the event of a *de minimis* allocation for a partial allocation, the trader has the authority to determine an appropriate allocation methodology.

D. Trading Errors

Consistent with City Financial's fiduciary duties, the Firm's policy is to exercise care in making and implementing investment decisions for client accounts. To the extent trading errors occur, the Firm seeks to ensure that clients' best interests are served. City Financial's policy is to resolve all trade errors within a reasonable time while ensuring the client is not disadvantaged, consistent with the orderly disposition (and/or acquisition) of the securities in question. Actual losses suffered by a client account as a result of a trade error caused by City Financial will be reimbursed by City Financial; however, as a general matter, City Financial does not compensate its client funds for lost investment opportunities (e.g., failure to take advantage of investment or market improvements).

13 – REVIEW OF ACCOUNTS (CLIENT FUND PORTFOLIOS)

A. Frequency of Reviews

All accounts managed by City Financial are reviewed, generally on a daily basis, by the respective Portfolio Managers, risk management and compliance staff of City Financial and operations staff of EDD Fund Services LP ("EDD") to whom City Financial outsources core operational functions.

EDD reconciles all positions and transactions and helps to ensure consistency with City Financial's investment processes and in conformity with client objectives and guidelines. Reviews may include an evaluation of account performance relative to certain agreed benchmarks or objectives, while others may include an analysis of current positions and/or asset mix. City Financial and/or EDD liaise directly with the Hedge Funds' third-party Administrators to ensure that each side's books and records agree or can easily be reconciled.

City Financial's Portfolio Managers review each client account continuously to determine, among other things, whether it is appropriately positioned and whether investment objectives and policies are being followed. Further oversight is provided daily by City Financial's Compliance department to monitor each portfolio against that fund's investment restrictions laid out in the private placement memorandum, other factors mentioned in the fund's promotional material, and the rules of the relevant exchange and regulator for each of the markets traded.

In addition, City Financial's Risk Management Committee monitors the investment strategy risk and the market risk per fund, as well as the counterparty risk and the operational risk per fund and for the entire Firm. Issues, including regulatory breaches, are escalated to the PM Team of the fund concerned, City Financial's Risk Management Committee, and the Board of the Fund, as well as being reported where appropriate to the relevant regulator and/or exchange.

B. Written Reports

For a number of funds, the underlying investors in those funds typically receive on a monthly basis:

- i) statements from the fund's Administrator, which include, among other things, the change in value of their accounts since the last reports that were provided, and
- ii) communications from City Financial in the form of a shareholder newsletter, explaining

recent trading activity and the outlook for the fund based on the current state of the markets.

Investors also typically receive on an annual basis audited financial statements from the fund Administrator, as well as certain tax information for preparation of their respective tax returns, including a Schedule K-1 or passive foreign investment company (PFIC) reports for United States persons.

Customised reports may be provided to certain investors on request on a case-by-case basis.

14 – CLIENT REFERRALS AND OTHER COMPENSATION

City Financial may enter into fee sharing arrangements with third party marketers who refer prospective investors to a fund managed by City Financial. Such marketers may be paid a portion of the fees earned by City Financial from the assets relating to the referred investor. Any monies paid to third party marketers, in connection with such referral, are ultimately borne by City Financial.

Third party marketers may have a conflict of interest in advising prospective investors whether to purchase or redeem their shares or interests in a fund, due to the fees paid to those marketers by City Financial. The use of third party marketers may lead to their suggesting unsuitable investors as prospective shareholders in the funds. However, the Hedge Funds' third-party fund Administrators act independently and are responsible for vetting all prospective investors (as part of their KYC and AML procedures) before they are accepted as shareholders in the funds.

15 – CUSTODY (AND CLIENT ASSETS)

City Financial does not hold funds' assets and does not maintain physical possession of the monies or securities of any fund directly or indirectly.

The Funds themselves contract directly with prime brokerage firms and/or commercial banks to serve as custodians of funds' assets pursuant to a separate custody agreement. City Financial receives statements of account holdings and cash from the US Funds' and Non US Funds' custodians. The SMAs receive statements directly from their respective custodians.

16 – INVESTMENT DISCRETION

As a discretionary investment manager, City Financial has complete discretion over the investments it makes on behalf of the Hedge Funds, subject to the stated guidelines and investment restrictions set forth in the investment management agreement or similar agreement relating to the relevant fund. Compliance with these guidelines and restrictions is monitored by the Firm's Compliance Department and City Financial's Risk Management Committee, who will report any breaches to the Portfolio Managers and where appropriate to the Board of the fund concerned. Subject to a fund's specified investment objectives and guidelines, City Financial determines which securities are bought or sold, the total amount of securities to be bought or sold, the broker or dealer through which the securities are to be bought or sold and the commission rates to be paid. In exercising its investment discretion, City Financial is guided by the investment policies and guidelines that are established at the inception of the adviser-fund relationship in the investment management agreement (as amended from time to time). The guidelines cover matters such as the types and amounts of securities that will comprise the portfolio.

17 – VOTING CLIENT SECURITIES (PROXY VOTING FOR CLIENT FUNDS)

City Financial's policy on proxy voting is to base voting on the investment objectives and approach of the Hedge Funds, as interpreted by the Portfolio Managers, because the strategy of some funds may be more interventionist than others. City Financial has adopted policies and procedures for voting of such proxies. Where City Financial is asked to carry out proxy voting under its own policies and procedures, the Firm take steps to ensure that proxy voting is carried out relating to securities held in the funds' accounts. If City Financial votes on this basis, it would do so in the best interest of the fund concerned. As an alternative to giving City Financial discretion to vote proxies, an SMA may provide its own written proxy voting guidelines or its own policies, procedures or directions regarding proxy voting. Such guidelines or directions must be in writing and delivered to City Financial sufficiently in advance to allow the Firm to vote as directed.

18 – FINANCIAL INFORMATION

City Financial does not have any adverse financial information to disclose. The management of City Financial believes that the Firm is financially sound, and ensures that at all times it meets the regulatory capital requirements of the FCA.

APPENDIX A. DIRECTORS BUSINESS BACKGROUND

Andrew Williams, Chief Executive

Andrew Williams is Chief Executive of City Financial. He was previously Head of Distribution at Invesco UK Limited (see above) during which time the Invesco Perpetual family of funds became the second most popular in the UK domestic savings market and the best-selling family in the Invesco group. Before coming to the UK, Andrew had a variety of roles in Invesco's Canadian AIM Trimark business and was responsible for the team managing the integration of AIM and Trimark. Andrew holds the CFA designation, has an MBA from the Rotman School of Management and a degree in Economics and Chinese from the University of Toronto. He lives in London, United Kingdom

Robert C. Hain, Chairman

Robert Hain is Chairman of City Financial Investment Company Limited. He was previously Chief Executive Officer of Invesco UK Limited, one of the largest asset managers in the UK, trading as "Invesco Perpetual" in the UK and "Invesco" in Ireland. Before coming to the UK, Robert was CEO of Invesco's Canadian AIM Trimark business which became one of the best-selling fund families in Canada and acquired the Trimark Financial Corporation for US\$1.8 billion. Prior to his being recruited by Invesco, Robert's career included four years with Investors Group, part of the Power Corporation of Canada. Most of his earlier career was spent with Royal Trustco (now the Royal Bank of Canada) in global private banking. Robert is a graduate of the Universities of Toronto and Oxford. He lives in London, United Kingdom.

Jack Hollihan: Non-Executive Director

Jack Hollihan is a Non-Executive Director of City Financial. Jack is the Chairman of Litchfield Capital Holdings, a director of Armour Residential REIT and, until its sale to Gramercy Capital, a trustee of American Financial Realty Trust. Previously, he was Head of European Industry Investment Banking for Banc of America Securities, and Head of Global Project Finance and European Utilities and Energy Investment Banking for Morgan Stanley International. Jack practised law before entering the financial services business with Lazards. He lives in Connecticut, United States.

Michael Stein: Non-Executive Director

Michael Stein is a Non-Executive Director of City Financial. Michael is the founder, Chairman and CEO of The MPI group, a property development and investment group with a strong track record in incubating, investing in and managing successful companies. An experienced entrepreneur, Michael is a founder of several successful businesses including CAP REIT, Canada's first apartment REIT, and continues to serve as its Chairman. Michael has an MBA from Columbia University, New York and graduated with a B.Sc. in Civil Engineering from the Israel Institute of Technology. He lives in Toronto, Canada.

David R Beatty: Non-Executive Director

David Beatty, OBE, is a Non-Executive Director of City Financial. Professor Beatty is an experienced global businessman with extensive Board experience. He is the current Chairman of Inmet Mining Corporation and a Director of several multi-national corporations. He was the managing director of the Canadian Coalition for Good Governance, an organisation that represents 50 pension funds, mutual funds and money managers with over US\$1 trillion in assets under management. Professor Beatty is also the Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness at the Rotman School of Management at the University of Toronto. He lives in Toronto, Canada.