

**Form ADV – Part 2A**

**Brochure**

March 30, 2015



**FOREST HILL CAPITAL, LLC**

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This brochure provides information about the qualifications and business practices of Forest Hill Capital, LLC (“Forest Hill”, “we” or “us”). If you have any questions about the contents of this brochure, please contact us at (501) 663-4491. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

A copy of this brochure and additional information about Forest Hill are also available on the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Forest Hill has been registered as an investment adviser with the SEC since 2004. Our registration does not imply a certain level of skill or training.

## Item 2 – Material Changes

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We last revised our Form ADV Part 2A in March 2014. There have been no material changes to our Form ADV since that time; however, we encourage everyone to read this Form ADV Part 2A in its entirety.

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#### **Item 4 – Advisory Business**

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Forest Hill Capital, LLC was established in 1999 to manage internal partner capital as well as that of a few select investors. Over the years, the firm has grown to serve clients worldwide, including foundations and endowments, pension funds, high net worth individuals, and family offices. Forest Hill has been registered as an investment adviser with the SEC since January 2004.

Mark A. Lee, Founder and Principal owner of Forest Hill, has served as Chief Investment Officer as well as Senior Portfolio Manager since inception. The firm oversees approximately \$1,076,650,600 in total capital as of December 31, 2014 via multiple alternative investment strategies on a discretionary basis, specializing in long/short equities utilizing both limited partnerships as well as separately managed account structures. Investment subscriptions are private transactions made available only to the firm's employees and affiliates, accredited investors, and qualified purchasers. Any offer of investment services or any offer to sell or solicitation to purchase interests in the Forest Hill's investment strategies will be made through a private placement memorandum or investment management agreement for a separately managed account. Forest Hill is general partner or investment manager to the following strategies:

##### **Forest Hill Select Fund, L.P.**

Forest Hill Select Fund, L.P. ("FHS"), established in January 2002, is a long biased, long/short equity strategy predominantly focused on investing in the common equity of publicly traded companies that are headquartered or have meaningful operations in the Sunbelt region of the United States. The fund's returns are dependent upon individual stock selection and the tactical portfolio management of the collective exposure levels. The fund seeks to profit from long investments that are purchased at discounts relative to historical averages with the expectation of mean reversion due to improving financial performance. The fund seeks to profit from short investments that are overvalued and are expected to experience deterioration in financial performance. FHS is designed to achieve a more favorable long-term risk adjusted return versus the broader equity market.

##### **Forest Hill Regional Bank Strategy/ Forest Hill Strategic Value Fund, L.P.**

Forest Hill Regional Bank Strategy ("FHRB") was established in February 2009 to recapture value in healthy community and regional business focused banks that were negatively impacted during the industry's devaluation resulting from the global financial crisis of 2008. FHRB is a directionally long investment strategy dedicated to deploying capital in the common equity of publicly traded community and regional banks located primarily in the Sunbelt region of the United States that possess strong capital ratios, trade at discount valuations relative to historical averages, and have the ability to enhance shareholder value through execution of offensive consolidation strategies. FHRB seeks investments in attractively positioned business focused banks located in viable markets that are expected to benefit from diminished competition and a more favorable pricing environment. Investment returns are dependent upon individual stock selection, portfolio construction and tactical management.

Forest Hill Strategic Value Fund, L.P. (“FHSV”) began operations on November 1, 2013 to seek the investment objectives of FHRB mentioned above.

We do not participate in wrap fee programs.

## **Item 5 – Fees and Compensation**

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Forest Hill is compensated as general partner or investment manager generally based on a percentage of assets under management and performance based fees. Our basic fee schedule is as follows:

**Forest Hill Select Fund, L.P.:** Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.5% of the value of the account on the first day of the month. Forest Hill charges an annual performance fee in an amount equal to 20% of an account’s net annual return for its fiscal year, subject to a high water mark provision. Fees are generally non-negotiable.

**Forest Hill Strategic Value Fund, L.P.:** Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.00% of the value of the account on the first day of the month with respect to each Series A limited partner interest and at an annual rate of 1.25% of the value of the account on the first day of the month with respect to each Series B limited partner interest. Forest Hill charges an annual performance fee in an amount equal to 20% of an account’s net annual return for its fiscal year, subject to a high water mark provision and a non-cumulative 5% annual hurdle rate. Fees are generally non-negotiable.

FHS and FHSV incur other expenses borne by the limited partnerships. Such expenses include, if applicable, but are not limited to: fund administration including accounting, audit, and legal expenses, brokerage commissions, custody fees, taxes, proxies and interest charges on debit balances.

Although fees are generally non-negotiable, we have entered into side letter arrangements with certain investors in our client funds, in which we have granted them, among other things, preferential terms related to asset-based management fees or performance-based compensation.

Please refer to each fund’s private placement memorandum, respectively, for further details on fees and expenses charged to accounts, if applicable.

**Separately Managed Accounts:** Fees on separately managed accounts are negotiable and detailed in the investment management agreement for each account. Accounts can be tailored to the specific needs of the institutional investor or other qualified client. Forest Hill generally charges management and performance based fees on such accounts. Accounts are billed quarterly in arrears based on month end account values or quarterly in arrears based on the quarter end account value for management fees, and performance fees are billed at the end of each performance period, as such term may be defined in the investment management agreement for each account.

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

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Forest Hill charges a performance based fee to FHS and FHSV which is non-negotiable and detailed further in each funds' private placement memorandum. Institutional clients with separately managed accounts under investment management agreements have negotiable terms for performance based fees.

All performance based fee arrangements are intended to comply with SEC Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Act"). The performance fees are charged annually, but only to the extent that such profits for each limited partner or institutional client exceeds any loss carried forward from prior years. As Forest Hill is compensated on the trading profits, this fact may create an incentive for Forest Hill to make investments on behalf of the limited partners in the funds or the account owner that are riskier or more speculative than would be the case without a performance based fee arrangement.

We do not believe that investors are subject to a risk that Forest Hill will favor funds or accounts on the basis of performance fee arrangements as FHS, FHRB and FHSV all have distinctively different investment objectives.

## **Item 7 – Types of Clients**

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Forest Hill provides investment advisory services to private investment funds formed as limited partnerships and qualified clients including: foundations and endowments, pension funds, high net worth individuals, corporations, charitable organizations and family offices.

Interests in the limited partnerships which are collective investment vehicles sponsored by Forest Hill are not registered under the Securities Act of 1933, as amended, and such limited partnerships are not registered under the Investment Company Act of 1940, as amended. Accordingly, interests in the limited partnerships and investor services for the separately managed accounts are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions with the United States or in offshore transactions. Generally, the minimum investment is \$1,000,000 for the limited partnerships. The minimum investment is negotiable for services requiring a separately managed account under an investment management agreement.

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

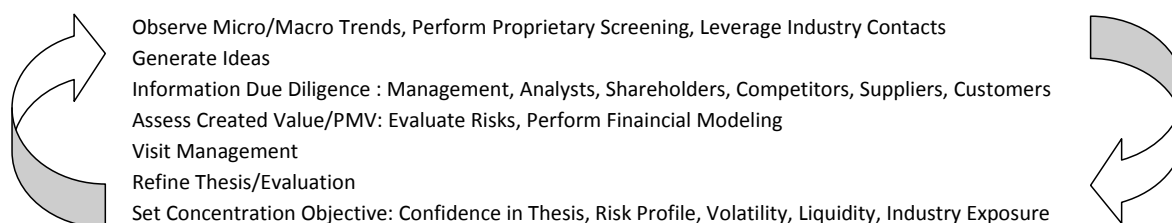
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### **Forest Hill Select Fund, L.P.**

FHS is a value based long/short public equity fund driven by a comprehensive fundamental research process. FHS engages in the purchases of securities as well as selling securities short, investing across all major sectors of the economy, (e.g., financials, energy, industrials, basic materials, consumer cyclical &

non-cyclical, communications, utilities and technology). The fund targets long investments in high quality management teams operating solid long-term businesses that possess manageable levels of debt are in a position to generate attractive cash flows and trade at deep discounts to what we believe to be their true intrinsic value. Emphasis is placed on companies that possess multiple positive catalysts that should enhance financial performance. We look to redeem investment capital when value has been recognized and the then-current inherent risk of investment outweighs the magnitude of future returns. The fund targets short sales in companies that the manager believes have reached peak financial performance, are overvalued, and are expected to face near-term business challenges that should serve to negatively affect the current level of profitability.

Forest Hill Select Fund, L.P.'s research process:



Mark Lee, Senior Portfolio Manager, and Joseph Perrone, Portfolio Manager, oversee the day-to-day investment management of Forest Hill Select Fund, L.P. However, Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. In addition, Mr. Lee maintains all trading authority.

Forest Hill Select Fund, L.P. seeks to construct and manage an investment portfolio of publicly traded companies that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measures to minimize investment risk, the Fund does carry the possibility of loss, which an investor must be willing to bear.

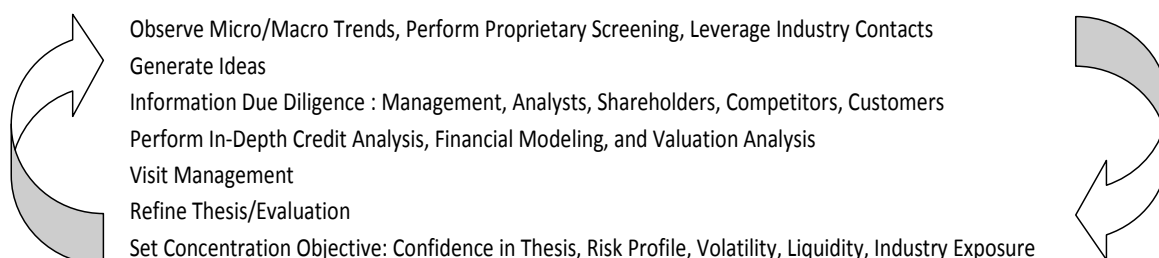
Additionally, please refer to the fund's private placement memorandum for more discussion regarding methods of analysis and risks of loss.

#### **Forest Hill Regional Bank Strategy/ Forest Hill Strategic Value Fund, L.P.**

FHRB, managed through a separately managed account and the Forest Hill Strategic Value Fund, L.P., is a public equity fund driven by a comprehensive due diligence process that seeks to invest in healthy community and regional banks that, despite growing market share, are trading at deep discounts compared to their historical averages of price-to-tangible book value. The portfolio's cornerstone investment theme is centered upon mean regression of value for the healthiest and most dominant community/regional banks in the industry. FHRB primarily invests in banks that possess experienced, high quality management teams, strong capital ratios, and offensive consolidation strategies. Emphasis is placed upon investing in banks that serve local and regional business customers, possess low cost

deposits and hold loans with short term maturities or variable rate credits. Although FHRB is predominately a dedicated long investment strategy, the manager does employ short selling tactics in an effort to enhance investment returns.

Forest Hill Regional Bank Strategy and Forest Hill Strategic Value Fund, L.P.’s research process:



Mark Lee, Senior Portfolio Manager, oversees the day-to-day investment management of FHRB. Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. Mr. Lee maintains all trading authority.

Forest Hill Regional Bank Strategy seeks to construct and manage an investment portfolio of publicly traded banks that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measure to minimize investment risk, the strategy does carry the possibility of loss, which an investor must be willing to bear.

Forest Hill Strategic Value Fund, L.P. (“FHSV”), a Delaware limited partnership, began operations on November 1, 2013, and has the same methods of analysis, investment strategy and risk of loss as FHRB mentioned above. Additionally, please refer to the fund’s private placement memorandum for more discussion regarding methods of analysis and risks of loss.

## Item 9 – Disciplinary Information

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Forest Hill and its employees have not been involved in any legal or disciplinary events that would be material to our investment advisory business or to an investor’s evaluation of our company or our employees.

## Item 10 – Other Financial Industry Activities and Affiliations

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Forest Hill is the general partner and investment manager of FHS and FHSV private investment funds formed as Delaware limited partnerships. Further details of the funds, including investment strategies, are described in their respective private placement memoranda and other offering documents. Forest Hill does not believe the contemporaneous management of the limited partnerships above or the FHRB



strategy causes a conflict of interest as our funds and separately managed accounts have limited overlapping investments but overall different investment objectives.

Neither our firm nor the principal is registered as a broker-dealer or a representative of a broker-dealer, nor has an application pending to register as a broker-dealer or a registered representative of a broker-dealer. Neither our firm nor the principal is registered, or nor has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Neither our firm, nor the principal nor any of our directors or officers has any material relationship with any of the following:

- broker dealer, municipal securities dealer, or government securities dealer or broker;
- other investment adviser or financial planner;
- futures commission merchant, commodity pool operator or commodity trading advisor;
- banking or thrift institution;
- accountant or accounting firm;
- lawyer or law firm;
- insurance company or agency;
- pension consultant;
- real estate broker or dealer; or
- sponsor or syndicator of limited partnerships.

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

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

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Forest Hill is committed to the highest standards of ethical behavior. Our Code of Business Conduct and Ethics (the “Code”) details the principles that guide our business and the conduct of employees. We have adopted our Code pursuant to SEC Rule 204A-1. The Code is designed to ensure compliance with laws, avoid conflicts of interest, ensure each employee understands the duty of loyalty to investors, as well as protection of investor or client information.

Neither Forest Hill nor its principal or employees are prohibited from buying and selling securities for their own account and are allowed to take positions different than those of advised client accounts. Principal and employees are prohibited from owning securities also owned by client accounts to avoid

potential conflicts of interest. Forest Hill maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest. We maintain certain policies and procedures designed to prevent the principal or employees from misusing material non-public information or trading the same security ahead of the client accounts.

Forest Hill additionally maintains a Compliance Manual (the “Manual”) which supplements the Code and is distributed to each employee upon hire date. The Code and Manual is updated on an annual basis and executed by each principal and employee acknowledging that they will abide by the Code and Manual at all times. The Code details how principals and employees are required to have duplicate copies of their personal trading accounts and trade confirmations sent to Forest Hill for review by the Chief Compliance Officer (“CCO”) and principal of the firm at a minimum of a calendar quarter basis. New employees must submit a list of their personal security holdings and a copy of their statement at hire date. Principal and employees are required to notify the CCO immediately once they are in receipt of material non-public information for review and monitoring. We will not be able to use such information for the benefit of any client account or principal or employee. Personal trades by the principal and employees must obtain pre-clearance approval by the CCO and principal before they can be executed in a personal account.

A written copy of our Code can be obtained by contacting us at Forest Hill Capital LLC, 100 Morgan Keegan Drive, Suite 430, Little Rock, AR 72202.

## **Item 12 – Brokerage Practices**

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Forest Hill has complete investment and brokerage discretion. We are responsible for the selection of portfolio transactions of FHS, FHSV and FHRB (the “clients”). These portfolio transactions are expected to incur a substantial amount of brokerage commissions or other transaction based fees. Forest Hill is responsible for the negotiation of such commissions and fees, all of which will be paid by the clients.

Securities transactions are executed by brokers selected by Forest Hill in its sole discretion and without the consent of the clients. In performing portfolio transactions, we will seek to obtain the best execution for the clients based on a number of factors, including the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which these transactions are effected, taking into account the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker’s risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

Forest Hill occasionally pays higher prices for the purchase of securities from or accepts lower prices for the sale of securities (markups or markdowns) to brokerage firms that provide it with such investment and research information, and occasionally pays higher commissions to such brokers if we determine such prices or commissions are reasonable in relation to the overall services provided. Research

services could include both services generated internally by a broker's own research staff and services obtained by the broker from a third party research firm. Forest Hill receives a benefit from such research as we do not have to produce or pay for the research, products or services and we believe such research usage ultimately benefits the clients. Research includes reports and analyses concerning specific issuers, industries, or sectors; market, financial and economic forecasts and other data; and statistics and pricing services. It periodically includes discussions with research personnel and invitations to attend conferences or meetings with management or industry consultants. Information so received is in addition to and not in lieu of services required to be performed by Forest Hill, and we do not need to weigh any of these factors equally in our broker selection. The research-related services can be utilized by Forest Hill in connection with other investment services provided to other client accounts. The availability of research benefits could influence us to select one broker rather than another to perform securities transactions rather than clients' interest in best execution.

Forest Hill is party to a "soft dollar" arrangement with our prime brokerage firm, pursuant to which the cost of certain research and other services and products used by Forest Hill is paid with commissions generated by securities transactions in client accounts. The products and services available from the broker include both internally generated items such as research reports prepared by the broker's research staff as well as items acquired by the broker from third parties such as quotation equipment, industry periodicals, company specific conference reports and transcripts. Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities. The use of soft dollars would have the effect of enhancing the returns associated with such client accounts from the returns that would exist absent such uses. Forest Hill's usage of soft dollars paid by client accounts may benefit all client accounts and not just the accounts paying up for the securities transaction under the soft dollar arrangement. The receipt of such soft dollar benefits could incentivize us to select a broker for the benefit rather than the client's interest in receiving best execution.

Through our relationship with brokers, periodically a broker refers investors to one of Forest Hill's investment strategies. Some referrals are subject to formal compensation agreements. These referrals could give us an incentive to select a broker based on our interest in receiving referrals for client accounts, rather than the client account's interest in receiving most favorable execution. Forest Hill will compensate brokers on what we consider to be an arm's length basis.

Forest Hill will act in a fair and equitable manner in allocating securities transactions among client accounts. Trades are typically aggregated to brokers if the investment opportunity or portfolio holding is held in more than one client account. We typically allocate shared portfolio holdings between different client accounts on a proportional basis based on net asset value of the shared client accounts. If client accounts have targeted parameters, such as position size, we allocate based on reaching such target parameters between the accounts. Such aggregation of orders may not be to the benefit of individual client accounts on a stand-alone basis.

### **Item 13 – Review of Accounts**

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All limited partnerships and separately managed accounts are reviewed on a continual basis by Forest Hill and at a minimum on a monthly basis. Various levels of review are performed based on factors such as position size and exposures, short and long term rates of return, investment diversification and risk allocation and statistics, as well as the overall outlook for securities markets. The Portfolio Managers and the Chief Compliance Officer of Forest Hill perform all account reviews.

Each investor receives monthly or quarterly account statements and commentary with detailed performance returns. Investors in limited partnerships receive an annual audited financial statement for the fund in which they invest along with information necessary to complete their annual federal income tax return, if applicable. Additionally, investors can contact Forest Hill for additional information requests.

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

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Forest Hill does pay qualified persons for client referrals under a formal compensation arrangement. Compensation for such referrals is set at a negotiated rate of the management and performance fees generated from the referred client's assets placed with Forest Hill's limited partnerships or in separately managed accounts. Each referral arrangement is designed to comply with SEC Rule 206(4)-3. Additionally, see further discussion of broker referrals to Forest Hill in Item 12 above.

### **Item 15 – Custody**

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While it is Forest Hill's practice not to accept or maintain physical possession of our client's assets, we are deemed to have custody of the assets of our fund clients (FHS and FHSV) under Rule 206(4)-2 of the Act. Funds and securities are held by unaffiliated qualified custodians (banks or brokers) as referenced by the Act. Forest Hill receives monthly statements from the qualified custodians for FHS and FHSV and individual investors in the limited partnerships do not receive statements from the custodians. FHS and FHSV are audited by independent public accountants on an annual basis. Forest Hill's investors in separately managed accounts receive monthly statements directly from the qualified custodians. Additionally, our managed account clients receive statements from Forest Hill and are encouraged to compare the account statements from us with the statements received from the qualified custodian directly.

#### **Item 16 – Investment Discretion**

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Pursuant to investment management agreements or private placement memorandums and subscription documents, Forest Hill has been granted discretionary authority to manage the securities accounts of its clients. Forest Hill Select Fund, L.P. and Forest Hill Strategic Value, L.P. place no restrictions on our discretionary authority, other than that we are committed to adhering to the investment strategy and program set forth in each of our clients' offering documents. Investors with investment management agreements for separately managed accounts can negotiate restrictions relevant to their account.

#### **Item 17 – Voting Client Securities**

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As required under SEC Rule 206(4)-6, Forest Hill follows an established policy to vote proxies on behalf of client accounts. Our proxy policy is to vote for the recommendation of management unless we become aware of circumstances that dictate otherwise. In the event of a conflict of interest between us and a client, we will vote in the best interests of the client. Forest Hill retains relevant information as part of its books and records relating to proxies voted.

Retention or delegation of voting rights for managed accounts can be negotiated by institutional and other qualified clients under their respective investment management agreements for their separately managed account.

A written copy of our proxy policy and how we voted client securities can be obtained by contacting us at Forest Hill Capital LLC, 100 Morgan Keegan Drive, Suite 430, Little Rock, AR 72202.

#### **Item 18 – Financial Information**

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Forest Hill is not aware of any financial condition that is expected to affect its ability to manage client accounts.