

**Rail-Splitter Capital Management, LLC**

**February 19, 2015**

---

**This brochure provides information about the qualifications and business practices of Rail-Splitter Capital Management, LLC (the “Adviser”) an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at 312-629-4950. This information has not been approved or verified by the SEC, or by any state securities authority.**

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

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

Rail-Splitter Capital Management, LLC  
303 W. Madison Street  
Suite 1325  
Chicago, Illinois 60606  
Telephone: 312-629-4950  
Fax: 312-629-4955  
Website: [www.rsplitter.com](http://www.rsplitter.com)

## **Item 2. Summary of Material Changes**

The following is a summary of material changes made to our Brochure since the last annual update on December 31, 2013:

### Item 4: Advisory Business

This item was updated to indicate the Adviser may provide sub-advisory services to registered investment companies. In addition, this item was updated to note that Clients are allowed to impose restrictions on investing in certain securities or other mutually agreed upon limitations.

### Item 5: Fees and Compensation

This item was updated to include a discussion of the Adviser's valuation practices which were not previously discussed. This item was updated to clarify certain expenses that are Fund related expenses.

### Item 7: Types of Clients

This item was updated to note the Adviser's principals and qualified employees may invest in the Funds, some of which may be considered proprietary accounts due to the Adviser's principals and qualified employees' investments exceeding 25% of the net asset value of the Fund. In addition, personnel may invest in registered investment companies sub-advised by the Adviser.

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

This item was updated to include an enhanced discussion of the Adviser's personal trading restrictions, as well as to disclose that certain proprietary accounts may be considered personal securities accounts due to the Adviser's principals and qualified employees investment in the Funds.

### Item 12: Brokerage Practices

This item was updated to include an enhanced discussion of the Adviser's trade aggregation and allocation practices, including practices related to proprietary accounts. In addition, this item was updated to include a discussion of cross trades and trade error correction procedures which were previously disclosed in Item 16.

### Item 15: Custody

This item was updated to note the Adviser has custody due to its role as General Partner to the Funds.

### Item 16: Investment Discretion

The discussion of cross trades and trade error correction procedures previously discussed in this item was moved to Item 12.

## TABLE OF CONTENTS

Item 2.	Summary of Material Changes .....	2
Item 4.	Advisory Business .....	3
Item 5.	Fees and Compensation .....	5
Item 6.	Performance-Based Fees and Side-by-Side Management.....	7
Item 7.	Types of Clients .....	8
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9.	Disciplinary Information .....	12
Item 10.	Other Financial Industry Activities and Affiliations.....	13
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	14
Item 12.	Brokerage Practices .....	16
Item 13.	Review of Accounts .....	19
Item 14.	Client Referrals and Other Compensation .....	20
Item 15.	Custody.....	21
Item 16.	Investment Discretion .....	22
Item 17.	Voting Client Securities .....	23
Item 18.	Financial Information .....	24

#### **Item 4. Advisory Business**

The Adviser is an investment adviser with its principal place of business in Chicago, Illinois. The Adviser commenced operations as an investment adviser on September 1, 2002. The principal owners of the Adviser are John Croghan, Richard Fradin and John Souter.

The Adviser offers investment advisory services on a discretionary basis to unregistered privately pooled investment vehicles (each, a "Fund") intended for sophisticated investors and institutional investors, and separately managed institutional accounts. The Adviser also provides sub-advisory services to registered investment companies (collectively with the Funds and separately managed accounts, "Clients"). The Funds to which the Adviser currently provides investment advisory services include Rail-Splitter Fund, L.P., Rail-Splitter Fund II, L.P. and Rail-Splitter Long Fund, L.P. each a Delaware limited partnership, and Rail-Splitter Fund, Ltd., a Cayman Islands exempted company.

The Adviser's main focus is equities and equity-related securities and derivatives of U.S. companies.

The Adviser provides advice to Client accounts based on specific investment objectives and strategies. The investment objective of each Fund is described in full detail in its respective private placement memorandum. While the Adviser makes all investment decisions on behalf of Clients, the Adviser does permit Clients to impose restrictions on investing in certain securities or other mutually agreed upon limitations. The Adviser is either subject to a written investment advisory agreement or the terms of the Funds' private placement memorandums, both of which describe the Adviser's discretionary authority, Client or Fund investment limitations, investment objectives, fees and other matters.

As of January 31, 2015, the Adviser had approximately \$271,000,000 of Client assets under management, all on a discretionary basis.

## **Item 5. Fees and Compensation**

### General Fee Information

The Adviser may charge Clients a fee based on a percentage of the account's market value ("asset-based fee") or a combination of asset-based and performance-based fees. Client accounts are generally billed monthly in arrears (separately managed accounts) or in advance (for the Funds) and pro-rated for partial periods. Fees may be negotiable based on account size, service requirements and other factors. The Adviser's compensation from each Fund is described in its respective private placement memorandum.

### Asset-Based Compensation

The Adviser receives a monthly management fee at a rate generally ranging from 1.0% to 1.5% of the net asset value of each Client account. The management fee is paid within ten days after the first day of each month based on the net asset value of each Client account as of the first day of such month. For separately managed accounts, the monthly management fee may be billed in advance or in arrears, depending on the terms of the investment management agreement.

### Performance-Based Compensation

As of the end of each year, the Adviser receives performance-based compensation (either as a fee or a profit-allocation) at a rate equal to 20% - 30% of the net profits (including net unrealized gains), if any, attributable to each Fund. Receipt of performance-based compensation in one or more of the Funds may be subject to a base hurdle rate or a hurdle rate based upon that particular Fund's performance relative to the S&P 500 Total Return Index or another similar index, as determined by the Adviser.

There are conflicts of interest present when charging performance-based fees as the Adviser has an incentive to make riskier, more speculative investments than would be the case in the absence of these fees or place more favorable investments in such accounts. The Adviser maintains investment and trade allocation policies and procedures designed to address such conflicts of interest. Further, performance information is reviewed regularly by the investment team and compliance. Please see Item 6 for additional information regarding performance-based fee arrangements.

### Other Fees

In addition to paying management fees and performance-based fees, Client accounts will also be subject to other expenses, including: brokerage fees and commissions; administration expenses; legal expenses; external accounting, audit and tax preparation expenses; organizational expenses; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; a pro-rata share of the costs related to an order management system and the system's hosting platform; other portfolio expenses; and costs, expenses and fees associated with products or services that may be necessary or incidental to such investments or accounts.

### Account Valuation Practices

As outlined in the Adviser's Pricing and Valuation policy, the Adviser relies on account market values calculated by third-party sources ("Third-Party Sources") to calculate assets under management, investment performance and Client fees where applicable. In the rare instance where a fair valuation needs to be determined, the Adviser maintains valuation policies and procedures outlining its process to determine a fair market value for a security.

There are inherent conflicts of interest present when valuing Client accounts as the Adviser has an incentive to value securities high to increase market values, thereby increasing performance and fees. Further, because Clients pay different fees based on differing fee schedules and/or the size of the account, the Adviser has an incentive to favor those accounts where it earns the highest fees. The Adviser maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address such conflicts of interest. In addition, investment performance returns are compared to benchmark return information which is reviewed regularly by the investment team and compliance.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As discussed in Item 5 above, the Adviser and its investment personnel provide investment management services to multiple Clients and charges asset-based fees or a combination of asset-based and performance-based fees. The Adviser is entitled to be paid performance-based compensation by the Funds and its separately managed accounts. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component. In addition, certain Client accounts may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. When the Adviser and its investment personnel manage more than one Client account a potential exists for one Client account to be favored over another Client account.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts generally participate in investment opportunities pro rata based on asset size and require that, to the extent orders are aggregated, the Client orders are price-averaged. Finally, procedures also require the objective allocation for limited opportunities such as initial public offerings to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Investment Officer.

## **Item 7. Types of Clients**

The Adviser provides services to the Funds, and separately-managed accounts. The Adviser also provides sub-advisory services to registered investment companies.

For separately managed accounts, generally a minimum initial account size of \$25,000,000 is required. The initial and additional subscription minimums are disclosed in each Fund's offering memorandum. Account minimums may be subject to negotiation.

The Adviser does not manage separate accounts for family members or friends; however, the Adviser's principals and qualified employees may invest in the Funds, which may create an incentive for the Adviser to favor those Funds over other Clients. Further, some of the Funds may be considered proprietary accounts due to the Adviser's principals and qualified employees' investments exceeding 25% of the net asset value of the Fund. In addition, personnel may invest in registered investment companies sub-advised by the Adviser. The Adviser mitigates related conflicts in several ways. First, the Adviser's Code of Ethics and Personal Trading Policy (the "Code") requires all access persons to put Clients' interests ahead of their own, or the Adviser's, as well as to obtain pre-clearance prior to investing in the Funds. In addition, the Adviser maintains investment, trade allocation and valuation policies and procedures designed to address such conflicts of interest.



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

The Adviser's investment philosophy is rooted in a fundamental, sector-focused approach that combines quality growth orientation with valuation disciplines. The Adviser's philosophy follows a bottoms-up approach, concentrating on stock selection, rather than macroeconomic analysis or timing of the market. Investments, both long and short, are concentrated in sectors and businesses where the Adviser's analysts have experience and expertise. This investment philosophy applies to all of the Adviser's strategies with the primary difference being the amount of leverage utilized in one strategy versus another.

The Adviser's strategies employ the following methods:

*Equity.* The Adviser focuses on a range of equity investment styles, but concentrates in growth stocks. Client accounts invest in all ranges on the capitalization scale, from micro-cap, through small-cap, mid-cap and large-cap, to mega-cap.

*Fundamental Value.* The Adviser engages in a fundamental value investment strategy wherein the Adviser attempts to invest in securities the Adviser believes are undervalued by the market.

*Leverage.* The Adviser's investment program may utilize a significant amount of leverage that involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for marketable securities investments.

*Options Trading.* The Adviser may engage in various option trading investment strategies. Options are investments whose ultimate value is determined from the value of the underlying investment. The Adviser engages in the following types of option trading strategies: puts and calls.

*Relative Value.* The Adviser pursues relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued.

*Short Selling.* The Adviser engages in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales (i) as a form of hedging to offset potential declines in long positions in similar securities and (ii) for profit.

These methods, strategies and investments involve risk of loss to Clients and Clients must be prepared to bear the loss of their entire investment.

The following risks are related to the Adviser's investment strategies:

*Short Sales.* The Adviser's investment program includes short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

*Leverage.* Performance may be more volatile if a Client's account employs leverage.

*Lack of Diversification.* Client accounts may not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, Client accounts may be subject to more rapid change in value

than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

The following risks are related to the types of securities generally recommended by the Adviser:

*Small Cap Stocks.* Clients may invest in smaller-to-medium sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These “secondary” securities often involve significantly greater risks than the securities of larger, better-known companies.

*Hedging Risk.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser’s investment portfolios than if the Adviser did not engage in any such hedging transactions.

*Derivatives.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the Client or the Adviser. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the Client’s account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Emerging Markets.* The risks of foreign investments typically are greater in less developed countries, sometimes referred to as emerging markets. For example, political and economic structures in these countries may be less established and may change rapidly. These countries also are more likely to experience high levels of inflation, deflation, or currency devaluation, which can harm their economies and securities markets and increase volatility. Restrictions on currency trading that may be imposed by emerging market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries.

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and “growth” stocks can react differently from “value” stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Non-U.S. Securities.* Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

*REITs.* REITs in which the Adviser invests Client accounts are affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the Adviser invests concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a

higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills, and have limited diversification. REITS depend generally on their ability to generate cash flow to make distributions to investors.

*Options.* In connection with the use of options, there may be an imperfect correlation between the change in market value of a security and the prices of the options in the Client's account. In addition, the Adviser's investments in options may encounter a lack of a liquid secondary market for a futures contract.

**Item 9. Disciplinary Information**

This Item is inapplicable as there are no disciplinary events to report.

#### **Item 10. Other Financial Industry Activities and Affiliations**

The Adviser serves as general partner to the Funds. Each of the Funds has the right to enter into agreements with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are either more or less advantageous than those set forth in the Fund's offering memorandum. For example, such terms and conditions may provide for special rights to make future investments in the Fund, other investment vehicles or managed accounts; special withdrawal rights relating to frequency, notice, a reduction or rebate in fees or withdrawal penalties to be paid by the limited partner and/or other terms; rights to receive reports from the Fund on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Fund and such investors. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the investor's investment in the Fund or affiliated investment entity, an agreement by an investor to maintain such investment in the Fund for a significant period of time, or other similar commitment by an investor to the Fund. Please see each Fund's respective offering memorandum for related disclosures.

Two Principals of the Adviser also serve as Directors of the offshore fund, Rail-Splitter Fund, Ltd.

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

### Standards of Conduct

The Adviser has adopted a Code that obligates the Adviser and its personnel, including the Adviser's principals, to put the interests of the Adviser's Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. All of the Adviser's personnel are also required to comply with applicable federal securities laws. The Code outlines the standards of conduct expected of the Adviser's personnel including limitations on personal trading, giving and accepting gifts, serving as a director or trustee for an external organization, engaging in outside business activities, and making political and charitable contributions. A copy of our Code is available upon request.

The Adviser, in the course of its investment management and other activities (e.g., board or other committee service), may come into possession of confidential or material, nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of Clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a Client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information and to reasonably assure that the Adviser is meeting its obligations to Clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the Client or using such information for the Client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that the Adviser possesses such information), or not using such information for the Client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

### Personal Trading

The Adviser requires its personnel to pre-clear personal securities transactions, except for certain exempt transactions with our Chief Compliance Officer. In addition, the Code requires personnel to report certain security holdings, including investments in the Funds, initially upon employment and on an annual basis thereafter. Finally, personnel are required to report personal transactions to the Chief Compliance Officer on a quarterly basis.

Personnel are generally not permitted to engage in the following: (1) executing a transaction in a security on the restricted list, a list of securities where trading is prohibited (2) purchasing a security owned in Client accounts, unless the Adviser has not traded the Security (or had a pending order) for five (5) business days before or after; (3) selling a security if the same security is owned by any Client; (4) engaging in short sales of securities owned in Client accounts; (5) shorting securities that a Client is long, or purchasing securities that a Client is short; (6) engaging in more than five personal securities transactions in a calendar month; and (7) profiting from the purchase and sale, or sale and purchase, of the same or equivalent securities within 30 calendar days.

Certain Funds may be considered proprietary accounts due to the Adviser's principals and qualified employees' investments exceeding 25% of the net asset value of the Fund. As such, these Funds may be considered personal securities accounts. As provided for in the Adviser's investment and trade allocation policies and procedures, these Funds may participate in trade orders along with Client accounts. These Funds are exempt from the personal trading restrictions described above provided that

the transactions are executed in accordance with the Adviser's investment and trading policies and procedures. Transactions and holdings in these accounts are subject to the Code reporting requirements.

As noted above, the Adviser's principals and qualified employees may invest the Funds. In addition, personnel may invest in registered investment companies sub-advised by the Adviser. This may create an incentive for the Adviser to put the interests of the Funds or sub-advised investment companies before other Clients. However, the Code requires personnel to put Clients' interests ahead of their own and to report personal transactions and holdings to the Chief Compliance Officer in accordance with the reporting requirements described above. Further, the Adviser maintains investment and trade allocation policies and procedures designed to address these conflicts of interest.

## **Item 12. Brokerage Practices**

The Adviser's Investment Team and Chief Financial Officer provide oversight over the Adviser's investment, trading, brokerage and soft dollar practices. In addition, the Adviser maintains investment, trading, brokerage and soft dollar policies and procedures. The following is an overview of the Adviser's brokerage and trading practices, policies and procedures.

### Selection of Brokers

The Adviser utilizes traditional brokers and electronic trading platforms to execute trades on behalf of Clients. The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include reputation and integrity, knowledge of and dominance in specific markets, securities and industries, research services provided, commission structure, ability to locate liquidity, financial strength and stability, efficiency of execution and acceptable recordkeeping, administrative and settlement functions. In selecting a broker-dealer to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, but the Adviser does have relationships with brokers that do provide execution only. Therefore, a Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Financial Officer and analysts meet periodically to evaluate the broker-dealers used by the Adviser to execute trades, using the foregoing factors.

### Research and Soft Dollars

The Adviser may receive research or other products or services other than execution from a broker-dealer in connection with Client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations.

The Adviser may utilize a research product or service that also provides non-research functionality to (such as bookkeeping, administrative, marketing or Client reporting elements). The Adviser will not pay for such mixed-use products or services solely with soft dollars; rather, the Chief Investment Officer and Chief Financial Officer will make a reasonable and good faith allocation of the cost of the research and non-research components in relation to the anticipated use of the product or service. All elements of a product or service deemed to be non-research in nature will be paid from firm resources ("hard dollars") and not with Client commissions.



The Adviser's Chief Financial Officer and analysts meet periodically to review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer.

The use of Client commissions to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select a broker-dealer based on its interest in receiving those products and services.

Research and brokerage services obtained by the use of commissions arising from a Client's portfolio transactions may be used by the Adviser in its other investment activities, including, for the benefit of other Client accounts. The Adviser does not seek to allocate soft dollar benefits to Client accounts proportionately to the soft dollar credits the accounts generate.

The Adviser has entered into "client commission arrangements" pursuant to which the Adviser may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to the Adviser. The Adviser excludes from use under these arrangements those products and services that are not eligible under Section 28(e) and applicable regulatory interpretations.

From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser or recommend these private funds as an investment to Clients. The Adviser may place Client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser or affording the Adviser with the opportunity to participate in capital introduction programs.

#### Directed Brokerage

None of the Adviser's Clients currently direct the Adviser to use a specific broker-dealer ("Directed Broker"). Should Clients request this type of arrangement in the future, the Adviser will generally not attempt to negotiate commissions on Clients' behalf. Clients may sacrifice execution quality and/or pay higher commissions and fees than if the brokerage were not directed to a Directed Broker. Trades in accounts where the Client directs brokerage may be placed after trades for Clients that do not direct brokerage. For these reasons, the Adviser cannot assure best execution on trades for Client accounts that are directed to a Directed Broker.

#### Allocation of Investment Opportunities

The Investment Team is responsible for managing accounts according to the investment objectives outlined in the Client's agreement and/or disclosure documents. In general, investment opportunities shall be made available to all Clients that are eligible to participate and where such investment opportunities are deemed to be appropriate for the specific Client, including the Funds, some of which may be considered proprietary accounts. The Adviser has established investment and trade aggregation and allocation policies to provide reasonable assurance that each Client is treated fairly over the long-term and potential or actual conflicts of interest are adequately mitigated. The Investment Team provides oversight of the investment, trading and brokerage practices and policies, including reviewing investment performance return information.

### Trade Aggregation and Allocation

It is the Adviser's policy to trade as a firm – to trade in such a manner that its Clients are not competing against one another in the marketplace. When practical, Client trades will be bunched in a single order (a "block") in an effort to obtain best execution at the best security price available. Each trade is documented on a trade sheet, which includes the relevant information for the trade, including a pre-allocation schedule of shares for each account. Once the aggregated trade is executed, the shares are allocated in-line with the pre-allocation schedule. If a block order is filled (full or partial fill) at several prices through multiple trades, an average price will be calculated for all trades executed by the broker(s) for the block, and all participants in the block trade will receive the average price. Partial fills are generally allocated on a pro rata basis, subject to rounding. On occasion, the Adviser may indicate an interest in an initial public offering ("IPO") and will generally receive fewer shares than requested, often a very limited number of shares. In those circumstances where only a very limited quantity is received, the Adviser will attempt to allocate the quantity based upon the relative net asset value of the Client's accounts. However, there may be instances where the allocation method stated in the preceding sentence is not feasible, and the Chief Investment Officer will determine which Client or Clients will receive an allocation of the IPO and document his rationale.

Under certain circumstances, the Adviser's policies permit deviations from the practices described above. Examples of such circumstances may include: pro-rata allocation results in a de minimis number of shares; extreme market volatility; cash limitations or excess cash; Client specific investment restrictions; Client direction or requirement to raise cash in the account; and common sense and equitable adjustments.

The Adviser has established trade aggregation and allocation policies to provide reasonable assurance that each Client is treated fairly over the long-term and potential or actual conflicts of interest are adequately mitigated. The Investment Team provides oversight of the investment, trading and brokerage practices and policies and reviews investment performance regularly.

### Cross Transactions

The Adviser may effect trades between two Client accounts ("cross trade") when it is in the best interest of each Client participating in the transaction, best execution can be achieved and no Client is disadvantaged by the trade. However, the Adviser will not engage in cross trades with any private fund that is considered a proprietary account and any registered investment company sub-advised by the Adviser. All cross trades will be done in accordance with the Adviser's Cross Transactions Policy. To the extent a cross transaction involves a registered investment company sub-advised by the Adviser, the transaction will comply with such fund's Rule 17a-7 procedures.

### Trade Errors

The Adviser will use its best efforts to assure that orders are entered correctly; however, to the extent that an error occurs, the Adviser generally will only be responsible for Client losses due to trading errors caused by the Adviser's willful misconduct or gross negligence. The Adviser is not responsible for the errors of other persons, including third-party brokers and custodians. However, in certain circumstances and pursuant to a written agreement with a particular Client, the Adviser may agree to a different policy regarding the handling of trade errors. All errors are reviewed by the Chief Financial Officer. In addition, the Adviser maintains trade error correction policies and procedures.

### **Item 13. Review of Accounts**

Each Client account is reviewed by the Investment Team on an ongoing basis, to determine whether securities positions should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Client account.

Each Client that is a separate account receives monthly reports regarding the return of the account and a quarterly letter.

Each investor in a Fund receives reports pursuant to the terms of each Fund's offering memorandum.

Registered investment companies sub-advised by the Adviser receive reporting as requested, but typically, at least quarterly.

#### **Item 14. Client Referrals and Other Compensation**

While the Adviser does not currently have any such arrangements, the Adviser may make cash payments to third-party solicitors for Client referrals, provided that, to the extent required, each such solicitor has entered into a written agreement with the Adviser pursuant to which the solicitor will provide each prospective Client with a copy of the Adviser's Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and Adviser and any fees to be paid to the solicitor. Where applicable, cash payments for Client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

### **Item 15. Custody**

For separately managed accounts and sub-advised relationships, the Adviser does not maintain custody of Client assets. Clients who are separate accounts will receive account statements from a broker-dealer, bank or other qualified custodian and Clients should carefully review those statements. The Adviser encourages Clients to review those statements carefully. The Adviser maintains policies and procedures designed to provide reasonable assurance the Adviser does not inadvertently obtain custody over Client assets.

The Adviser serves as the General Partner of the Funds. In this role the Adviser has legal access to the Funds' securities or funds in a manner which results in the Adviser having technical custody of the Funds' assets. To mitigate this risk, the Funds are audited by an independent accountant annually, and copies of these financial statements are sent to the Funds' investors in compliance with the custody rule.

**Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis. The Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion as well as any investment limitations, investment objectives, fees and other matters.

**Item 17. Voting *Client* Securities**

The Adviser complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to Client securities, such proxies are voted in the best interests of its Clients. If a material conflict of interest between the Adviser and a Client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the Client or take some other appropriate action.

A copy of the Adviser's Proxy Voting Policy, as well as a record of how the Adviser voted a Client's proxies is available upon request.

**Item 18. Financial Information**

We have no financial conditions to disclose which would impair our ability to meet our contractual commitments to our Clients.