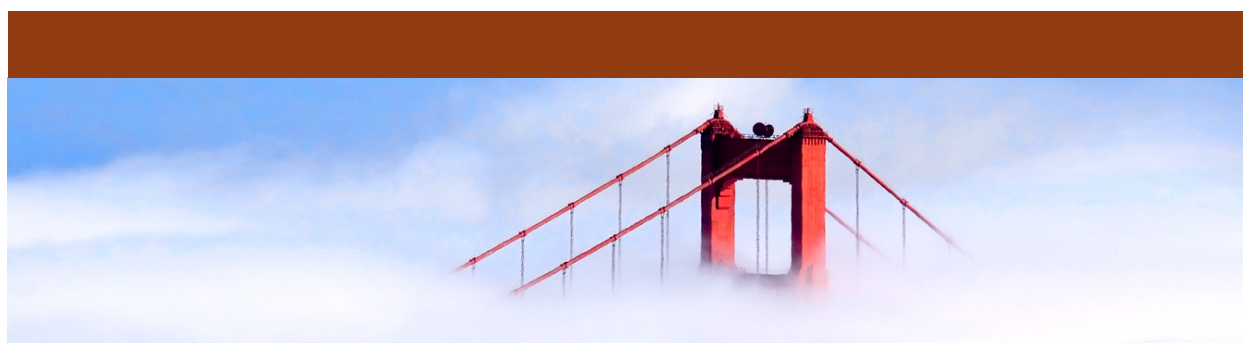


CLAYTON PARTNERS_{LLC}

PRIVATE INVESTMENT

Part 2A Brochure of Clayton Partners LLC **March 13, 2015**



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This brochure provides information about the qualifications and business practices of Clayton Partners LLC ("Clayton"). If you have any questions about the contents of this brochure, please contact us at 415-296-5070 or gregory@claytonpartners.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Although Clayton holds an investment adviser certificate under California law, that certification does not imply a certain level of skill or training.

Item 2. Material Changes

There were no material changes to this brochure since its last annual update on March 29, 2014.

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Item 4. Advisory Business

Clayton is a Delaware limited liability company that has been in business since 2003. Clayton is the general partner of and investment adviser to Clayton Capital Appreciation Fund, L.P., a Delaware limited partnership (the "Fund") and is the investment adviser to other clients (the "Separate Accounts"). Clayton's principal owners are Jason G. Stankowski, Brian G. Lancaster and Gregory W. Johnson. As of March 13, 2015, Clayton had total discretionary assets under management of approximately \$119,322,000. Clayton only manages assets on a discretionary basis.

Clayton invests principally, but not solely, in equity and equity-related securities that are traded publicly in U.S. and non-U.S. markets on behalf of its clients, but is authorized to enter into any type of investment transaction that it deems appropriate, under the terms of the client's partnership or other account agreement.

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

Clayton typically does not tailor its services to the individual needs of Separate Accounts, but manages each such account according to the strategy selected by the client. Clayton's discretionary authority is limited, however, as described in Item 16.

Item 5. Fees and Compensation

Clayton Capital Appreciation Fund, L.P. (the "Fund")

Clayton typically charges the Fund an annual fee of 1% of each limited partner's capital account balance, which amount is payable in quarterly installments at the beginning of each calendar quarter based on the opening net market value of each limited partner's account on the first day of that quarter. Clayton also typically is allocated from each limited partner in the Fund a performance allocation equal to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to such limited partner. Performance allocations are assessed in arrears on an annual basis, and are only applied to profits that exceed the cumulative losses previously allocated to those limited partners. Clayton complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations may create an incentive for Clayton to make more risky and speculative investments than it would otherwise make. Clayton may waive or reduce the management fee or performance allocation for any particular limited partner.

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 the Fund to use the "alternative reporting option" to report Clayton's compensation as "eligible indirect compensation" on the Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

Clayton's relationship with the Fund is terminable on expiration of the Fund's term, dissolution of the Fund or on Clayton's withdrawal as general partner. Each limited partner may withdraw from the Fund, on 60 days' prior written notice, on the last day of any calendar quarter that

occurs either on or after the day preceding the (i) six month anniversary of such limited partner's admission to the Fund if such admission occurred before April 1, 2013, or (ii) the one year anniversary of such limited partner's admission to the Fund if such admission occurred on or after April 1, 2013. In all cases, expenses, the pro rata portion of the management fee and any performance allocation through the date of termination are charged to the account. An investor who withdraws from the Fund on a date other than the last day of a quarter, however, does not receive a refund of the management fee previously paid.

Separate Accounts

Clayton offers Separate Accounts employing its "Long Only Strategy" (discussed in more detail in Item 8 below). Clayton's standard fee schedule for Separate Account clients is:

<u>Assets Under Management</u>	<u>Fee (as % of Assets Under Management)</u>
0 - \$500,000	1.8% per year (0.45% per quarter)
\$500,000 - \$1,500,000	1.4% per year (0.35% per quarter)
\$1,500,000 - \$3,000,000	1.0% per year (0.25% per quarter)
Over \$3,000,000	.70% per year (0.175% per quarter)

Notes:

(1) The fee schedule applies incrementally to funds managed, i.e., the first \$500,000 is charged 1.8% per year, the next \$1,000,000 is charged 1.4%, and so on.

(2) Family accounts which are lineal (grandparents, children and grandchildren) are combined to take advantage of the fee schedule.

The fee is payable at the beginning of each calendar quarter based on a Separate Account portfolio's assets under management on the first day of that quarter. Funds contributed or withdrawn during a quarter are subject to prorated fees for the period of time they are in the account. For example, if a client contributes assets during a quarter, fees will accrue from the contribution date and be added to the fees paid in the following quarter. Conversely, if a client withdraws assets during a quarter, fees will stop accruing on the withdrawal date and be deducted from fees due in the following quarter. Separate Account clients are responsible for verifying the accuracy of the custodial fees and transaction costs charged by the custodian and/or Clayton.

Except as may be otherwise negotiated in particular cases, a Separate Account client may terminate the account by giving 15 days' prior written notice. On any termination, the Separate Account is responsible for any expenses and the pro rata portion of the management fee through the termination date.

General Disclosure

Clayton typically deducts fees and allocations directly from client accounts but may bill a client for such amounts on request.

Accounts that invest in mutual funds also pay, indirectly, investment advisory fees to the managers of those funds.

Clayton 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.

Each account 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. Clayton 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 brokerage firms and futures commission merchants ("FCMs") that execute clients' securities trades, as discussed in Item 12 below.

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

Clayton receives a performance-based allocation from the Fund as described in Item 5, but Clayton's Separate Account clients do not pay performance-based compensation. As such, Clayton has a conflict of interest if, in any time period, one fee structure would cause higher fees to Clayton than the other fee structure, because Clayton would have an incentive to favor the account that pays the higher fees. To address this conflict, Clayton typically allocates all investment opportunities within each strategy on a *pro rata* basis, based on each account's assets. In addition, Clayton has policies and procedures to review client account investment allocations on a regular basis.

Item 7. Types of Clients

Clayton provides investment advice to the Fund and Separate Accounts. Investors in the Fund are required to invest a minimum of \$500,000, but Clayton may waive this minimum. Clayton also generally requires a minimum of \$250,000 to open a Separate Account, but may waive this minimum. Clayton's Separate Account clients may include high-net-worth individuals, institutions, trusts, endowments and pension plans.

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

The Fund

Clayton's investment objective on behalf of the Fund is to maximize returns through investing and trading in securities. To achieve its investment objective, Clayton employs a disciplined process of identifying and thoroughly assessing opportunities. Clayton makes long-term investments in quality businesses that it believes are priced below their intrinsic value. Clayton

also uses short positions, arbitrage transactions and option strategies to attempt to capture additional returns and hedge its portfolio risk.

Clayton invests in and trades securities, including, but not limited to, publicly-traded equity and equity-related securities, ADRs, GDRs and other non-U.S. securities, and may 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, non-U.S. currencies, futures, options on futures, other commodity interests, private securities, money market instruments, cash and cash equivalents. Clayton also engages in short selling, margin trading and hedging, enters into securities lending, repurchase and reverse repurchase agreements and employs other investment strategies.

The investment strategies summarized above represent Clayton's current intentions, are general in nature and are not exhaustive. There are no limits on the types of securities in which Clayton may take positions on behalf of its clients, the types of positions it may take, the concentration of its investments or the amount of leverage that it may use. Clayton may use any trading or investment techniques, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing 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, Clayton may pursue any objectives or use any techniques that it considers appropriate and in the interest of its clients.

Separate Accounts (employing the "Long Only Strategy")

Clayton's investment objective on behalf of the Separate Accounts employing the "Long Only Strategy" is long-term capital appreciation by investing in securities that are listed on major exchanges. To achieve its investment objective, Clayton employs a disciplined process of identifying and thoroughly assessing opportunities. Clayton makes long-term investments in quality businesses that it believes are priced below their intrinsic value. Clayton will not employ short selling as part of the "Long Only Strategy" and may employ margin trading and options only if the client has provided specific written authority to the Separate Account's custodian.

Risk Factors

Investing in securities involves risk of loss that clients should be prepared to bear. Below are some of the risks that investors should consider before investing in any account that Clayton manages. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a client or investor may encounter. Potential investors in the Fund should review the Fund's offering circular carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. The risks described below also generally apply to Separate Accounts. A potential client should discuss with Clayton's representatives any questions that such person may have before opening an account.

- Client accounts may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.

- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect an account's investments.
- An account may hold stocks that disappoint earnings expectations and decline. The Fund may short stocks that beat earnings expectations and rise.
- Clayton may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Clayton also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.
- Clayton may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.
- Clayton engages 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. Clayton is not obligated to hedge a client's portfolio positions, and it frequently may not do so.
- An account 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.
- Clayton may sell securities short on behalf of the Fund, 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. Clayton could be subject to such actions, even if they are baseless, and the Fund could incur substantial costs defending them.
- Clayton may use leverage on behalf of the Fund (or any Separate Account that specifically authorizes such trading) by borrowing on margin and trading futures, other commodity interests and derivatives, which increases volatility and risk of loss. These instruments are highly volatile and risky and can be difficult to value. An incorrect valuation could result in losses.
- Clayton may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- Counterparties such as brokers, dealers, FCMs, custodians and administrators with which Clayton does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.

- Clayton may cause the Fund to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- Clayton may cause clients to invest in securities of non-U.S. private and government 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.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- Clayton may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if Clayton holds a large position in an issuer's securities, it could depress the market for those securities.
- Some of an account's positions may be or become illiquid, in which case Clayton may not be able to sell such positions.
- The 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.
- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- Clayton determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If Clayton's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in the 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.
- The client and not Clayton is responsible for any trade errors that Clayton makes in an account, even when the error hurts the client.
- Clayton and its affiliates and agents generally are not responsible to any client or investor for losses incurred in an account unless the conduct resulting in such loss breached Clayton's fiduciary duty to the client or investor.
- There is not and will not be an active market for the interests in the Fund. It may be impossible to transfer any such interests, even in an emergency.

- The Fund may not be able to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force Clayton to liquidate investments too rapidly, and may so reduce the size of the Fund that it cannot generate returns or reduce losses.
- The Fund may limit or suspend withdrawals of an investor's assets from the Fund.
- If the assets that Clayton and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Clayton to find attractive investments as the amount of assets that it must invest increases.
- No client or investor has been represented by separate counsel. The attorneys who represent Clayton do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.
- The Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- Clayton, an administrator or any government agency may freeze assets that any of them believes a client 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 Clayton, the Fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- The Fund does not intend to make distributions, but intends instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from the 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 Clayton must devote to regulatory compliance, to the detriment of investment activities.
- The equity interests in the Fund are not registered under the Securities Act of 1933, and the Fund is not registered as an investment company under the Investment Company Act of 1940. Clayton 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, Clayton and any fund could be subject to expensive legal action and potential termination. In addition, investors in the Fund and clients do not have certain regulatory protection afforded to investors and clients that they would have if these registrations were in place.
- Clayton's activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- Clayton's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.

- If the Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- Clayton and its affiliates may spend time on activities that compete with a client without accountability to investors, including investing for other clients and their own accounts. If Clayton receives better compensation and other benefits from managing other assets or client accounts compared to managing the Fund or the Separate Accounts, it has incentive to allocate more time to those other activities. These factors could influence Clayton not to make investments on the Fund's or a Separate Account's behalf even if such investments would benefit the Fund or that Separate Account.
- Clayton may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or clients.

The above is only a brief summary of some of the important risks that a client or investor may encounter. Also, before deciding to invest in the Fund, you should consider carefully all of the risk factors and other information in the Fund's offering circular.

Item 9. Disciplinary Information

Not applicable.

Item 10. Other Financial Industry Activities and Affiliation

Not Applicable.

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

Clayton has adopted a Code of Ethics that establishes standards of conduct for Clayton's supervised persons. The Code of Ethics includes general requirements that Clayton's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to comply with the personal trading restrictions described below and periodically report their personal securities transactions and holdings to Gregory Johnson, Clayton's Chief Compliance Officer (the "CCO"), and requires the CCO to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the CCO. Each supervised person of Clayton 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. Clients and prospective clients may obtain a copy of Clayton's Code of Ethics by contacting the CCO at 415-296-5070 or gregory@claytonpartners.com.

Under Clayton's Code of Ethics, Clayton and its officers, managers, members and employees may personally invest in securities of the same classes as Clayton purchases for clients and may own securities of issuers whose securities that Clayton subsequently purchases for clients. 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 client account to

profit personally by the market effect of such transactions and recommendations. To address this conflict, Clayton has a policy that prevents Clayton and its officers, managers, members and employees from buying or selling securities for their own accounts until the business day after orders for client accounts have been filled and any buying or selling program for the client accounts in that security (and any derivatives thereon) has ceased. Clayton 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 Clayton does not believe appropriate to buy or sell for clients.

Clayton solicits investors who may or may not be Clayton's clients to invest in the Fund. Clayton has an incentive to cause a client to invest in the Fund instead of a Separate Account because of the reduced expenses and administrative burdens of managing the Fund compared to a Separate Account, the performance-based allocation that Clayton receives from the Fund (but not the Separate Accounts), and the more limited transparency and liquidity that the Fund's limited partners receive compared to Separate Account clients. In addition, a Fund investor that also has a Separate Account with Clayton may use knowledge of the Separate Account's portfolio to decide if and when to make an additional investment or withdraw assets from the Fund at times when other Fund investors would have made similar decisions had they had similar transparency. Clayton discloses these conflicts of interest to clients and investors.

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

Item 12. Brokerage Practices

The Fund

Clayton has complete discretion in selecting the broker or FCM that it uses for the Fund's transactions and the commission rates that the Fund pays such brokers and FCMs. In selecting a broker or FCM for any transaction or series of transactions, Clayton 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;

- special execution capabilities;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- order of call;
- offering to Clayton on-line access to computerized data regarding clients' accounts and other account reporting information and technology; and
- the availability of stocks to borrow for short trades.

Clayton may also purchase from a broker or FCM or allow a broker or FCM to pay for the following (each a "soft dollar" relationship):

- research services;
- economic and market information;
- portfolio strategy advice;
- industry and company comments;
- technical data;
- recommendations;
- research conferences;
- general reports;
- periodical subscription fees;
- consultations;
- on-line pricing;
- news wire and data processing charges;

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

During Clayton's last fiscal year, it did not acquire any products or services with client brokerage commissions or markups.

Clayton has retained BTIG LLC ("BTIG") to serve as the Fund's prime broker. BTIG clears through JPMorgan Clearing Corporation ("JPMCC"), which acts as the Fund's custodian. The services that BTIG and/or JPMCC provide as prime broker and custodian may include providing custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the prime brokerage and custody agreements entered into with each Fund. Clayton receives other services from them. These services may include: technology services (such as internet access and IT support), capital introduction services, portfolio reporting and access to electronic communications networks. Clayton expects to use a substantial portion of these services for research and trading on behalf of the Fund, 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 Clayton did not receive these services from BTIG or JPMCC, Clayton would be required to pay for all or some portion of them. Clayton is not required to direct a particular number of trades to BTIG or to continue to use the firm as the Fund's

custodian, but it has an incentive to do so based on the prior and continued services provided by the firm.

Clayton may pay to a broker or FCM commissions and mark-ups that exceed those that another broker or FCM 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 FCM provides. Clayton 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 Clayton's overall fiduciary duty to its clients. The Fund may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Clayton's brokerage relationships benefit Clayton'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 and accounts of clients that direct Clayton to use a broker or FCM that does not provide Clayton with soft dollar services. Clayton does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate.

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

Clayton has addressed these conflicts of interest by annually evaluating the trade execution services that Clayton receives from the brokers and FCMs that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and FCMs. Clayton 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 FCMs, increasing or decreasing targets for each broker or FCM and the appropriate level of commission rates.

Separate Accounts

Clayton expects to establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") to maintain custody of its Separate Account clients' assets and to effect trades for their accounts. Although Clayton may recommend that clients establish accounts at Schwab, it is ultimately the client's decision to custody assets with Schwab. Clayton has not negotiated the terms and conditions (including, among others, commission rates) relating to the services that Schwab provides. Clayton is not responsible for obtaining from Schwab the best prices or particular commission rates. A Separate Account client may not be able to participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable pricing and execution. The Separate Account client may pay higher commissions and mark-ups than it would pay if Clayton had discretion to select broker-dealers other than those that the client chooses.

Schwab may provide Clayton with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services typically are contingent on Clayton committing to Schwab some specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab generally does not charge the Separate Accounts separately for custody services but is compensated by the Separate Account holders through the commissions and other transaction-related or asset-based fees for securities trades that Clayton executes through Schwab or that settle into Schwab accounts.

Schwab also makes available to Clayton other products and services that may benefit Clayton but which may not benefit its clients. These types of services help Clayton in managing and administering the Separate Accounts. These include software and other technology that: provide access to client account data (i.e. trade confirmations and account statements); facilitate trade executions; provide research, pricing information, and other market data; facilitate in the payment of Clayton's fees from its clients' accounts; and assist with back-office functions, record-keeping, and client reporting. Some of these services are not within the safe harbor of section 28(e). Although many custodians provide similar services to investment advisers in exchange for these services, if Clayton did not receive these services from Schwab, Clayton would be required to pay for all or some portion of them. Clayton is not required to continue to use Schwab as the custodian for the Separate Accounts, but it has an incentive to do so based on the prior and continued services that Schwab provides.

General Brokerage Practices

Clayton may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Clayton manages or with accounts of its affiliates. In such event, Clayton may charge or credit a client, as the case may be, 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 client than it would be if Clayton were not executing similar transactions concurrently for other accounts. Clayton may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both clients.

Clayton may direct a certain amount of brokerage to a broker or FCM in return for the broker's or FCM's referral of prospective clients or investors. Directing brokerage to a broker in exchange for client or investor referrals creates a conflict of interest in that Clayton has an incentive to refer its clients' brokerage business to brokers to which it might not otherwise direct its brokerage transactions. During its last fiscal year, Clayton did not direct client transactions to a particular broker or FCM in return for client referrals. Clayton has policies and procedures to review its brokerage practices regularly, including its use of brokers from which Clayton receives client or investor introductions.

Item 13. Review of Accounts

Clayton's co-portfolio managers, Jason Stankowski and Brian Lancaster, review all accounts weekly. Those reviews take into account such matters as asset allocation, cash management, the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels. Each account receives a quarterly letter stating performance for the quarter and an annual letter discussing annual performance and investment outlook.

Item 14. Client Referrals and Other Compensation

Clayton may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and Clayton 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

Schwab, as custodian of each Separate Account, will send account statements at least quarterly to each Separate Account client. Each client should carefully review those statements.

Item 16. Investment Discretion

Clayton has discretionary authority to manage investment accounts on behalf of clients pursuant to a grant of authority in the Fund's limited partnership agreement or a limited power of attorney in each Separate Account client's account agreement. Except for Clayton's Fund clients, such discretion is limited by the requirement that clients advise Clayton of:

- the investment objectives of the account;
- any changes or modifications to those objectives; and
- any specific investment restrictions relating to the account.

A client must promptly notify Clayton in writing if the client considers any investments recommended or made for the account to violate such objectives or restrictions. A client may at any time direct Clayton to sell any securities or take such other lawful actions as the client may specify to cause the account to comply with the client's investment objectives. In addition, a client may notify Clayton at any time not to invest any funds in the client's account in specific securities or specific categories of securities.

Item 17. Voting Client Securities

Clayton votes all proxies on behalf of each account over which Clayton has proxy voting authority based on Clayton's determination of the best interests of such account. In determining whether a proposal serves the best interests of an account, Clayton 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 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.

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

If a material conflict of interest over proxy voting arises between Clayton and a client, Clayton will vote all proxies in accordance with the policy described above. If Clayton determines that this policy does not adequately address the conflict of interest, Clayton will notify the client of the conflict and request that the client consent to Clayton's intended response to the proxy solicitation. If the client consents to Clayton's intended response or fails to respond to the notice within a reasonable time specified in the notice, Clayton will vote the proxy as described in the notice. If the client objects in writing to Clayton's intended response, Clayton will vote the proxy as directed by the client.

A client can obtain a copy of Clayton's proxy voting policy and a record of votes cast by Clayton on behalf of that client by contacting the CCO at (415) 296-5070 or gregory@claytonpartners.com.

Item 18. Financial Information

Not Applicable.

Privacy Policy

Clayton and the Fund:

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

Trade Error Policy

Clayton places orders for the purchase and sale of securities with brokers on behalf of its clients. The trading process can be complex and can vary for different types of securities. Moreover,

Clayton may be required to break up orders, or may buy or sell the same security for more than one client, further complicating the trading process. Generally, the client account with respect to which a trade error is made bears all losses, costs and expenses relating to a trade error unless Clayton's Chief Compliance Officer determines otherwise (e.g., if the Chief Compliance Officer determines that the error is not within the limitation of liability clause in a client's investment management agreement or the agreement of limited partnership for the investment fund or client for which Clayton is the general partner or investment adviser).