

Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Virage Capital Management LP. If you have any questions about the contents of this brochure, please contact us at (713) 840-7700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Virage Capital Management LP is also available on the SEC's website at: www.adviserinfo.sec.gov.

Though Virage Capital Management LP may refer to itself as a "registered investment adviser," this statement does not imply a certain level of skill or training.

Material Changes

This is Virage Capital Management LP's initial Form ADV Part 2A. We encourage everyone to read this Form ADV Part 2A in its entirety. In the future, this section will discuss only specific material changes that are made to this Brochure and provide a summary of such changes.

Table of Contents

1. Advisory Business	3
2. Fees and Compensation	3
3. Performance-Based Fees and Side-By-Side Management	6
4. Types of Clients	6
5. Methods of Analysis, Investment Strategies and Risk of Loss.....	6
6. Disciplinary Information.....	19
7. Other Financial Industry Activities and Affiliations	19
8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	20
9. Brokerage Practices	21
10. Review of Accounts.....	23
11. Client Referrals and Other Compensation	23
12. Custody	24
13. Investment Discretion	24
14. Voting Client Securities.....	25
15. Financial Information.....	26

1. Advisory Business

Virage Capital Management LP, founded in 2013, is an investment advisory services firm that currently provides investment management services to two clients, both of which are pooled investment vehicles, or more specifically, hedge funds. Edward Ondarza is the majority owner of our firm. He is a limited partner of our firm and Virage LLC is the general partner of our firm. Edward Ondarza is the manager and majority owner of Virage LLC.

Our hedge fund clients are separate series of a Delaware series limited partnership: Series 1 – Virage Master LP and Series 2 – Virage Master LP. Each of our clients is a private pooled investment “master fund” in a master-feeder structure that also includes a domestic feeder fund and an offshore feeder fund. We only consider each master fund, and not its feeder funds, our client because the feeder funds place all of their investable assets in the applicable master fund. All investment activities for the three funds in each master-feeder structure are conducted at the master fund level where we act as the investment manager to the master fund.

In providing our advisory services to both of our clients, we seek to generate attractive risk-adjusted returns by primarily engaging in direct unsecured lending to State Bar licensed attorneys for the purpose of financing expenses with respect to civil actions, lawsuits and litigation matters tried in U.S. state or federal courts, although we may also invest in similar debt/notes originated by other lenders, loan facilitators, brokers or platforms. Each of our clients transacts its investment activities on an internet-based lending platform operated by a related party, Affiliated Solutions, Limited Liability Company (d/b/a LitCap). We may make other types of investments on behalf of our clients as we deem appropriate.

Our firm tailors our advisory services to the individual needs and specified investment mandates of our clients. We adhere to the investment strategy set forth in the offering memorandums of the feeder funds. We do not, however, tailor our advisory services to the individual needs or any specified investment mandates of the investors in the feeder funds and those investors may not impose restrictions on investing in certain securities or types of securities.

We do not participate in any wrap-fee programs.

As of May 1, 2014, we have regulatory assets under management of \$123,325,000. We manage 100% of our regulatory assets under management on a discretionary basis and 0% of our regulatory assets under management on a non-discretionary basis.

2. Fees and Compensation

This brochure is only delivered to qualified purchasers and therefore does not contain our advisory service fee schedule.

Our firm, or an affiliate of our firm, typically receives compensation from each of our clients based on both the percentage of assets we manage and performance-based fees based on capital appreciation. We typically structure our performance-based compensation as profit-sharing allocations through limited partner interests that our affiliates and strategic investors hold in our client funds. Our performance-based compensation is also generally subject to a loss carryforward requirement or “high water mark.” This means that we only receive a performance profit allocation when an investor’s account value for the year has recovered any losses from prior years (reduced proportionately by any withdrawals an investor makes). We only offer interests in our client funds to “qualified purchasers” as defined in the Investment Company Act of 1940. Qualified purchasers are generally individual investors or certain family-owned entities with over \$5,000,000 in investments or entities with over \$25,000,000 in investments.

We deduct our asset-based fees directly from our clients’ accounts each month. We generally deduct performance-based compensation on an annual basis or upon a withdrawal or redemption (but only on the amount withdrawn or redeemed).

The asset-based fee that we charge investors in our clients is payable at the beginning of each calendar month. In the unlikely event that an investor is redeemed before the end of the billing period, we will refund a *pro rata* percentage of the fee paid in advance.

Investors in our clients do not pay any performance-based compensation in advance.

Our fees are generally non-negotiable, but we do have the discretion to waive all or a portion of the management fee and/or the performance-based compensation with respect to our clients.

All of our clients bear various costs, fees and expenses in addition to the compensation payable to our firm or an affiliate of our firm. Although we set forth enumerated lists below, all investors in our clients and prospective investors should review the Private Placement Memorandum or other governing documents for each applicable fund, which may discuss additional costs, fees and expenses not discussed below.

Our clients, and consequently the investors in our clients, generally incur the following expenses:

- organizational expenses,
- costs of identifying and evaluating proposed investments and expenses relating to investment transactions paid to LitCap, loan facilitators, brokers and other platform operators,

- expenses with respect to the acquisition and disposition of investments, whether or not consummated,
- loan fees, appraisal fees, underwriting commissions and discounts and other investment-related expenses,
- all transaction costs, custody fees, fees of professional advisors and consultants relating to investments or prospective investors, travel, specific expenses incurred in obtaining research and other information utilized with respect to the applicable fund's investment program,
- any withholding or transfer taxes imposed on the applicable fund,
- out-of-pocket costs of the administration of the applicable fund, including accounting, audit, legal and compliance expenses and other professional or third-party costs (including preparation of regulatory reports containing fund information regardless of the identity of the filer and any programs and software expenses related to any of the foregoing),
- costs of holding any meetings of investors or an advisory committee,
- costs of any liability insurance obtained on behalf of the applicable fund, its general partner and/or us,
- costs of any litigation or investigation involving fund activities, and
- costs associated with reporting and providing information to existing and prospective investors, including travel in connection with providing such information.

In addition, each of the feeder funds of our clients bears its share of the expenses listed above incurred by the applicable master fund (but without duplication).

Other than as provided above, our firm is responsible for all of its normal overhead expenses and other similar expenses.

The fees and expenses we have enumerated above may not contemplate every type of fee or expense our clients may incur.

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

The owners of our firm, including our principals, are also minority owners of LitCap. Therefore, they may indirectly receive a portion of the fees and other invest-related expenses paid to LitCap in connection with our clients' investments. For more information regarding our owners' relationship with LitCap, please see Section 8: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading. Other than with respect our owners' relationship with LitCap, neither our firm nor any of our principals or employees accepts compensation for the sale of securities or other investment products.

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

Our firm (or one of our affiliates) receives performance-based compensation from all of our clients. Please see Section 2: Fees and Compensation for a more detailed explanation of the performance-based compensation we receive. We do not manage any funds or accounts that do not pay performance-based compensation.

4. Types of Clients

As noted in Item 1: Advisory Business, we provide investment management services to Series 1 – Virage Master LP and Series 2 – Virage Master LP, each of which is a “master fund” in a master-feeder structure that has a domestic feeder fund and an offshore feeder fund and to one managed account. Each master fund, and not the feeder funds, is our client because the feeder funds place all of their investable assets in the applicable master fund. All investment activities for the funds are conducted at the master fund level where we act as the investment manager to each master fund.

This brochure is not an offer to invest in our master fund clients or any of the feeder funds.

5. Methods of Analysis, Investment Strategies and Risk of Loss

In providing our advisory services to both of our clients, we seek to generate attractive risk-adjusted returns by primarily engaging in direct unsecured lending to State Bar licensed attorneys for the purpose of financing expenses with respect to civil actions, lawsuits and litigation matters tried in U.S. state or federal courts, although we may also invest in similar debt/notes originated by other lenders, loan facilitators, brokers or platforms. Each of our clients transacts its investment activities on an internet-based lending platform operated by a related party, Affiliated Solutions, Limited Liability Company (d/b/a LitCap). We may make other types of investments on behalf of our clients as we deem appropriate.

We seek to make investments on behalf of each client that we believe have an attractive risk/return profile based on specific investment parameters and appropriate pricing

guidelines determined by us for the purposes of achieving targeted returns. In evaluating each prospective investment, we will generally review (i) the track record and history of the attorney of record handling the case for the borrower for matters similar to the litigation matter(s) for which a loan is requested; (ii) the jurisdiction in which each of the relevant litigation matters is filed; (iii) the subject matter of each of the relevant litigation matters; (iv) the borrower's disciplinary history, if any; (v) the litigious nature of the plaintiff in each of the relevant litigation matters; (vi) the solvency of the defendant in each of the relevant litigation matters and to the extent applicable, the defendant's defense history of similar cases; and (vii) whether a claim may be covered by insurance in each of the relevant litigation matters.

Despite our methodology, investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

Despite our thorough research and analysis and comprehensive investment strategies, investing in any security involves a risk of loss that our clients and investors in our master fund clients' feeder funds must be prepared to bear. Please see below for an explanation of some of the significant risks associated with the investment strategies we employ. A more comprehensive list of risks associated with an investment in our master fund clients is set forth in the offering memorandum of each feeder fund.

- *Investment Risks in General.* All investments risk the loss of capital. No guarantee or representation is made that our investment program will be successful. Investment results may vary substantially over time and investors risk the loss of their entire investment.
- *Investment Judgment.* The success of our investment program depends to a great extent upon our ability to correctly assess the profitability of investments and to ensure our clients' compliance with applicable lending laws and regulations. There can be no assurance that we will accurately predict profitability.
- *General Economic and Market Conditions.* The availability of investments, and therefore our client's profitability, will be affected by general economic and market conditions, such as interest rates, availability of credit, the rate of inflation, economic uncertainty, changes in laws (including laws relating to lending activities and taxation of our clients' investments) and national and international political circumstances.

Other factors, such as changes in U.S. federal or state tax laws, U.S. federal or state securities laws, bank regulatory policies or accounting standards, may make lending activities less desirable. Similarly, legislative acts, rulemaking, adjudicatory or other activities of the U.S. Congress, state governments, the U.S. Securities and Exchange Commission, the Federal Reserve Board, the New York

Stock Exchange, the Financial Industry Regulatory Authority, Inc. or other governmental or quasi-governmental bodies, agencies and regulatory organizations may make the business of our clients less attractive.

- *Competition.* There is currently, and will likely be, competition for investment opportunities by investment vehicles and others with investment objectives and strategies identical or similar to our clients' investment objectives and strategies.
- *Market Liquidity.* If we are relying on short term financing to fund investments, and are unable to roll over our clients' debt, we will likely have to liquidate our clients' assets in order to meet their liabilities. We may be unable to sell our clients' assets, or may have to do so at a discount to market value, which would adversely affect our clients' feeder funds and their investors. Changes in overall market leverage may also adversely affect our clients' performance.
- *Diversification.* Because our clients' portfolios only hold certain debt investments, they lack diversification among securities and types of instruments as compared to investment funds that maintain a wide diversification among securities and types of instruments.
- *Leverage.* We may use leverage to enhance our clients' portfolio returns. Losses incurred on our clients' leveraged investment increase in direct proportion to the degree of leverage employed. Our clients will also incur interest expense on the borrowings used to leverage their positions.

Borrowing money to make investments increases the risk of loss with respect to such investments. Although borrowing money increases returns if returns on the incremental investments purchased with the borrowed funds exceed the borrowing costs for such funds, the use of leverage decreases returns if returns earned on such incremental investments are less than the costs of such borrowings. The amount of borrowings which may be outstanding at any time may be large in relation to our clients' capital. In addition, the level of interest rates generally, and the rates at which funds can be borrowed in particular, will affect our clients' operating results. To the extent our clients' assets have been leveraged through the borrowing of money, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by our clients' portfolios fail to cover such costs, the net asset value of our clients' portfolios may decrease faster than if there had been no borrowings.

- *Counterparty and Settlement Risk.* Our clients have an unsecured credit risk with regard to borrowers and other parties with whom they trade or do business and will bear the risk of settlement or other default. Such risk is different materially from those entailed in exchange-traded transactions which 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. In addition, there may be practical or time problems associated with enforcing our clients' rights to their assets in the case of an insolvency of any such party.

- *Compliance with Applicable Laws and Regulations.* Loan origination and servicing is subject to U.S. federal and state laws including state licensing and interest rate and fee restrictions and U.S. federal and state equal credit opportunity and fair credit reporting laws and regulations and debt collection activities. Because certain of these legal requirements vary by state it will not be possible to have a universal note that will apply to all borrowers and variations in loan origination and servicing practices may be required. We have the burden of ensuring that having our clients enter into a loan agreement with a particular borrower listed on a platform satisfies all legal and regulatory requirements. Determining compliance with all applicable laws and regulations is a complex matter and it is possible that our determination may be challenged. Our failure to comply with applicable laws and regulations may limit our clients' ability to collect on all or part of their investments, may subject our clients to direct claims asserted by borrowers or counterclaims asserted by borrowers in default. Such factors would result in additional expense or failure to recover principal and interest and have a negative impact on our clients' performance and also result in civil or criminal liability for our clients.
- *Dependence on LitCap.* Pursuant to an exclusivity agreement with LitCap, our clients may only make investments via the LitCap during the exclusivity period. For our clients to succeed during the exclusivity period, LitCap will have to provide significant transaction volumes on the lending platform operated by LitCap by attracting a large number of high quality borrowers. Additionally, to operate competitively, LitCap will need to develop and protect its intellectual property rights with respect to its technologies. If LitCap is not able to attract high quality borrowers or to operate competitively, our clients' returns may suffer.
- *Expedited Transactions.* Our investment analyses and decisions will generally be undertaken on an expedited basis in order for our clients to take advantage of investment opportunities. The information available to us is limited. Access to material information may not be available to us and could adversely affect our clients.
- *Incurrence of Additional Debt by Borrowers.* If a borrower incurs additional debt after the date an interest in the applicable loan is acquired by one of our clients,

the additional debt may impair the ability of the borrower to make payments on his or her loan and such client's ability to receive its principal and interest payments. To the extent that such borrower has or incurs other indebtedness and cannot pay all of his or her indebtedness, such borrower may choose to make payments to other creditors, rather than to such client. To the extent a borrower incurs other indebtedness that is secured, the ability of the secured creditors to exercise remedies against the assets of such borrower may impair such borrower's ability to repay our client's investment. Borrowers may also choose to repay obligations under secured indebtedness or other unsecured indebtedness before repaying our client's investment because there is no collateral securing our client's investment. In general, our client may not be notified if one of its borrowers incurs additional debt after the date a loan listing is posted. Currently, LitCap does not have a notification policy after the date a loan listing is posted.

- *Risk of Borrower Defaults.* Our expected return on our clients' investments depends on the performance of the borrowers under the corresponding borrower loans and their ability to recover under the underlying legal cases. We expect some borrowers to default on their loans. If a client's portfolio is concentrated in a few investments, its return will depend on the performance of a few borrowers.
- *Inability to Locate and Delay in Making Investments.* The success of our clients is dependent upon our identification of suitable investments. There is no guarantee that we will be able to identify a sufficient number of suitable investments that meet the diversification and investment requirements set forth in the applicable Private Placement Memorandum (and any supplements thereto) or other governing documents and that are in jurisdictions where such arrangements are permitted.

Furthermore, pursuant to the exclusivity agreement with LitCap, in order to maintain such exclusivity, we are contractually obligated to allocate our clients' assets to at least 70% of the listings posted on the lending platform operated by LitCap for a period of 12 months (provided that such listings are located in jurisdictions we have approved). Because LitCap has no duty or obligation to verify any information displayed on the its lending platform and makes no representation or warranty whatsoever as to the creditworthiness of borrowers posting on such platform, there is no guarantee that the investments held in our clients' portfolios will meet the diversification and investment requirements set forth in applicable Private Placement Memorandum (and any supplements thereto) or other governing documents.

Initial and/or future investments in litigation financing indebtedness may be delayed or made at a relatively slow rate because, among other things:

- we intend to conduct due diligence prior to investing;
- attractive debt may not be identified or available at the rate we currently anticipated due to competition from other investors or other factors; and
- only indebtedness relating to claims in jurisdictions where we reasonably believes that such arrangements will not breach applicable laws, rules, or regulations will be considered.

It may therefore take a significant amount of time to invest our clients' capital fully and a significant proportion of capital contributions may not be invested for an extended period. We cannot predict how long it will take to deploy our clients' capital, if at all. We are not obligated to invest or return any capital contributions prior to the end of the applicable investment period.

- Platform Specific Risks:
 - *LitCap Platform.* Investing through the lending platform operated by LitCap, other platforms or brokers is not FDIC-insured, and there is a chance a borrower may default. If a borrower fails to make payments on the corresponding loan related to a client's investment, such client will not receive payments on its investment. It is expected that our clients will not receive payments on all of their investments.

All of our clients' investments have uncertainties and are considered speculative. Each investment is contingent on a borrower's ability to recover under the investment's underlying legal case. Accordingly, if the borrower fails to recover, the applicable client(s) will not receive payments on such investment. Additionally, investments are not secured by any collateral or guaranteed or insured by any third party. Our clients have limited recourse against borrowers and limited ability to pursue collection against any borrower.

- *Lack of Operating History of LitCap.* LitCap is a recently formed company and the lending platform operated by LitCap is a newly developed platform with no history of operations. There can be no assurance that such platform will operate successfully.

- *Limited Operating History of Platforms.* Borrowers may not view or treat their obligations to a platform, and therefore our clients, as having the same significance as loans from traditional lending sources, such as bank loans. The investment return on our clients' investments depends on borrowers fulfilling their payment obligations in a timely and complete manner under the corresponding borrower loan. If a borrower neglects his or her payment obligations on a client's investment or chooses not to repay such client's entirely, such client will likely not be able to recover any portion of its investment related to such borrower.
- *Fraud.* Some borrowers may use a platform to defraud lender members, which could adversely affect our clients' ability to recoup their investment. Some platform operators, including LitCap, do not conduct extensive identity and fraud checks with external databases to authenticate each borrower's identity. In addition, borrower applicants may misrepresent their intentions regarding loan purpose or other information contained in listings. The lending platform operated by LitCap is not obligated to indemnify a lender or repurchase a note if a lender's investment is not realized in whole or in part due to fraud in connection with a loan listing, or due to false or inaccurate statements or omissions of fact in a listing, whether in a borrower member's representations, user recommendations, group affiliations or similar indicia of borrower intent and ability to repay the loan.
- *Transfer of Investments.* Our clients' investments will not be listed on any securities exchange. All investments made on a particular platform must be held by such platform's lender members. Investments will not be transferable except through a note trader platform and there can be no assurance that a note trader platform exists or will be developed or that a counterparty will engage in transfers with our clients. Our clients must be prepared to hold their investments to maturity.
- *Platform Ratings.* Platform ratings may not accurately set forth the risks of investing in the notes listed on their platforms and no assurances can be provided that platform scores and ratings generated by a platform operator will accurately predict a borrower's ability to repay its obligations under any note. Platform operators will not have any indemnity or repurchase obligation under the notes or any other agreement associated with the platform as a result of any inaccuracy with respect to a listing's rating.

- *Indemnification.* Neither the lending platform operated by LitCap nor LitCap is obligated to repurchase notes or indemnify our clients regardless of the fault, negligence or willful misconduct of LitCap. Notwithstanding the foregoing, in the event LitCap is determined liable to one of our clients for any cause, LitCap's indemnification obligation will not exceed the total LitCap fees paid by such client in the previous 6 months from the date of the occurrence of the liability.

Conversely, each of our clients is obligated to indemnify and hold harmless LitCap and its affiliates from and against any and all losses, liabilities, judgments, suits, actions, proceedings, claims, damages, costs (including all attorney's fees, whether reasonable or not) resulting from or arising out of any act or omission by any person obtaining access to the lending platform operated by LitCap through passwords, whether or not such client authorized such access and regardless of LitCap's fault, negligence or willful misconduct. Unlike LitCap, each client's indemnification obligation to LitCap and its affiliates is not capped.

- *Competition.* The lending market is competitive and rapidly changing. With the introduction of new technologies and the influx of new entrants, platforms expect competition to persist and intensify in the future, which could harm a platform operator's, including LitCap's, ability to increase volume on their platform. Principal competitors of platforms include major banking institutions, credit unions, credit card issuers and other consumer finance companies. Competition could result in reduced volumes, reduced interest rates or the failure of the lending platform operated by LitCap to achieve or maintain more widespread market acceptance, any of which could harm our clients.
- *Computer Viruses, Break-Ins and Similar Disruptions.* A platform may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a "hacker" were able to infiltrate a platform, our client would be subject to the increased risk of fraud and would likely experience losses on its investments made through such platform.
- *Extensive U.S. Federal, State and Local Regulation.* Platforms are subject to extensive U.S. federal and state regulation, non-compliance with which could have a negative impact on their ability to provide a trading market for the notes or maintain platforms. No assurance can be given that LitCap will always be compliant with these laws and regulations or that our clients' investments may not be challenged by a borrower or regulator.

Also, changes in law, either due to court decisions, regulatory interpretations or rulings, or new legislation, may adversely affect the collectability of a client's investment.

Platforms represent a novel program that must comply with regulatory regimes applicable to credit transactions as well as with regulatory regimes applicable to securities transactions. The novelty of platforms means compliance with various aspects of such laws is untested. U.S. state and federal laws may apply to the origination, servicing and collection of loans on a platform including laws and regulations such as: usury laws that regulate interest rates and other charges, the U.S. federal Equal Credit Opportunity Act and Fair Credit Reporting Act that require certain disclosures be given to borrowers and limit underwriting of borrowers, state laws that require licensing of creditors, and U.S. state and federal laws that prohibit unfair and deceptive practices and may restrict debt collection practices. Platforms are also subject to U.S. state and federal securities laws, which require that any non-exempt offers and sales of securities be registered.

If the loans and processes for origination and servicing are not in compliance with these laws, borrowers may make counterclaims regarding the enforceability of their obligations under applicable laws after collection actions have commenced, or otherwise seek damages from our clients under these laws.

- *Perceptions of Borrowers.* The participation of qualified borrowers on a platform is fundamental to our investment strategy. It is difficult to determine which professional ethics rules and legal restrictions may apply to participation by borrowers. If borrowers perceive participation on a platform as illegal or unethical under applicable laws or professional ethics rules, whether correctly or not, their participation on platforms will be reduced.
- *Continuing Investments.* Following the expiration of the exclusivity period under the exclusivity agreement with LitCap, we are permitted to cause our clients to make investments on platforms other than the lending platform operated by LitCap that oblige our clients to make continuing investments over time, whereas other arrangements provide for the immediate funding of the total investment commitment or may already be funded in full at the time one of our clients makes an investment. The terms of the former type of investment agreements vary widely; in some

cases, we may have broad discretion as to each incremental funding of a continuing investment, and in others, we may have little discretion and our client would suffer punitive consequences were it to fail to provide incremental funding. Moreover, pursuant to some arrangements, our clients' funding obligations may be capped at a fixed amount, whereas in others the commitment may not be fixed. If the amount of the future funding obligations exceeds our expectations, our client may be adversely affected.

- Litigation Debt Finance Risks:
 - *Generally.* The risks of litigation debt finance include the potential regulation or limitation of interest rates and other fees advanced in exchange for the investments made by our clients under U.S. federal and/or state regulation, a change in statutory or case law which limits or restricts the ability of our client as a creditor to collect principal and interest at anticipated levels, claimants being unsuccessful in whole or in part in the claims upon which underlie such investments, and our continued ability to effectively analyze investments in accordance with our applicable investment guidelines.
 - *Ethics and Legal Restrictions.* Due to legal and professional ethics consideration, there have historically been a limited number of investment opportunities in the area of claims purchase or litigation debt financing in the U.S. and elsewhere. These include restrictions on assignment of certain kinds of claims, and ethical restrictions on participating in a lawyer's contingent fee interests (including ethical rules against sharing fees with lawyers and non-lawyers). A number of states will not, for legal and professional ethics reasons, permit persons to make investments in litigation and arbitration cases either directly or through loans to law firms and accordingly we will not be able to make investments on behalf of our clients with respect to claims relating to such states, thereby limiting the number of potential investments we can make.

In many jurisdictions, investment in and syndication of rights to the proceeds of legal claims is a novel concept which has not been considered by the courts or addressed by statute. In certain jurisdictions, such as California, while no binding court decisions specifically disapprove of the practice, a court may still decline to enforce such arrangements if, for example, there is an indication that a non-party to a claim is in any way controlling the prosecution of that lawsuit, or if it appears that a non-

lawyer is unlawfully engaged in the practice of law, or if the arrangement otherwise offends the public policy of the jurisdiction.

For our clients' investment activities, we intend to rely on legal counsel for purposes of compliance with applicable laws and regulations of the relevant jurisdictions as they apply to the financing arrangement(s) in question. Despite reliance on legal counsel, there is no assurance that our clients' investments will not be open to challenge, subsequently reduced in value or extinguished in their entirety.

Changes in laws, rules or regulations in jurisdictions where these restrictions currently do not apply could further reduce or limit our opportunities to make investments on behalf of our clients as envisaged or could result in the diminution or extinction of the value of our clients' investments related to such jurisdictions.

- *Investment in U.S. Federally-Registered Intellectual Property Claims.* The scarcity of case law addressing the legality of investing in and assigning U.S. federally-registered intellectual property claims leaves considerable uncertainty as to the propriety of investments relating to such claims in U.S. jurisdictions. Certain courts have voided such arrangements in cases involving U.S. federally-registered intellectual property claims as champertous (meaning the intermeddling of a disinterested party to encourage a lawsuit). Accordingly, there is a risk that a court could find that the claims underlying an investment held by one of our clients relating to a U.S. federally-registered intellectual property claim (or any other claims) champertous and render the investment void.
- *Lender Registration.* Lending is subject to extensive regulation at both the U.S. state and federal level. Despite our belief that our clients' investments are and should be characterized as "business loans", a U.S. state or federal regulator or court may nonetheless characterize such investments as "consumer loans". If one of our clients were considered to be engaged in consumer lending without the appropriate registrations and licenses, it would become subject to significant regulatory restrictions and potential penalties for noncompliance.
- *Bad Case Selection.* The profitability of our clients' portfolios is dependent on the outcome of the cases and claims underlying their investments. We will only have access to public filings and non-privileged information pertaining to these cases or claims. There can be no guarantee that cases and claims underlying the investments in which

our clients invest will be successful or will pay the returns we have targeted. If any of the cases, claims or disputes underlying the investments in which our clients invest are unsuccessful or produce investment returns below those we expected, the value of such investments could be materially adversely affected. Furthermore, there is no guarantee that LitCap will be able to attract borrowers with potentially successful claims for inclusion on the lending platform operated by LitCap.

- *Evaluation and Disclosure of Cases and Case Performance.* Certain details of actual cases underlying an investment will not be disclosed to LitCap, us, our clients or the applicable feeder fund investors. Any such sharing of confidential information protected by attorney-client privilege or by attorney work-product doctrine could waive all protection of that information. Such waiver could severely damage the value of the underlying claim by giving the opponent access to sensitive information. Such sharing could also make discovery from the adverse party problematic as most discovery is covered by court-issued protective orders that ensure the confidentiality of all parties. A breach of a protective order could subject a party to serious sanctions that would impact the value of the underlying claim.

In some instances, case settlements and case prospects will be confidential and/or subject to attorney-client privilege. Accordingly, we will not be able to evaluate all relevant information regarding cases underlying our clients' investments.

- *Past Performance of Borrowers May Not Accurately Predict Performance of Investments.* We may rely on past performance of borrowers as part of our due diligence process. However, prior performance is not an accurate predictor of the likelihood of an investment's repayment and there can be no assurance that we will be able to implement our investment strategy, achieve targeted results or avoid losses.
- *Recovery Collection Risks.* Part of our selection process involves an assessment of the ability of the opposing party to pay a judgment or award if the underlying case is successful. If the opposing party is unable to pay or seeks to challenge the validity of the investment on legal or professional ethics grounds, our client may encounter difficulties collecting proceeds from such investment. In addition, an investment's interest rate could be

challenged by a borrower and, if successful, will result in such interest payments being unenforceable or reduced.

- *Due Diligence Risks.* In making an investment assessment and otherwise conducting customary due diligence, we will rely on resources available to us, including a platform operator's proprietary rating. There can be no assurance that our due diligence process will uncover all relevant facts or that any investment will be successful.

The underlying cases which our clients finance may be unsuccessful, take considerable time (whether because of appeals or otherwise) or result in a distribution of cash, new security or other assets, the value of which may be less than the investment made by our clients. It may not be possible to dispose of or otherwise realize a return on any such security or other asset received for legal or professional ethics reasons. Our client may incur additional costs in effecting a disposal of or realization on any such security or other assets. Each of these matters could have a material adverse impact on the anticipated value of such investment.

- *Concentration Risk.* Our clients' investment activities will initially be limited solely to direct litigation debt financing generated through the lending platform operated by LitCap. As a result, the impact on our clients' performance and the potential returns to investors will be more adversely affected if the lending platform operated by LitCap were to perform badly than would be the case if our clients' portfolios of investments were more diversified across multiple platforms.
- *Legal Professional Conflicts.* Our clients' borrowers have duties to their clients which include independent judgment, client confidentiality and the rules relating to attorney-client privilege. The borrowers to whom our clients make investment will, with respect to all legal professional representations, owe overriding duties to their clients. Circumstances may exist in which borrowers are required to act in accordance with duties contrary to the objectives of our clients.

We encourage our investors to consider all of the risk factors we have explained, in addition to those we provide in the Private Placement Memoranda and other governing documents of our feeder funds of our clients, as any investment can be risky and investors must be prepared to assume any potential loss.

6. Disciplinary Information

Neither our firm, nor any of our managers, officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

Neither our firm, nor any of our managers, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

Neither our firm, nor any of our managers, officers or principals has been involved in any self-regulatory organization proceedings that would be material to an evaluation of our firm's advisory business or the integrity of our firm's management.

7. Other Financial Industry Activities and Affiliations

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

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

Relationships with Pooled Investment Vehicles

Our firm and our affiliate, Virage LLC, have sponsored two private investment funds that we manage. In fact, Virage LLC serves as the general partner to our fund clients. Our clients do not have independent management, and our offshore funds do not have independent boards of directors. Although this arrangement may give us heightened control and discretion over our clients, we manage any potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in their Private Placement Memoranda or other governing documents.

In addition, Virage LLC, as our clients' general partner, entered into each investment management arrangement with our firm. While these may be interested party agreements, the material terms of each investment management arrangement are fully disclosed to all investors in the client prior to their investment.

Relationships with Lawyers or Law Firms

Martin Shellist is a founder, Principal, Managing Director and Head of Legal Review responsible for legal asset analysis for our firm. He is also a founder and Principal of Virage LLC. Mr. Shellist is also a founding partner of the law firm Shellist Lazarz Slobin, LLP, where he has been a managing partner since March 1994. Although Mr. Shellist expects to continue managing his existing docket of cases and cases of other lawyers in his law firm during his service for our firm, he does not intend to take on new matters and will retain only limited managerial duties with respect to Shellist Lazarz Slobin during his services for our firm. Mr. Shellist is not obligated to devote any specific amount of time to the affairs of our clients and is not required to accord exclusivity or priority to our clients. Furthermore, while our clients are prohibited from making investments related to claims or cases administered by Shellist Lazarz Slobin attorneys, Mr. Shellist or other Shellist Lazarz Slobin attorneys may be engaged in certain legal matters that may conflict with the interests of our clients or their investments or prohibit us from making certain investments on behalf of our clients entirely.

We do not recommend or select other investment advisers for our clients.

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

As an investment adviser, our firm stands in a position of trust and confidence with respect to our clients, our investment funds. Our firm has a fiduciary duty to place the interests of our client funds before the interests of our firm and our firm's employees. All of our personnel must put the interests of our clients before their own personal interests and must act honestly and fairly in dealings with our clients. All of our personnel must also comply with all federal and other applicable securities laws.

To promote our fiduciary duties and legal obligations, our Code of Ethics contains policies regarding gifts and entertainment, outside business activities, political contributions, reporting violations and disciplinary action. We will provide a copy of our Code of Ethics to any client, or investor in a client, or prospective client or prospective investor upon request.

As part of our Code of Ethics, we have adopted a personal trading policy requiring all of our employees to disclose all holdings in personal accounts and all personal securities transactions in a timely manner. Our affiliates are prohibited from engaging in lending activities through the lending platform operated by LitCap or any other source or platform for their own accounts or for the accounts of others except through a feeder fund of one of our clients that is open to investors not affiliated with our firm.

LitCap, our firm and certain of our affiliates are owned by the same persons: Edward Ondarza, Martin Shellist, Britton Holland and Hugh Plummer. None of the foregoing persons are obligated to devote any specific amount of time to the general partner of our clients and our firm, on the one hand, or LitCap, on the other hand. The common ownership of LitCap and our firm and certain of its affiliates enables our owners to participate in the management fees and performance-based compensation attributable to our clients and LitCap's fees. Accordingly, each of LitCap and our firm has an economic interest in seeing that the business of the other succeeds. Notwithstanding the common ownership, Edward Ondarza, the controlling person of our firm, holds a passive minority interest in LitCap. Accordingly, although LitCap and our firm share common ownership, they are not commonly controlled by the same person(s).

Our portfolio managers may occasionally, under exceptional circumstances, determine that it is in line with certain clients' investment strategies and in the best interest of our clients to have one client purchase a security from another client that is selling the same security, otherwise known as a "cross trade." Cross trades may create conflicts of interest because they are not independently negotiated and may provide an opportunity for an investment adviser to collect related commissions. However, we do not take any commissions or fees in connection with effecting cross trades between our clients. Edward Ondarza must approve all cross trades before they are executed and he or his designee must document the reason for the trade and the approval obtained.

Our personnel may invest their personal funds in our clients, and other unaffiliated private funds, and, therefore, they may hold the same securities as the investors in our clients. As described above and further in our Code of Ethics, we have established procedures designed to limit conflicts of interest in cases where our employees may buy or sell, for themselves, securities that we recommend to our clients.

Our Code of Ethics prohibits our employees from actively buying or selling securities for their own accounts securities that we are currently recommending that our clients buy or sell.

9. Brokerage Practices

We have complete investment and brokerage discretion over our clients' accounts. Currently, we do not utilize any brokers or dealers to execute, settle or clear securities transactions. In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions in the future, we will consider the following factors, among others:

- a broker-dealer's quality of execution,

- a broker-dealer's ability to effect the transaction,
- a broker-dealer's trading expertise and volume,
- a broker-dealer's facilities,
- a broker-dealer's reliability,
- a broker-dealer's reputation, financial responsibility and stability,
- a broker-dealer's willingness and ability to commit capital,
- the nature and extent of a broker-dealer's customer service,
- a broker-dealer's general responsiveness,
- a broker-dealer's access to underwritten offerings and secondary markets,
- any research-related services and equipment provided by a broker-dealer, and
- the overall cost of a trade, including commissions.

If we determine, in good faith, that any commissions a broker charges or the prices a dealer charges are reasonable in relation to the value of services that we and our clients receive, our clients may pay commissions or prices that are greater than those another broker or dealer might charge.

We do not utilize research or other "soft dollar" benefits provided by brokerage firms and do not currently intend to do so in the future.

Because we do not currently engage in soft dollar arrangements, we do not have any procedures to direct client transactions to broker-dealers in return for soft dollar benefits.

Because we do not currently utilize any brokers or dealers, we do not consider referrals in selecting or recommending broker-dealers.

As all of our clients are private investment funds that we manage, we will select all broker-dealers for our clients, if any.

Trade Aggregation and Allocation

Because our clients generally follow the same investment strategy, they tend to participate in the same types of investment opportunities. On a daily basis, investment opportunities generated on the lending platform operated by LitCap are allocated among our clients on a rotation basis (based on the time such opportunity became available). If

an investment opportunity is too large for a client based on its available capital, it will be allocated to the next client in the rotation.

For larger, multi-plaintiff transactions that employ amounts of capital in excess of \$5,000,000, we typically make one aggregate investment on behalf of all clients with available capital, unless, under a particular circumstance, we believe that doing so would not be in the best interest of our clients or consistent with our best execution policy. We typically divide aggregated investments evenly among our participating clients' accounts. We may, however, determine that an even division is not appropriate in certain circumstances, such as when:

- certain clients have cash limitations or limitations because of current portfolio holdings (for example, existing holdings in the same borrower); and/or
- certain clients are restricted or may face adverse consequences from participating in an investment due to tax, legal or regulatory considerations.

Clients can ultimately benefit when we aggregate investments because each client may benefit from reduced transaction costs, and may otherwise be unable to execute an investment decision as effectively as it could have had it acted alone.

We will provide a copy of our complete allocation policies and procedures to any client, or investor in a client, or prospective client or prospective investor upon request.

10. Review of Accounts

We maintain comprehensive review procedures for the ongoing monitoring of portfolio investments. In connection therewith, we typically conduct monthly reviews of all investments held by our clients. All investment and operational staff participate in the ongoing monitoring of the client's portfolios, although responsibilities vary by individual.

We frequently monitor portfolio investments for events that have a material impact on our original investment thesis. Any change to an investment thesis necessitates a review by the managers of the merits of the investment. Changes in valuation and underlying borrower fundamentals will generally trigger a review by portfolio managers. Investors in all of our clients receive written monthly update letters that contain performance information for the applicable feeder fund and audited written annual reports. In addition, investors may also receive unaudited written monthly reports of the performance of the feeder fund in which they have invested.

11. Client Referrals and Other Compensation

Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.

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

12. Custody

While it is our firm's general practice not to accept or maintain physical possession of any of our clients' assets, we are deemed to have custody of their assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, because we have the authority to access clients' funds and deduct fees and expenses from clients' accounts.

In order to comply with Rule 206(4)-2, we utilize the services of a bank to hold all cash for our clients' accounts. We also ensure that the bank maintains these funds in accounts that contain only clients' funds or assets. Our clients do not possess certificated securities. However, we utilize the services of a qualified custodian (as defined under Rule 206(4)-2) to maintain custody of all of our clients' assets related to their investment through the lending platform operated by LitCap. We also ensure that the qualified custodian maintains these assets separately from other assets held by the qualified custodian and have provided the qualified custodian with access to the LitCap platform so that it is able to observe all investments made on behalf of our clients.

In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements to all investors in our clients within 120 days after the end of the fiscal year.

All investors in our clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains the applicable client's assets. Our clients' investors are urged to carefully review all custodial statements and compare them to the statements provided by our firm. Our firm's statements may vary from custodial statements due to accounting procedures, reporting dates, or valuation methodologies of certain securities.

13. Investment Discretion

Scope of Authority

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' Private Placement Memorandum or other governing documents.

Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in our clients with a Private Placement Memorandum or other governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors. By completing our subscription documents to acquire an interest in one of our client funds, investors give us complete authority to manage their investments in accordance with the Private Placement Memorandum and governing documents they each received.

In addition, under investment management agreements with each client fund, all of our clients have granted our firm full power of attorney over their assets, which gives us the right to pursue their investment programs at our full discretion and all rights, privileges and powers of ownership with respect to their assets.

14. Voting Client Securities

Even though we have complete authority to manage our clients' investments, which would include the authority to vote proxies, our clients do not typically receive proxy solicitations due to the nature of their investments.

Should we ever need to vote a proxy for one of our clients, our policy is to vote proxies solely in the interests of our clients. If any of our clients make investments which would cause them to receive proxies, we would not allow them (or their investors) to direct our vote. Generally, we believe that a company's management is best suited to make decisions that are essential to the ongoing operation of the company. Therefore, we would generally vote proxies in line with a company's management. However, under certain circumstances, if we believe that management's proposal is not designed to maximize value for our clients, we will vote against management.

If we believe that a conflict may exist between our firm or any of our employees and our client in connection with voting a client's securities, we will engage a third-party voting firm to make the vote on behalf of the client.

Upon request, any of our clients or any of the investors in our clients can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on its behalf (if applicable).

15. Financial Information

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

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

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