
PART 2A OF FORM ADV: FIRM BROCHURE

PALO ALTO INVESTORS, LLC

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This brochure provides information about the qualifications and business practices of Palo Alto Investors, LLC ("PAI"). If you have any questions about the contents of this brochure, please contact us at 650-325-0772. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

This brochure does not constitute an offer to sell or solicitation of an offer to buy any securities.

Item 2. Material Changes

No material changes.

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Item 4. Advisory Business

PAI is a California limited liability company that has been in business since 1989. It serves as the general partner and investment adviser to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each a “Fund” and collectively, the “Funds”). PAI was founded by William L. Edwards and through December 31, 2012, PAI’s manager was Palo Alto Investors, a corporation wholly owned by Mr. Edwards through that date. Mr. Edwards was also PAI’s chairman, chief executive officer and chief investment officer and the chairman, chief executive officer and sole shareholder of Palo Alto Investors.

On January 1, 2013, Dr. A. Joon Yun and Dr. Patrick Lee replaced Palo Alto Investors and became PAI’s co-managers, and Mr. Edwards resigned as PAI’s chairman, chief executive officer and chief investment officer. Drs. Yun and Lee also lead PAI’s portfolio management team and did so well before the restructuring. They currently are supported by Dr. John Doux and Dr. Charles Cho. This restructuring reflects PAI’s increased focus on healthcare investing and Mr. Edwards’ desire to further transition its leadership to its healthcare specialists.

Mr. Edwards continues to serve as one of PAI’s equity analysts.

As of December 31, 2014, PAI had total discretionary assets under management of approximately \$1.9 billion. PAI solely manages assets on a discretionary basis.

PAI invests principally, but not exclusively, in equity and equity-related securities that are traded publicly in U.S. markets on behalf of the Funds. Each of PAI’s Funds typically focuses on a specific type of issuer, and while PAI’s focus is on healthcare investing, it also invests on behalf of the Funds in companies in other sectors or industries, for example, energy and technology. Regardless of what may be its current focus, for each of the Funds, PAI is authorized to enter into any type of investment transaction that it deems appropriate under the terms of each Fund’s partnership or investment agreement.

The investors in the Funds have no opportunity to select or evaluate any Fund investments or strategies. PAI selects all Fund investments and strategies.

Item 5. Fees and Compensation

The fees applicable to each Fund are set forth in detail in that Fund’s offering documents. A brief summary of those fees is described below. PAI’s compensation is negotiable and varies, but typically consists of the following components;

- First, PAI charges new investors an annual fee of 1.5% of their assets under management. Some current investors who invested prior to May 1, 2008, pay an annual fee of 1.0%. The management fee with respect to each investor in a Fund is payable in advance in quarterly installments at the beginning of each calendar quarter based on the net market value of the investor’s assets on that date.

- Second, PAI typically is allocated from each limited partner in a Fund that is a limited partnership a performance allocation equal to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to that limited partner,

and receives from other Funds a performance fee equal to 20% of the Fund's net profits (including both realized and unrealized gains and losses).

Performance allocations and fees are assessed in arrears on an annual basis, and are only applied to the portion of profits that exceed the cumulative losses previously incurred by investors. Limited partners who joined a Fund before 1995 are typically assessed a 15% performance allocation or fee. PAI complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations and fees may create an incentive for PAI to make more risky and speculative investments than it would otherwise make.

PAI typically deducts management fees and performance allocations and fees directly from investor accounts. Funds that invest in mutual funds or ETFs also pay, indirectly, investment advisory fees to the managers of those funds.

PAI believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in a Fund to use the "alternative reporting option" to report PAI's compensation as "eligible indirect compensation" on Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

An investor may withdraw part of its assets from most Funds as of any March 31 or September 30, subject to a lockup of one to three years, as provided in the Fund's partnership or investment agreement. On any permitted withdrawal date for most PAI Funds, no more than 50% of an investor's assets may be withdrawn and the remainder may be withdrawn on the next permitted withdrawal date, but if the remainder is not so withdrawn, then the withdrawal rights revert back to the restriction that the next time a withdrawal occurs, no more than 50% of those assets may be withdrawn and the remainder may be withdrawn on the next permitted withdrawal date. Investors in some Funds, however, may withdraw assets on thirty days' notice as of the end of any quarter.

An investor who withdraws from a Fund on a date other than March 31 or September 30 does not receive a refund of the management fee previously paid.

Each Fund is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. PAI bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. All or part of these costs and expenses may be paid, however, by securities brokers and futures commission merchants that execute the Funds' securities trades, as discussed in Item 12 below.

Item 6. Performance-Based Fees and Side-By-Side Management

PAI currently manages only Funds that pay performance-based compensation as described in Item 5. It does not currently manage Funds that do not pay performance-based compensation, although as discussed above, limited partners who joined a Fund before 1995 typically are assessed a 15% performance allocation, while subsequent investors pay performance-based compensation of 20%. This structure could cause the older Funds to pay less performance compensation to PAI than newer Funds.

To address any conflict that this structure might create, PAI typically allocates all investment opportunities within each strategy that it manages pro rata based on each Fund's position size or assets. In addition, PAI has policies and procedures for reviewing Fund investment allocations on a regular basis.

Item 7. Types of Clients

PAI provides investment advice to private pooled investment vehicles that are offered to investors on a private placement basis. Investors in most Funds generally are required to invest a minimum of up to \$1,000,000 depending on the Fund, but PAI may waive this minimum. Some Funds require a minimum investment of \$5,000,000, but again, PAI may waive this minimum.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategy

In addition to the investments that PAI makes for the Funds as described in Item 4, PAI may also invest in preferred stocks, convertible securities, warrants, rights, options (including covered and uncovered puts and calls and over-the-counter options), swaps and other derivative instruments, bonds and other fixed income securities, private securities, non-U.S. securities and money market instruments. PAI may also engage in short selling, margin trading, hedging and other investment strategies for the Funds and on behalf of certain Funds, may invest in and trade currencies, futures, options on futures and other commodity interests. Nevertheless, there are no limits on the types of securities in which PAI may take positions on behalf of the Funds or the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. In addition, there are limits on disclosing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, PAI may pursue any objectives or use any trading or investment techniques that it considers appropriate and in the Funds' interests.

Risk Factors

Investing in securities and commodities involves risk of loss that investors should be prepared to bear. Below are some of the risks that investors should consider before investing in any PAI Fund. Any or all of such risks could materially and adversely affect investment performance, the value of any Fund or any security held in a Fund, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that an investor may encounter. Potential investors in a Fund should review its offering circular or private offering

memorandum carefully and in its entirety, and consult with their professional advisers before deciding whether to invest.

- A Fund may not achieve its investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Currently, each Fund is likely to be concentrated in the securities of small- and micro-capitalization healthcare sector companies, with some exposure in certain Funds to energy or technology sector companies and companies located outside the U.S. Those securities involve substantially higher risks than do investments in securities of other sectors.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect a Fund's investments.
- A Fund may hold stocks that disappoint earnings expectations and decline, and may short stocks that beat earnings expectations and rise.
- PAI may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. PAI also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a Fund when the Fund could make a profit or avoid losses.
- PAI may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.
- PAI may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. PAI is not obligated to hedge a Fund's portfolio positions, and it frequently may not do so.
- A Fund may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- PAI may sell securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to prevent short sales of the issuer's securities. PAI and any of the Funds could be subject to such actions, even if they are baseless, and any such Fund could incur substantial costs defending them.
- PAI may use leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, which increases volatility and

risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses.

- PAI may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.

- Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which PAI does business on behalf of the Funds may default on their obligations. For example, a Fund may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.

- PAI may cause a Fund to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging.

- PAI may cause the Funds to invest in securities of non-U.S. private and government issuers. Some of the PAI Funds invest primarily in these issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight. These risks are greater in less developed countries, sometimes referred to as emerging markets.

- Changes in economic conditions can adversely affect investment performance. Economic conditions in the U.S. and elsewhere have deteriorated significantly for several years, resulting in a deep and protracted recession, volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.

- PAI may acquire for any of the Funds a large position in an issuer's securities, but the Fund nevertheless is unlikely to have any control over the issuer's management. In addition, if PAI holds a large position in an issuer's securities, it could depress the market for those securities.

- Some of a Fund's positions may be or become illiquid, in which case PAI may not be able to sell such positions.

- A Fund may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.

- A Fund's investments may not be diversified. In particular, the Funds concentrate their investments in the healthcare sector. Therefore, a loss in any one position or industry (for example, the healthcare, energy or technology industry) or sector (for example, emerging markets) in which a Fund has invested may cause significant losses.

- PAI determines the value of securities and commodities held in the Funds, whether or not a public market exists for such instruments. If PAI's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- Each Fund and not PAI is responsible for any trade errors that PAI makes in that Fund, even when the error adversely affects the Fund.
- PAI and its affiliates and agents generally are not responsible to any Fund or investor for losses incurred in a Fund, unless the conduct resulting in such loss breached PAI's fiduciary duty to the Fund or investor.
- There is not and will not be an active market for Fund interests. It may be impossible to transfer any such interests, even in an emergency.
- A Fund may not be able to generate cash necessary to satisfy investor withdrawals and redemptions. Substantial withdrawals and redemptions in a short period could force PAI to liquidate investments too rapidly, and may reduce the size of a Fund such that it cannot generate returns or limit losses.
- A Fund may limit or suspend withdrawals or redemptions of an investor's assets from the Fund.
- A Fund may establish a reserve for contingencies if PAI considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that PAI and its affiliates manage grow too large, it may adversely affect performance, because it may be more difficult for PAI to find attractive investments as the amount of assets that it must invest increases.
- No Fund or investor has been represented by separate counsel. The attorneys who represent PAI do not represent the Funds or their investors. The Funds and their investors must hire their own counsel for legal advice and representation.
- A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- PAI, an administrator or any government agency may freeze assets that any of them believes an investor holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of PAI, a Fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.

- Most Funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a Fund without a cash distribution to pay the related taxes.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that PAI must devote to regulatory compliance to the detriment of investment activities.
- PAI is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity pool operator. Interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. PAI believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, PAI and any Fund could be subject to expensive legal action and potential termination. In addition, investors in the Funds do not have certain regulatory protection that they would have if these registrations were in place.
- PAI's activities could cause adverse tax consequences to Funds and investors, including liability for interest and penalties.
- PAI's activities may cause a Fund that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- PAI and its affiliates may spend time on activities that compete with a Fund without accountability to investors, including investing for other Funds and their own accounts. If PAI receives better compensation and other benefits from managing other assets compared to managing a Fund, it has incentive to allocate more time to those other activities. These factors could influence PAI not to make investments on a Fund's behalf even if such investments would benefit the Fund. In addition, three members of PAI's healthcare portfolio management team are practicing physicians who divide their time between those practices and their duties to PAI.
- PAI may provide certain investors with more frequent or detailed reports, special compensation arrangements and withdrawal or redemption rights that it does not provide to other investors.

The above is only a brief summary of some of the risks that an investor may encounter. Before deciding to invest in a Fund, an investor should consider carefully all of the risk factors and other information in the Fund's offering documents.

Item 9. Disciplinary Information

Not applicable.

Item 10. Other Financial Industry Activities and Affiliations

Not Applicable.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

PAI has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940 that establishes standards of conduct for PAI's supervised persons. The Code of Ethics includes general requirements that PAI's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to personal trading, insider trading, conflicts of interest and confidentiality of Fund and investor information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to PAI's Compliance Officer, and requires the Compliance Officer to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the Compliance Officer. Each supervised person receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Annually, each supervised person must certify that he or she complied with the Code of Ethics during the preceding year. Investors may obtain a copy of PAI's Code of Ethics by contacting PAI.

Under the Code of Ethics, PAI and its officers, managers, members and employees may personally invest in securities of the same classes as PAI purchases for Funds and may own securities of the same issuers that PAI subsequently purchases for Funds. This practice creates a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a Fund to profit personally by the market effect of such transactions and recommendations. To address this conflict, except as described in Item 12 regarding aggregating securities transactions, if PAI purchases or sells a security for any Fund and any of PAI and its officers, managers, members and employees purchase or sell a security on the same day, either the Fund and PAI and its officers, managers, members and employees pay or receive the same price, or the Fund receives the more favorable price. PAI and its officers, managers, members and employees may also buy or sell specific securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which PAI does not believe appropriate to buy or sell for a Fund.

Because PAI manages more than one Fund, there may be conflicts of interest over its time devoted to managing any one Fund and allocating investment opportunities among all Funds. For example, PAI selects investments for each Fund based solely on investment considerations for that Fund. Different Funds may have differing investment strategies and expected levels of trading. PAI may buy or sell a security for one Fund but not for another, or may buy (or sell) a security for one Fund while simultaneously selling (or buying) the same security for another Fund. PAI may give advice to, and take action on behalf of, any of the Funds that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other Fund. PAI is not obligated to acquire for any Fund any security that PAI or its officers, managers, members or employees may acquire for its or their own accounts or for any other Fund, if in PAI's absolute discretion, it is not practical or desirable to acquire a position in such security for that Fund.

Item 12. Brokerage Practices

PAI has complete discretion in selecting the broker or futures commission merchant that it uses for Fund transactions and the commission rates that the Funds pay such brokers and futures commission merchants. In selecting a broker or futures commission merchant for any transaction or series of transactions, PAI may consider a number of factors, including, for example:

- net price, clearance, settlement and reputation;
- financial strength and stability;
- efficiency of execution and error resolution;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- willingness to commit capital;
- special execution capabilities;
- knowledge of other buyers and sellers;
- order of call;
- offering to PAI on-line access to computerized data regarding clients' accounts;
- computer trading systems; and
- the availability of stocks to borrow for short trades.

PAI may also purchase from a broker or futures commission merchant or allow a broker or futures commission merchant to pay for the following (each a "soft dollar" relationship):

- research reports, services and conferences, including third-party research fees;
- technical data;
- periodical subscription fees;
- performance measurement data;
- on-line pricing;
- news wire and data processing charges;
- quotation services;
- custody, recordkeeping and similar services;
- proxy voting services;
- computer hardware and software; and
- office equipment.

PAI may receive soft dollar credits based on principal, as well as agency, securities transactions with brokers and futures commission merchants or direct a broker or futures commission merchant that executes transactions to share some of its commissions with a broker or futures commission merchant that provides soft dollar benefits to PAI.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment advisers who use commission dollars of their clients to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If PAI uses commission

dollars to pay for products or services that provide administrative or other non-research assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

PAI has retained JP Morgan Clearing Services Corp. (“JPMorgan”), the Fidelity Prime Services platform of Fidelity Capital Markets, a division of National Financial Services LLC (“Fidelity”), and Merrill Lynch Professional Clearing Corp (“Merrill” collectively, the “Prime Brokers”) to serve as the prime brokers and custodians to the Funds. PAI may replace JPMorgan Fidelity, Merrill or appoint additional prime brokers and custodians at any time. The services that the Prime Brokers currently provide to the Funds may include custody, margin financing, clearing, settlement and stock borrowing, in accordance with the terms of the prime brokerage agreement entered into between each Fund and the Prime Broker for that Fund. JPMorgan’s address is 383 Madison Avenue, New York, New York 10179. Fidelity’s address is World Trade Center, 200 Seaport Boulevard Z2H, Boston, MA 02210. Merrill’s address is One Bryant Park, 6th Floor, NY1-100-06-01, New York, NY 10036. The Prime Brokers have custody of most of the Funds’ assets and provide PAI with other services. These services may include: technology (such as internet access, IT support, Bloomberg connections, wireless networking, e-mail archiving and disaster recovery systems), capital introduction services, portfolio reporting and access to electronic communications networks. PAI expects to use a substantial portion of these services for research and trading on behalf of the Funds, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e). Although many prime brokers provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if PAI did not receive these services from the Prime Brokers, PAI would be required to pay for all or some of them. PAI is not required to direct a particular number of trades to the Prime Brokers or to continue to use either of them as the Funds’ custodian, but it has an incentive to do so based on the Prime Brokers’ prior and continued services.

A Fund’s obligations to a Prime Broker and any other custodian (and its affiliates) are secured by a first priority perfected security interest over all of the Fund’s assets held in custody by that custodian or any such affiliate. A custodian may transfer to itself or an affiliate all rights, title and interest in and to those assets as collateral and may deal with, lend, dispose of, pledge or otherwise use all such collateral for its own purposes. If any such transfer occurs with respect to a Fund, that Fund will rank as such custodian’s (or its affiliate’s) unsecured creditor. If such custodian or affiliate becomes insolvent, the Fund may not be able to recover its securities held by that custodian or affiliate in full. In addition, a Fund’s cash that a custodian holds may not be segregated from such custodian’s own cash and, if not so segregated, such custodian or affiliate may use that cash in the course of its business and a Fund will rank as unsecured creditors in relation to that cash.

PAI may pay to a broker or futures commission merchant commissions and mark-ups that exceed those that another broker or futures commission merchant might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker or futures commission merchant provides. PAI determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or PAI’s overall fiduciary duty to its clients. A Fund may, however, pay higher commissions and mark-

ups than are otherwise available or may pay more commissions or mark-ups based on Fund trading activity. The research and other benefits resulting from PAI's brokerage relationships benefit PAI's operations as a whole and all accounts that it manages, including those that do not generate the soft dollars that pay for such research and other benefits. PAI does not allocate soft dollar benefits to any Fund proportionately to the soft dollar credits that such Fund generates.

PAI's relationships with brokers and futures commission merchants that provide soft dollar services influence PAI's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. PAI has an incentive to select or recommend a broker or futures commission merchant based on PAI's interest in receiving soft dollar services rather than any Fund's interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that PAI uses soft dollars to pay expenses it would otherwise be required to pay itself.

PAI addresses these conflicts of interest by quarterly evaluating the trade execution services that it receives from the brokers and futures commission merchants that it uses to execute trades for the Funds. Such evaluation includes comparing those services to the services available from other brokers and futures commission merchants. PAI considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers or futures commission merchants, increasing or decreasing targets for each broker or futures commission merchant and the appropriate level of commission rates.

PAI may aggregate securities sale and purchase orders for a Fund with similar orders being made contemporaneously for other Funds that PAI manages or with accounts of its affiliates. In such event, PAI may charge or credit a Fund the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the Fund than it would be if PAI were not executing similar transactions concurrently for other Funds. PAI may also cause a Fund to buy or sell securities directly from or to another Fund, if such a cross-transaction is in the interests of both Funds.

PAI may direct a certain amount of brokerage to a broker or futures commission merchant in return for the broker's or futures commission merchant's referral of prospective investors. Directing brokerage in exchange for investor referrals creates a conflict of interest in that PAI has an incentive to refer the Funds' brokerage business to brokers and futures commission merchants to which it might not otherwise direct transactions. During its last fiscal year, PAI did not direct Fund transactions to a particular broker or futures commission merchant in return for investor referrals.

Item 13. Review of Accounts

All of PAI's Funds are managed and reviewed weekly by their portfolio managers. These reviews consider asset allocation, cash management, market prospects and individual issue prospects and give particular attention to changes in company earnings, industry outlook, market outlook and price levels. PAI's portfolio managers are:

A. Joon Yun, President, Equity Analyst

Patrick Lee, Equity Analyst

Charles Cho, Equity Analyst

William L. Edwards, Equity Analyst

Investors in the Funds receive the following regular reports:

Monthly or Quarterly – Account balance statements from the independent fund administrator.

Quarterly – Update letter to investors.

Annually – Audited fund financial statements.

Item 14. Client Referrals and Other Compensation

PAI engages solicitors to whom it pays cash or a portion of the advisory fees and or incentive allocation paid by investors referred to it by those solicitors. This practice is disclosed in writing to investors and PAI complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

PAI has discretionary authority to manage the Funds pursuant to a grant of authority in each Fund's limited partnership agreement or a limited power of attorney in each Fund's investment adviser agreement.

Item 17. Voting Client Securities

PAI votes all proxies on behalf of each Fund over which it has proxy voting authority based on its determination of such Fund's best interests. In determining whether a proposal serves a Fund's best interests, PAI considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the proposal's potential effect on enhancing PAI's engagement with management;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

PAI abstains from voting proxies when PAI believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between PAI and a Fund, PAI will vote all proxies in accordance with the policy described above. If PAI determines that this policy does not adequately address the conflict of interest, PAI will notify the Fund of the conflict and request that the Fund consent to PAI's intended response to the proxy solicitation. If the Fund consents to PAI's intended response or fails to respond to the notice within a reasonable time specified in the notice, PAI will vote the proxy as described in the notice. In these circumstances, a Fund's consent to a proposal generally will be obtained from either investors holding a majority of the interests in the Fund or from a committee of investors appointed by the Fund.

Investors can obtain a copy of PAI's proxy voting policy and a record of votes cast by PAI on behalf of the Fund in which that investor is invested by contacting PAI.

Item 18. Financial Information

Not Applicable.

Privacy Policy

PAI and the Funds for which it serves as General Partner or Investment Manager:

- collect non-public personal information about their investors from the following sources:
 - information received from investors on applications or other forms, and
 - information about investors' transactions with PAI, its affiliates or others;
- do not disclose any non-public personal information about their investors or former investors to anyone, except as permitted by law;
- restrict access to non-public personal information about their investors to their employees who need to know that information to provide services to investors; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard investors' personal information.