



## Brochure

Prospector Partners, LLC  
March 31, 2015

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This brochure provides information about the qualifications and business practices of Prospector Partners, 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 203-458-1500. This information has not been approved or verified by the SEC or by any state securities authority.

Additional information about Prospector Partners, 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.

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**Appendix: Item 2. Material Changes**

The following summary only discloses material changes made to the *Brochure* since the Adviser's last annual update, which was filed on March 27, 2014. Clients wishing to receive a complete copy of our current Brochure, dated March 31, 2015, may request a copy at no charge by contacting our Chief Compliance Officer at 203-533-6861.

**Item 10**

Richard H. Howard, a portfolio manager at the Advisor, retired as of December 31, 2014.

### **Item 3. Table of Contents**

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

The Adviser is an investment adviser with its principal place of business in Guilford, CT. The Adviser commenced operations as an investment adviser in March, 1997 and has been registered with the SEC since July, 2005. John D. Gillespie and Kevin R. O'Brien are the principal owners of the Adviser.

The Adviser provides discretionary investment management services to various institutional clients, including, but not limited to, private investment funds, insurance companies, pension plans and other corporate or institutional entities. In this regard, the Adviser acts as the investment manager to the following private investment funds (collectively, the "Investment Funds"): Prospector Partners Fund, L.P. ("Partners Fund"); Prospector Offshore Fund (Bermuda) Ltd. ("Prospector Offshore"); Prospector Partners Small Cap Fund, L.P. ("Small Cap Fund"); Prospector Turtle Fund, L.P. ("Turtle Fund"); and Prospector Summit Fund, L.P. ("Summit Fund"). An affiliate of the Adviser serves as the general partner of Partners Fund, Small Cap Fund, Turtle Fund and Summit Fund.

The Adviser provides advice to client accounts based on specific investment objectives and strategies as outlined in an investment management agreement or confidential offering memorandum in the case of the Investment Funds. Separate account clients may impose restrictions on investing in certain securities or certain types of securities. These restrictions are specified in the investment management agreement with the client.

The Adviser may provide non-discretionary investment management services whereby the Adviser makes recommendations as to the allocation of assets among funds or strategies managed by the Adviser or one of its affiliates.

In addition to its discretionary and non-discretionary investment management services, the Adviser has a consulting agreement ("consulting agreement") with an institutional client under which the Adviser provides non-discretionary advice on matters including capital management, asset allocation, private equity investments and mergers and acquisitions.

The Adviser has an affiliated adviser, Prospector Partners Asset Management, LLC ("PPAM"). PPAM serves as investment adviser to a registered investment company, Prospector Funds, Inc.

As of February 28, 2015 the Adviser had \$1,586,000,000 client assets under management, of which \$1,582,000,000 was managed on a discretionary basis and \$4,000,000 was managed on a non-discretionary basis.

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

##### *Asset-Based Compensation*

Management fees payable to the Adviser by institutional clients other than the Investment Funds are established with each client and generally consist of an asset based fee that may, in certain cases, decline relative to the amount of assets under management. The asset-based management fees are generally billed and paid to the Adviser quarterly in arrears within 10 days after the last day of a calendar quarter based upon the value of the client account as of the last day of the quarter. In certain cases, management fees may be paid in advance based on the value of an account as of the first business day of each quarter. Management fees are pro-rated or refunded for any partial quarter and upon termination of the account other than at the end of a calendar quarter.

There is no management fee charged for non-discretionary investment management services in which the Adviser provides asset allocation recommendations among its Investment Funds. The Adviser or its affiliate will receive applicable fees charged by the respective Investment Fund in which it invests which may include a performance-based fee as well as an asset-based fee.

The Adviser is paid a quarterly management fee in arrears from each of the Investment Funds equal to 1% of the value of the Investment Fund as of the end of the quarter. The management fee is pro-rated for periods less than a full quarter.

The Adviser deducts the investment management fee from the Investment Fund accounts by instructing the client's custodian. Regarding separately managed institutional accounts, the Adviser bills the clients for investment management fees on a quarterly basis.

#### *Performance-Based Compensation*

In certain cases, the Adviser is also paid performance based compensation by institutional clients. The Adviser or an affiliate that is serving as the general partner also receives annual performance compensation from each Investment Fund. This compensation ranges from 15% - 20% of net profits and may be subject to annual minimum returns. The performance-based compensation is generally payable to the Adviser annually and is subject to a loss carryforward provision. In the event of the complete withdrawal or redemption by an investor at a time other than the end of a fiscal year, the performance compensation will be payable to the Adviser or its affiliate at the time of the withdrawal or redemption.

The management fee and performance compensation may be waived by any of the Investment Funds for an investor that is a principal, related family member or employee of the Adviser or of its affiliates.

#### *Other Compensation*

Under the terms of the consulting agreement discussed in Item 4, the Adviser will be paid incentive compensation based upon the performance of the client and of the client's total investment portfolio.

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser is paid performance-based compensation by some of its private pooled investment vehicle clients and certain other client accounts. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component. The Adviser and its investment personnel, including investment personnel that share in performance-based compensation, manage both client accounts that are charged performance-based compensation and accounts that are charged an asset-based fee, which is a non-performance-based fee.

In addition, certain client accounts may have higher asset-based fees or different 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 and its investment personnel may have a greater incentive to favor client accounts that pay the Adviser and indirectly the portfolio manager performance-based compensation or higher fees.

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 different 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 Adviser's procedures relating to the allocation of investment opportunities generally require that similarly managed accounts participate in investment opportunities pro rata based on asset size and require that, to the extent orders are aggregated, the client orders are average-priced. Trades are allocated systematically by the Adviser's trade order management system. These areas are monitored by the Adviser's Chief Compliance Officer.

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

The Adviser's clients consist of private investment funds, insurance companies, pension plans and other corporate or institutional entities.

Clients other than Investment Funds are generally required to establish an investment management account with the Adviser with at least \$30,000,000. With respect to any client that is an Investment Fund, any initial and additional subscription minimums are disclosed in the offering memorandum for the Investment Fund.

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

In formulating investment advice and managing discretionary client assets, the Adviser uses bottom-up fundamental value analysis with an emphasis on balance sheet strength. Fundamental analysis includes:

- Balance sheet and cash flow statements investigation,
- Detailed financial modeling,
- Detailed GAAP and statutory financial statement decomposition,
- Direct contact with company
- Discussion with competitors and industry contacts
- Considers downside protection by asking "What can go wrong?"

In evaluating potential investments, the Adviser considers qualitative factors, including quality of management, quality of product or service, overall franchise or brand value, composition of the board of directors, and the uniqueness of the business model. The Adviser looks for the presence of catalysts to improve internal performance, such as a change in management, a new management incentive program closely linked to the price of the stock, the sale of an underperforming asset or business unit, or a positive change in industry fundamentals.

In implementing its overall fundamental value analysis the Adviser uses one of the following investment strategies, depending on the client's investment mandate:

*Equity Long Only* – investment primarily in equity and equity-related securities, including common stocks, convertible preferred and convertible debt securities.

*Equity Long/Short* – investment in the same manner as the Equity Long Strategy, but client accounts will also engage in short-selling.

*Financial Services and Insurance Sector Focus* – a principal focus is investment in equity and equity-related securities in the financial services sector with a special emphasis on the insurance industry. The financial services sector includes, but is not limited to, insurance, banking, asset management, brokerage, government sponsored entities, specialty finance, and health maintenance organizations.

*Market Neutral* – investment in equity and equity-related securities within an anticipated range of 25% long or 25% short on a net basis. At any given time the client may be net short or net long.

Within these strategies the Adviser may employ a variety of investment techniques, including the following:

- Value investing
- Smaller and mid-sized companies
- Fixed-income securities
- Margin transactions

There are substantial risks related to the Adviser's investment strategies. The material risks relating to the foregoing investment strategies include:

*Value investing* – Value securities may not increase in price as anticipated by the Adviser, and may even decline further in value, if other investors fail to recognize the company's value, or favor investment in faster-growing companies, or if the events or factors that the Adviser believes will increase a security's market value do not occur.

*Short selling* - Short selling transactions expose clients to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without an effective limit. There is the risk that the securities borrowed by a client 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.

*Margin* – The performance of client accounts utilizing margin borrowing may be more volatile.

*Smaller and Mid-Sized Companies* – The securities of such issuers may be comparatively more volatile in price than those of companies with larger capitalizations, and may lack the depth of management and established markets for their products and/or services that may be associated with investment in larger issuers.

The following risks are those most associated with the types of securities that are primarily recommended to client accounts:

*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.

*Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a securities portfolio to interest rate risk. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative

perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

*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.

*Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value.

*Illiquid Instruments.* Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.

*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 Adviser. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose an Account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Security Futures and Options.* In connection with the use of futures contracts and options, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in the *client's* account. In addition, the Adviser's investments in security futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.

*Non-discretionary clients.* In regards to non-discretionary investment management services, the Advisor makes asset allocation recommendations among funds or strategies managed by the Advisor or its affiliates taking into consideration the client's investment objectives, risk profile, liquidity needs, tax status, other investments held and the size of the account.

Non-discretionary accounts are subject to all of the risks associated with each of the underlying Investment Funds or strategies in which they are invested.

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



#### **Item 9. Disciplinary Information**

Not applicable.

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

The Adviser has an affiliated adviser, Prospector Partners Asset Management, LLC ("PPAM"). PPAM serves as investment adviser to a registered investment company, Prospector Funds, Inc. PPAM is owned by the Adviser.

In connection with the organization of certain of the Investment Funds, the Adviser obtained financial commitments from individuals and/or entities to be directly or through an affiliated entity, Lead Limited Partners. In exchange for these commitments, the Lead Limited Partners will receive payments based on the revenue of the Adviser and the General Partner of certain Investment Funds. A portion of these payments may be made through the General Partner's incentive reallocation.

Mr. Gillespie serves as a Director of White Mountains Insurance Group, Ltd., an institutional client of the Adviser.

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

The Advisor's principals, employees or other related persons may from time to time purchase securities for personal accounts that are also held by the Investment Funds or client accounts. The Adviser has adopted a Code of Business Conduct and Personal Trading Procedures (the "Code") that obligates all principals, officers, members and employees to put the interests of the Adviser's clients before their own personal 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 all applicable federal securities laws. In addition, the Adviser's Code requires each of its employees to preclear all transactions of reportable securities in their personal accounts with all of the Portfolio Managers and the Chief Financial Officer, who, if in conflict with the client's best interests, may deny permission to execute the transaction. There are some exemptions for preclearance in recognition of the de minimus or involuntary nature of certain transactions which are outlined in the Adviser's Code. The Code prohibits personal securities transactions of any kind in the same security to be purchased or sold for a client during contemporaneous times as specified in the Code. The Adviser's personnel are also required to disclose their securities holdings and business activities annually, and provide broker confirmations of each transaction in which they engage and a quarterly certification of such transactions. Trading in employee accounts will be reviewed periodically by the Chief Compliance Officer to ascertain whether there has been unusual trading activity in the account. Clients and prospective clients may obtain a copy of the Code by contacting Kim Just, the Chief Compliance Officer, via email (kjust@prospector.net) or by telephone at (203) 533-6861.

The Adviser has adopted insider-trading policies and procedures that prohibit the misuse of material, non-public information.

#### **Item 12. Brokerage Practices**

The Adviser's investment management and advisory contracts provide the Adviser with discretionary authority to determine which securities will be bought and sold for a client's account and each Investment Fund and in what amount, subject to specific account guidelines.

The Adviser determines which securities to buy and sell, and selects brokers and dealers to effect the transactions and negotiates commissions. Transactions in exchange listed equity securities will usually be executed through brokers that will receive a commission paid by the Investment Fund or client account, as the case may be, for which the transaction is executed. Fixed income and over the counter securities will generally be traded with dealers without a stated commission but may trade such securities with brokers as agency transactions. The dealer's margin is reflected in the price of the security, when not being transacted as agency. Money market obligations may be traded directly with the issuer.

Underwritten offerings of stock and intermediate and long-term debt securities may be purchased at a fixed price including an amount of compensation to the underwriter.

Generally, when selecting broker-dealers to execute securities transactions, the Adviser will select only those that have been approved pursuant to internal procedures and will consider the following non-exclusive factors:

- financial stability of the broker-dealer;
- consistent ability of a broker to settle trades at or before settlement date;
- the actual executed price of the security and the broker-dealer's commission rates;
- research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such broker-dealers that are expected to enhance the Advisor's general portfolio management capabilities;
- the size and type of the transaction;
- the difficulty of execution and the broker-dealer's ability to handle difficult trades;
- the operational facilities of the brokers and/or dealers involved (including back office efficiency); and
- the ability to handle a block order for securities and distribution capabilities.

In selecting the broker whom it believes is capable of meeting these criteria on a consistent basis, the Adviser will base its judgment principally on such broker's past performance. Typically, selection is based on an evaluation of commission rates and quality of execution, as well as a comparison to other brokers. Evaluations of brokerage activity are conducted on a continuing basis.

The Adviser will always seek to obtain best net results based on the above factors, or "best execution", when selecting broker-dealers to execute transactions on behalf of all accounts. After due consideration is paid to all factors, it may be in the client(s)' best interest to pay a higher commission, spread or other compensation in order to receive best execution. The Adviser may effect transactions in over-the-counter (OTC) securities directly with principals or market makers by paying a mark-up within the spread of the bid and ask prices of the security and without incurring a commission charge. The Adviser may also effect transactions in OTC securities on an agency basis when liquidity permits and incur a commission charge, but not incur a mark-up relative to the broker-dealer's original cost. Notwithstanding that the executing broker-dealer is responsible for accurately representing whether a transaction is being executed on a principal or agency basis, it is possible that the purchase price of an OTC security acquired in an agency transaction could include compensation to the broker-dealer in the form of a mark-up relative to the broker-dealer's original cost in addition to a commission. The Adviser will effect agency transactions in OTC securities only when the Adviser believes that it can obtain best execution on an overall basis.

The Adviser may place transactions with a broker or dealer that (i) provides the Adviser with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Investment Funds or other products advised by the Adviser, if otherwise consistent with seeking best execution; provided the Adviser is not selecting the broker-dealer as a means of remuneration for providing the opportunity to participate in such capital introduction events or the referral of investors.

Mr. Gillespie has less than a 1% interest in Dowling & Partners Securities, L.L.C., a registered broker-dealer ("Dowling & Partners") that is a Lead Limited Partner in certain investment funds managed by the Adviser. The Adviser may, consistent with best execution, execute transactions on behalf of the investment funds through Dowling & Partners

In light of the foregoing, the Adviser has adopted policies and procedures to review brokers used based on the criteria set forth above and to ensure “best execution”.

It is common industry practice for investment advisers and other investors to receive brokerage and research services, pursuant to Section 28(e) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), from broker-dealers that execute portfolio transactions for clients and from third parties with which such broker-dealers have arrangements. Consistent with this practice, the Adviser’s policy provides that when several brokers can satisfy the Adviser’s obligation to obtain “best execution”, the Adviser may place orders with brokers that provide the Adviser with brokerage and research services and products, either directly or through third parties with which these broker-dealers have arrangements, subject to applicable legal requirements. Some of the services received relating to the investment decision process is in the form of research reports on specific industries, or business trends and other relevant economic and statistical data, as well as specialized computer programs for portfolio management and investment research applications that are useful in providing investment management services. Research products and services provided by brokers through which transactions are effected on behalf of client accounts are used for the benefit of all clients collectively.

During the Adviser’s last fiscal year, as a result of client brokerage commissions, the Adviser acquired market research reports, discussions with research analysts, risk analytic software for the Investment Funds and attendance at certain seminars and conferences.

Any products or services received by the Adviser from brokers are intended to qualify under the “safe harbor” provisions afforded it pursuant to Section 28(e) of the 1934 Act. When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser’s Chief Compliance Officer, Director of Research and portfolio managers 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. This determination will be viewed in terms of either the specific transaction or the Adviser’s overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

From time to time, it may be appropriate for the Adviser to aggregate client orders for the purchase or sale of securities through the same broker-dealer, although the Adviser is not required to aggregate client orders. In aggregating client orders for securities, each client that participates in an aggregated order with the same broker-dealer will participate at the average share price. Transaction costs will be shared pro rata based on each client’s participation in the transaction. If the aggregated order is partially filled, it will be allocated among clients in accordance with Advisor’s allocation policies. In addition, if an order is executed early in the day and another order is entered later in the day for the same security, upon the entry of the second order, the first order may be treated as partially filled. Any portion of the first order which was not filled would then be aggregated with the second order and each client would participate at the average share price.

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

Client accounts are reviewed by the portfolio managers on an ongoing basis to determine whether securities positions should be maintained in view of current market conditions. Matters generally reviewed include specific securities held, adherence to investment guidelines, sector weightings and the performance of each client account.

Monthly or quarterly reports are sent to each client that is a separate account as specified in their investment management agreement.

Investors in the Investment Funds are sent reports pursuant to the terms of each confidential offering memorandum.

Upon request, the Adviser will meet with a client to review performance, allocations, market conditions, etc.

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

Not applicable.

#### **Item 15. Custody**

Not applicable.

#### **Item 16. Investment Discretion**

The Adviser provides investment advisory services primarily on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The Adviser's portfolio managers submit an allocation statement to the Adviser's trading desk describing the allocation of securities to (or from) client accounts for each trade/order submitted.

The portfolio managers may consider various factors in allocating securities among clients, including, but not limited to, the client's investment objectives, policies and restrictions, industry or sector weightings, cash availability, tax implications and the size of the allocation versus the size of the account. Certain of the Adviser's client accounts may have similar investment objectives, guidelines and restrictions and may invest in the same or similar securities, but due to different holding periods, cash flows and other factors, the Adviser may take action with respect to a particular security or securities for one client which differs from that of other clients. In addition, certain of the Adviser's clients may have different investment objectives, guidelines and restrictions, which may cause the Adviser to recommend an investment approach or specific positions to one client and not to others. For example, a particular security may be bought or sold for certain clients and not for others. In addition, a particular security may be bought for one or more clients when one or more other clients are opening a short position or selling the security.

The Adviser may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Adviser or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

In regards to non-discretionary accounts, the Adviser makes recommendations as to the allocation of the client's assets among funds or strategies managed by the Adviser or one of its affiliates. In this regard,

the Adviser may have an incentive to recommend that the client invest in those Investment Funds that charge the highest fees.

The Adviser will make each recommendation based solely on what it perceives to be the best interests of the client. The Adviser is also a fiduciary to the Investment Funds regarding portfolio management decisions such as when and how much leverage to use, when to liquidate investments, when to suspend redemptions and similar decisions. As a result, the interests of the client and the Investment Funds, and therefore the fiduciary obligations of the Adviser to the client and the Investment Funds may often be in conflict, and there may be circumstances in which the Adviser is unable to make recommendations to the client. These conflicts are disclosed in the investment management agreement between the Adviser and the client. The Adviser has a comprehensive Compliance Program which includes policies and procedures to identify, disclose and monitor conflicts of interest.

Consistent with its fiduciary duties, the Adviser's policy is to take the utmost care in making and implementing investment decisions for its client accounts.

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

The Adviser has adopted proxy voting policies and procedures ("Proxy Policy") designed to ensure that, where clients (including the Investment Funds), have delegated proxy voting authority to the Adviser, all proxies are voted in the best interest of such clients without regard to the interests of the Adviser or related parties. To assist it in researching and voting proxies, Adviser utilizes the research and implementation services of a third party proxy service provider, Institutional Shareholder Services, Inc. ("ISS"). ISS will research each proxy issue and provide a recommendation to the Adviser on how to vote based upon such research.

Where clients have delegated authority to vote proxies to the Adviser (including the Investment Funds), it will vote them in accordance with the recommendation of ISS which are in line with the Adviser's Proxy Policy. ISS will cast votes in accordance with its recommendation unless a portfolio manager or analyst believes that it is in the best interest of its client(s) to vote otherwise. To override an ISS recommendation, a written explanation must be submitted to the Chief Compliance Officer. Any proxy that will be voted directly by the Adviser will be voted in accordance with the general policies adopted by the Adviser. The Adviser's procedures also require that the Adviser identify and address conflicts of interest between the Adviser and its clients. If a material conflict of interest exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the Procedures is in the best interest of the client or to take some other appropriate action.

The Adviser generally votes in favor of routine corporate housekeeping proposals and has adopted specific guidelines with respect to proposals relating to the election of directors, appointment of auditors, changes in capital structure corporation restructurings, mergers and acquisitions, proposals affecting shareholder rights, corporate governance, anti-takeover measures and executive compensation. For all other proposals, Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

For clients of the Adviser who would like to obtain a copy of Adviser's proxy voting policy or information as to how proxies were voted for securities held in its account, please send a written request to:

Prospector Partners, LLC  
370 Church Street  
Guilford, CT 06437  
Attention: Chief Compliance Officer

**Item 18. Financial Information**

Not applicable.