

Zephyr Management, L.P. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Zephyr Management, L.P. (“Zephyr” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 212-508-9400. 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 Zephyr is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

This Brochure is intended to provide potential and existing clients with an overview of the Firm. The following is a discussion of the material changes to the Firm’s Brochure since the last annual update filed March 25, 2014.

Zephyr Aurora

On April 14, 2014 (the “Closing Date”), Zephyr transferred 100% of the ownership of Zephyr Management UK Limited (“ZMUK”) to Guardian Capital LP (“Guardian”). ZMUK was the investment manager of Zephyr Aurora Master Fund, L.P., and its two feeder funds: Zephyr Aurora Fund, L.P., a Delaware limited partnership, and Zephyr Aurora Fund (Cayman) Unit Trust. As part of the transaction, Zephyr also transferred to Guardian control of the general partner entities of the Aurora Funds, and accordingly Zephyr is no longer involved in the management of these funds.

Zephyr Peacock India Fund I (“ZPI”)

In November 2014, the manager of ZPI concluded the sale of all remaining shares in ZPI’s last portfolio company and made its final distribution to ZPI investors. ZPI was terminated as of December 31, 2014.

Affiliated Sri Lankan Fund

In December 2014, ZMLP and NDB Capital Holdings PLC (an investment bank in Sri Lanka) formed the Emerald Sri Lanka Fund (the “Sri Lankan Fund”). The fund manager, NDB Zephyr Partners, is owned by NDB Capital Holdings PLC and Zephyr. The Sri Lankan Fund’s target fund size is US \$ 50 million and, as of December 31, 2014, the Sri Lankan Fund’s total commitments were US \$42.5 million. Additional information regarding the Sri Lankan Fund is contained in the Form ADV filed by NDB Zephyr Partners Limited (SEC Number 802-80989)

Sale of Plimsoll Mark Division

Zephyr sold its Plimsoll Mark Division to Hartland & Co. effective December 31, 2014.

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Advisory Business

Zephyr, a New York limited partnership founded in 1994, is a global private equity and marketable securities firm. The firm specializes in the creation and management of private investment funds that are focused on investing in emerging markets. Zephyr’s distinct advisory service offerings are described below. Zephyr is owned and led by Thomas C. Barry.

Emerging Markets Investment Services

Since the Firm’s founding in 1994, Zephyr has been creating and managing, on its own and with joint venture partners, private investment funds that invest globally in private equity securities (“PE Funds”) or marketable securities (“Marketable Securities Funds”). The PE Funds and the Marketable Securities Funds are collectively referred to in this Brochure as the “Funds” and the global alternative investment strategies are referred to herein as the “Emerging Markets” strategies. Zephyr may also provide similar Emerging Markets strategies to separately managed accounts, including through sub-advisory arrangements with other investment advisers. Currently, Zephyr’s Emerging Markets investment advice is primarily with respect to private equity investments in India; venture capital investments; and marketable securities investments in Latin America.

Other Services

Zephyr provides investment-related and other related back-office services to NDB Zephyr Partners. Under the terms of the agreement with NDB Zephyr Partners, Zephyr provides investment support, investment committee participation, accounting and administration, and investor relations services to the Sri Lankan Fund.

As of December 31, 2014 after taking into effect the sale of Plimsoll Mark, Zephyr managed approximately \$ 109 million of client assets.

Fees and Compensation

Emerging Markets Investment Services

Zephyr does not have a basic fee schedule for its Emerging Markets investment services. The compensation method is explained to and agreed with clients (including the Funds) and investors in advance before any services are rendered and are set forth in their respective investment management agreements and/or Fund offering documents, as applicable. Zephyr may waive or reduce all or any portion of its fees with respect to any investor in a Fund or separately managed account client. For more specific information regarding fees, prospective investors should review the offering documents for each Fund.

Private Equity

The PE Funds normally pay a management fee equal to a percentage of the Fund's capital commitments during the Fund's investment period, and thereafter equal to a percentage of capital invested. The PE Funds also provide for a performance allocation equal to a percentage of the Fund's profits after a preferred return to the Fund's investors. The performance allocations are generally structured as carried interest participation. Performance allocations payable by PE Funds that result in an over distribution to Zephyr are generally subject to a "clawback" arrangement. While Zephyr's compensation from the PE Funds varies, the management fee paid by a PE Fund is commonly 2.0% per year, and the performance fee is commonly 20% of distributed cash-on-cash profits over the life of the PE Fund.

Zephyr may also receive transaction fees, monitoring fees, and break-up fees from its Funds' portfolio companies (collectively, "Other Fees"). A percentage of the Other Fees is normally applied to reduce the management fee. Detailed information regarding Other Fees charged to the PE Funds is provided in each Fund's Confidential Private Placement Memorandum and other governing documents.

In addition to management fees, performance allocations, and Other Fees as described above, investors will bear indirectly the fees and expenses charged to the PE Funds. Those fees and expenses will vary, but typically will include fees associated with making or selling portfolio investments, legal and accounting fees, taxes, Fund administration expenses, commissions and brokerage fees, custodial fees, registration expenses, fees to government regulatory agencies, the cost of directors' and officers' liability insurance, litigation or broken deal expenses, and any other expenses of the Fund's operation, as provided in the Fund's organizational and offering documents. For some Funds, the cost of insurance premiums is the Fund's pro rata share, based on assets under management, of the total premium incurred by Zephyr for "umbrella" coverage for multiple Funds that participate in the umbrella coverage. Other Funds obtain their own coverage directly and pay the premiums therefor. With respect to accounting fees, certain PE Funds may pay accounting fees to Zephyr for accounting and administrative services provided by Zephyr.

Marketable Securities

The Marketable Securities Fund and other clients investing in listed securities normally pay a management fee equal to a percentage of the client's assets under management. Clients, in some cases, also compensate Zephyr through a performance fee arrangement equal to a percentage of the clients' profits. While Zephyr's compensation from marketable securities advice may vary, the asset based management fees generally are between 1.25% and 2.0% of the fund's net asset value on an annualized basis, and the maximum performance-based fee is generally 15% per year of the fund's gains in excess of a "high water mark".

Investment management fees are normally paid in advance, on a quarterly basis, while the performance-based fees are generally paid when earned. For a Marketable Securities Fund, the fees are deducted directly from the assets of the Fund. For separately managed accounts, clients may either be invoiced for fees incurred in advance on a quarterly basis, or may agree in writing to allow Zephyr to deduct its fees directly from the client's custodian account. In the event an investment advisory agreement is terminated intra-quarter, a pro rata portion of any prepaid management fee will be returned to the client.

In addition to management and incentive fees, clients and investors will bear their respective brokerage commissions, exchange and regulatory authority fees, and other transaction costs with respect to securities transactions. Investors in a Fund will bear these costs indirectly, in addition to other fees and expenses charged to a Fund, such as legal and accounting fees, taxes, Fund administrative expenses, custodial fees, registration expenses, fees to government regulatory agencies, the cost of directors' and officers' liability insurance, and any other expenses permitted by a Fund's organizational and offering documents. For some Funds, the cost of insurance premiums is the Fund's pro rata share, based on assets under management, of

the total premium incurred by Zephyr for “umbrella” coverage for multiple Funds participating in the umbrella coverage. Other Funds obtain their own coverage directly and pay the premiums therefor.

Other Services

For services provided to the Sri Lankan Fund, Zephyr is compensated through a fixed fee arrangement as well as a portion of the performance fees earned by the joint venture affiliated adviser for the management of the Sri Lankan Fund.

Performance Based Fees and Side-by-Side Management

As stated in the Fees and Compensation section above, Zephyr may charge a performance-based fee which is based on a share of distributed profits from or capital appreciation of a client’s assets. Such arrangement will be described in the respective investment advisory agreement or Fund offering and organizational documents.

The fact that Zephyr is compensated based on the investment profits could create an incentive for Zephyr to make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance-based fee received by Zephyr with respect to Marketable Securities Funds is based primarily on realized and unrealized gains and losses. As a result, the performance-based fee earned with respect to such Funds could be based on unrealized gains that clients may never realize.

Additionally, some clients are not charged a performance-based fee; thus, an incentive could be created for Zephyr to favor accounts for which it receives a performance-based fee. In no instance will clients paying performance-based fees receive preferential treatment over clients not paying performance-based fees. As a fiduciary, Zephyr recognizes its duties to act in good faith and with fairness in all of its dealings with all clients.

Types of Clients

Zephyr provides investment advisory services to PE Funds and Marketable Securities Funds sponsored by Zephyr or other affiliated investment advisers, and to separately managed accounts of institutions, pension and profit sharing plans, trusts, estates, charitable organizations, or high net worth individuals and their family members.

Conditions for Managing Accounts

Zephyr imposes a minimum dollar size for an investment in its Funds. The minimum investment size varies by Fund. Details concerning applicable eligibility criteria for investors in the Funds are set forth in each Fund’s respective offering documents. Zephyr maintains discretion to accept less than the minimum investment thresholds.

Side Letters

Zephyr may enter into separate agreements, commonly referred to as “side letters”, with certain investors in the Funds to waive certain terms, or allow such investors to invest on different terms than those specifically described in the offering documents without obtaining the consent of any other investor in such Fund. Side letter terms may include, without limitation, more favorable fee and liquidity terms. Zephyr

may also grant additional disclosures with respect to performance or operation of a Fund to an investor without obtaining the consent of or granting similar rights to the other investors in such Fund. In addition, certain investors may negotiate for a “most favored nation” provision, permitting them to elect to receive the benefit of any modification or waiver of terms another investor participating in the same Funds receives. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other limited partners.

Methods of Analysis, Investment Strategies and Risk of Loss

Emerging Markets Investment Strategies

Zephyr employs a “macro-micro” approach to managing client assets. Zephyr’s investment process begins with a “macro phase” where it conducts global economic and political research to identify regions with favorable macro elements, such as economic growth, political stability, and promising demographics. Once a region of the world or strategy has been identified as having favorable macro-dynamics, the investment team enters its “micro phase,” and studies the area to seek specific investment opportunities which have the potential to realize superior returns. Based on knowledge and experience, Zephyr selects an investment strategy that it believes is most appropriate for a specific opportunity, whether it be a public or private equity strategy.

Each Zephyr investment strategy tends to share these unifying qualities:

- Sustainable secular growth opportunity, which is the basis for the investment strategy
- A full time, dedicated investment team for each strategy
- Investment selection driven by fundamental research
- A portfolio size appropriate to the size of the investment universe of the strategy

Where possible and appropriate, the investment management teams seek to achieve:

- A concentrated portfolio constructed with a long-term investment perspective
- A conservative approach to valuation and risk management

In seeking investment opportunities, Zephyr conducts fundamental research with the goal of producing attractive absolute returns over a 5 year period. Each client’s unique investment objectives are set forth in a confidential private placement memorandum or investment advisory agreement. There are no assurances that a Fund or strategy will attain its investment objectives.

With respect to its private equity strategies, Zephyr generally takes significant minority and possibly majority positions in its portfolio companies and generally seeks opportunities where Zephyr can exert significant value added influence. Zephyr’s post investment value added monitoring plan typically includes providing financial and operating expertise, sourcing additional equity capital or debt financing, and preparing the portfolio company for acquisition or for listing on a stock exchange.

With respect to its marketable securities strategies, Zephyr generally invests in a concentrated portfolio of equity securities of companies that are either listed outside or conduct the bulk of their business outside the major markets of North America, Western Europe, Japan, Australia and New Zealand. Zephyr will allocate client assets among the target geographical regions and will generally utilize one or more local investment managers that specialize in certain target investment markets to serve as sub-advisers for client portfolios. Alternatively, as in the case of the Zephyr Latin America Fund, the Fund sponsored by Zephyr may act as a feeder, investing in a master fund sponsored by a local or regional manager. Each local manager selected by Zephyr will have investment discretion over the portion of the portfolio that Zephyr

has allocated to such local manager, subject to Zephyr's control, direction and supervision, or over the portfolio of the master fund, subject to the right of Zephyr to terminate the arrangement and subject to the right of investors to redeem their interests. Zephyr retains the right to directly manage clients' investments instead of utilizing the services of local managers.

Investments are generally denominated in the various local currencies; therefore, Zephyr may enter into foreign exchange forward and futures contracts and other derivatives contracts to hedge its currency risk. Such hedging is done solely for the purpose of reducing downside risk and not for speculation.

An investment in Zephyr's Emerging Markets investment strategies may be deemed a speculative investment and is not intended as a complete investment program. Zephyr's Emerging Markets investment services are designed for sophisticated investors who fully understand and are capable of bearing the risk of loss. The descriptions below offer a brief overview of the material market risks related to Zephyr's Emerging Markets investment strategies. It is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with Zephyr's investment advice. Prospective investors should read a particular Fund's confidential private placement memorandum and other governing documents, prior to investing, for a complete description of the Fund's investment objectives, strategies, and inherent risks.

Foreign Investments – In its Funds and other strategies, Zephyr intends to invest client assets primarily in companies headquartered outside of the United States. Investing outside the United States may involve greater risks than investing in the United States. In particular, the value of a client's investments in foreign securities may be significantly affected by changes in currency exchange rates, which may be volatile. Although Zephyr may attempt to hedge against foreign currency exchange rate risks by utilizing spot and forward foreign exchange contracts, foreign currency options or other instruments, there can be no assurance that Zephyr will be able to do so successfully or cost-effectively, and may decide not to hedge against such risks or to do so only incompletely. Additional risks include: (i) risks of economic dislocations in the host country; (ii) less publicly available information; (iii) less well developed regulatory institutions; (iv) custody practices and regulatory regimes that are less well-developed than those that apply to custodians based in the United States; and (v) greater difficulty of enforcing legal rights in a foreign jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Considerations Relating to Investing in Emerging Markets - Investing in emerging markets involves certain risks and special considerations not typically associated with investing in more established economies or securities markets. Such risks include, but are not limited to: social, economic and political uncertainty, including war and revolution; dependence on exports and the corresponding importance of international trade; price fluctuations, market volatility, lack of liquidity and smaller capitalization of securities markets; and longer settlement periods for securities transactions.

General Business Risk - Investments in equity securities involve general risks associated with the underlying businesses, including market conditions, changes in regulatory requirements, reliance on management at the company level, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations and other factors.

Lack of Diversification - Client portfolios will tend to be non-diversified. Poor performance by a few of the investments could have a material adverse effect on the total returns to investors.

Liquidity Issues - Private fund investments require a long-term commitment, with no certainty of return.

Private Equity Investments - Zephyr will invest in private equity securities where there is likely to be no actively traded market; therefore, it may be difficult to sell securities when it wants to, or may be forced to sell them at prices lower than if the securities were widely held or actively traded. It may be difficult to liquidate investments due to contractual and other limitations on transfer, or other restrictions that would interfere with sales of such investments or adversely affect the terms obtainable upon a disposition. Most private equity investments are not publicly traded and are required to be fair valued by Zephyr. When estimating fair value, Zephyr will apply a methodology based on its best judgment that is appropriate in light of the nature, facts and circumstance of the investments. Such methodology will comply with the requirements of U.S. generally accepted accounting principles (or International Financial Reporting Standards, if selected by that Fund or client) or other applicable accounting principles.

Attracting and Identifying Investment Opportunities - In order for Zephyr to meet its investment objectives, it must be able to quickly and accurately identify and attract potentially successful businesses, a process which is difficult even for those with extensive private equity investing experience. Investors must rely on the ability of Zephyr's dedicated investment teams to identify structure and implement investments. If Zephyr is unable to identify and attract successful investment opportunities, investors may lose all or a portion of their investments.

Lack of Operational Control of Third Party Managers - Zephyr depends on third-party managers to develop the appropriate systems and procedures to control operational risks. Operational risks arising from mistakes made in the confirmation or settlement of transactions, or other similar disruption in operations may cause the client portfolios to suffer financial losses.

Disciplinary Information

Zephyr and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

NDB Zephyr Partners

Zephyr owns 40% of NDB Zephyr Partners. NDB Zephyr Partners is a Mauritius private equity investment advisory firm that manages the Sri Lankan Fund. The Sri Lankan Fund will seek to make investments, generally in the range of USD 2 million to USD 6 million, in small and mid-sized businesses seeking expansion in Sri Lanka. Zephyr provides general administrative and management support services, investment support and investment committee participation, accounting and administration, and investor relations to NDB Zephyr Partners. NDB Zephyr Partners compensates Zephyr for providing those services through a fixed fee arrangement and through a portion of the performance fees earned by NDB Zephyr Partners for the management of the Sri Lankan Fund. N D B Zephyr Partners Lanka (Private) Limited is a 100% owned Sri Lankan subsidiary of NDB Zephyr Partners that employs the investment team in Sri Lanka.

Affiliated General Partners

Zephyr has created related party entities to serve as the general partners of certain private investment partnerships created and managed by Zephyr. Zephyr or the affiliated general partners can have a material investment in the Funds. Therefore, Zephyr may be considered to participate indirectly in transactions

effected for those clients. The foregoing relationships, fees, and any other actual or potential conflicts of interest arising therefrom are disclosed in the respective Fund's offering documents.

Other affiliated advisory companies

Zephyr has created wholly-owned or controlled subsidiaries to facilitate its advisory activities. Zephyr Peacock Management II Limited is a wholly owned Mauritius company that acts as investment manager to Zephyr Peacock India Fund II Limited and Zephyr Peacock India Fund III Limited. ZP India Advisory Private Limited is an Indian company owned by Zephyr and Zephyr personnel and controlled by Zephyr, which acts as investment manager to Zephyr Peacock India II Fund, the Indian private equity fund that co-invests with Zephyr Peacock India Fund II Limited, and Zephyr Peacock India III Fund, the Indian private equity fund that co-invests with Zephyr Peacock India Fund III Limited. These advisory companies are controlled by Zephyr, and Zephyr does not believe their activities create or is likely to create a material conflict of interest with clients. In the event a conflict of interest arose, Zephyr would identify the conflict to the advisory committees of the client funds involved, and would resolve the conflict in a manner approved by such advisory committees.

Other affiliated investment companies

Zephyr has formed private investment companies to facilitate co-investments by private equity funds and to facilitate employee investment in private equity funds.

ZP II Trimax, Ltd. is a Mauritius company that holds the investment of Zephyr Peacock India Fund II Limited and its non-India-resident co-investors in Trimax IT Infrastructure & Services Limited, an Indian portfolio company. ZP II Trimax Co-Investment Trust is an Indian trust that holds the investment of Zephyr Peacock India II Fund and its India-resident co-investors in Trimax.

Zephyr Peacock II Associates, LLC is a Delaware limited liability company that holds investments of Zephyr and its affiliates and employees in Zephyr Peacock India Fund II Limited.

Zephyr Peacock India II GP, L.P. is a Cayman Islands limited partnership, whose general partner is a wholly owned subsidiary of Zephyr. This partnership holds the carried interest in Zephyr Peacock India Fund II Limited.

Zephyr Peacock II Carry Trust, whose trustee is a subsidiary of Zephyr, is an Indian trust that holds the carried interest in Zephyr Peacock India II Fund.

Zephyr PAIP-PCAP Class B Holder, LLC is a Delaware limited liability company that holds the investments of Zephyr personnel and affiliates in the Pan-African Investment Partners and Pan-Commonwealth African Partners private equity funds.

PAIP II Class B Holder, L.P., is a Delaware limited partnership that holds the investments of Zephyr personnel and affiliates and certain other persons in the Pan-African Investment Partners II private equity fund.

ZP III Class B Holder, LLC, whose managing member is Zephyr, is a Delaware limited liability company that holds the investments of Zephyr personnel and affiliates in Zephyr Peacock India Fund III Limited.

ZP III Class C Holder, LLC, whose managing member is Zephyr, is a Delaware limited liability company that holds the carried interest in Zephyr Peacock India Fund III Limited.

Zephyr does not believe the use of these vehicles creates or is likely to create a material conflict of interest with clients. In the event a conflict of interest arose, Zephyr would identify the conflict to the advisory committees of the client funds involved, and would resolve the conflict in a manner approved by such advisory committees.

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

Code of Ethics

Zephyr has adopted a code of ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (“Code”) which expresses Zephyr’s operating principles of integrity, honesty and fiduciary duties that it owes its clients. It sets forth a standard of business conduct expected of all its employees as well as policies and procedures that each employee must follow to prevent activities which may lead to or give the appearance of conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct. Zephyr maintains records of all personal securities accounts of its employees in an effort to monitor all such activity. Generally, employees are restricted from purchasing or selling securities that are held in client accounts or being considered for purchase in client accounts; however, employees may request pre-approval from a Compliance Officer to trade in such restricted security. Approval may be granted on a case-by-case basis, subject to conflict of interest review by a Compliance Officer. If the possibility of a conflict of interest occurs, the client's interest will prevail. It is the policy of Zephyr that priority will always be given to the client's orders over the orders of an employee. Zephyr’s Code is available for review and will be provided to any client or investor upon request.

Related Financial Interest in Client Recommendations

Zephyr, its employees or a related entity (collectively “Related Persons”), will generally have an investment in the Funds that Zephyr manages. Related Persons are subject to the same terms as investors with the exception of management and incentive fees. Such fees may be waived or reduced for Related Persons.

Principal and Cross Trades

Zephyr does not engage in Principal Transactions with any of its clients. On rare occasions, Zephyr may arrange for a cross transaction between two of its clients, in which one client buys a security from, or sells a security to, the account of the other client. Zephyr generally utilizes cross transactions to address account funding issues and when it specifically deems the practice to be advantageous for each participant. Zephyr receives no compensation (other than its advisory fee), directly or indirectly, for effecting a particular cross transaction. Zephyr may only engage in such transactions after determining that such securities are suitable and appropriate for each participating client account and will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and the transactions are done for the sole benefit of the clients.

Co-Investment Opportunities

In some cases, employees of Zephyr may be permitted to invest in securities of a company in which a PE Fund managed by Zephyr has invested. Any such proposed investment by an employee would require permission from Zephyr.

In addition, because of the performance fees described above, Zephyr could be deemed to have an investment interest in a portfolio investment of a Fund. Because of overlapping investment objectives or strategies, Zephyr may recommend to another Fund that it invest in the same portfolio investment. Such investments by more than one Fund in the same underlying portfolio company would require review and consent by each Fund's Advisory Committees or other governing body that has been established to review such conflicts of interest.

Brokerage Practices

Emerging Markets Investment Services

Research and Other Soft Dollar Benefits

With regard to clients for which Zephyr has engaged a sub-adviser to carry out the investment supervisory services, the responsibility for broker selection and the commission rates paid is delegated to the sub-advisers.

To the extent that Zephyr directly places orders with brokers to execute client transactions, Zephyr seeks to obtain the best execution for clients, taking into consideration a number of factors, including but not limited to: 1) the broker's expertise with respect to the volume and size of the transaction; 2) the broker's ability to provide liquidity in the desired security or other instrument traded; 3) the financial strength, integrity and stability of the broker; 4) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread, if any); 5) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; 6) the quality, comprehensiveness and frequency of available research services and investment ideas considered to be of value; and 7) the competitiveness of commission rates in comparison with other brokers satisfying Zephyr's other selection criteria.

The term "soft dollars" refers to a means of paying brokerage firms for research and other products or services through commission revenue from securities transactions executed on behalf of advisory clients. Zephyr does not currently have any formal soft dollar arrangements or receive soft dollar credits from brokers. However, Zephyr receives proprietary research from broker-dealers used to execute securities transactions. To the best of our knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. Zephyr and its clients do not separately compensate such broker-dealers for the research and the client does not pay higher transaction costs to receive such services. These bundled services are made available to us on an unsolicited basis and without regard to the rates of commissions charged or paid by our clients. Nonetheless, Zephyr may have an incentive to select a broker based on our interest in receiving the research services offered by such broker, rather than on the clients' interests in receiving most favorable execution rates.

As stated above, the receipt of research services may be a factor considered in selecting brokers for the execution of client transactions. In some cases, brokers may charge marginally higher commissions than brokers who do not provide research services. The types of broker provided research services that are generally useful to Zephyr include, but are not limited to, equity and fixed-income research reports, industry analysis, macro-economic reports, information regarding foreign currency outlook, portfolio allocation strategy reports, statistical analysis and performance analysis. Research services are received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academics and government representatives. Research services received from brokers may be useful in providing investment

management services to all of Zephyr's clients, not just the clients whose commission dollars were used to pay for such research and brokerage services.

Research services received from brokers are supplemental to Zephyr's own research effort and, when utilized, are subject to internal analysis before being incorporated by Zephyr into its investment process. As a practical matter, it would not be possible for Zephyr to generate internally all of the information presently provided by brokers. The receipt of research and brokerage services obtained through the use of client commissions is a benefit to Zephyr, because it is relieved from having to generate such additional information through its own staff. To the extent that brokers provide research services of value, Zephyr is relieved of expenses which it may otherwise bear. Therefore, Zephyr has an incentive to select or recommend brokers based on its interest in receiving such research, rather than on a client's interest in receiving lower transaction costs. Zephyr addresses this conflict of interest by periodically reviewing and assessing the reasonableness of commissions paid in light of the total brokerage and research services provided by each particular broker-dealer.

Brokerage for Client Referrals

Zephyr may direct brokerage business to brokers who introduce or refer prospective clients or investors to Zephyr. While Zephyr does not compensate these brokers based on client or investor introductions or referrals, Zephyr may be incentivized to use the trade execution services of a specific broker due to the broker's ability to introduce clients or investors to Zephyr. Such introductions or referrals are likely to benefit Zephyr because the Firm's management fees are generally based upon a percentage of assets managed. Thus, the more assets the Firm has under management, the higher its management fee income and, potentially, its performance fee income. Zephyr believes that this conflict of interest is mitigated by the oversight provided by its "best execution" reviews. To prevent brokerage commissions from being used to pay client or investor referral fees, Zephyr will not allocate brokerage business to a referring broker unless Zephyr determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to Zephyr.

Directed Brokerage

Zephyr will permit clients with a separately managed account to direct it to use a specific broker to execute their transactions. If a client requests such directed brokerage ("Directed Brokerage Account"), then the client should understand that Zephyr may not be able to negotiate commissions for such Directed Brokerage Account, obtain volume discounts, or obtain the most favorable execution of their transactions. The brokerage commissions charged to a Directed Brokerage Account may be higher than the commissions charged to Zephyr's clients pursuing similar investment strategies who do not direct the use of a particular broker or dealer because Zephyr may not be able to aggregate their orders to reduce transaction costs. Also, the client may receive less favorable prices. Certain transactions, such as purchase of ordinary shares in some countries or markets where the directed broker does not act, may not be available to the Directed Brokerage Account, or available at the same time or the same price, that are executed by Zephyr's other clients pursuing similar investment strategies. Clients that direct their brokerage should also be aware that Zephyr will generally place such trades after the completion of trades for clients that do not direct their brokerage.

Insofar as a client's directed broker may refer other clients to Zephyr in the future, a conflict of interest could arise.

Trade Errors

It is the policy of Zephyr that the utmost care is taken in making and implementing investment decisions of behalf of client accounts. To the extent that any trading errors occur, they are to be (a) corrected as soon as practicable without disadvantaging the client or benefiting Zephyr, (b) reported to Zephyr's management, and (c) scrutinized carefully with a view toward implementing procedures to prevent or reduce future errors, if necessary. Generally, where the error has occurred as a result of negligence or gross misconduct by an employee or associate of Zephyr, the client will be fully compensated for any loss suffered as a result of the error. Where the error results in a 'profit', or net gain to the client, the client will receive the benefit.

Review of Accounts

Private Equity

The PE Funds are actively managed by the respective portfolio management teams. All Funds are reviewed at least once a quarter, although the specific frequency varies across the Funds. Each review analyzes portfolio positions, market trends, and investment opportunities. Most of Zephyr's PE Funds have investment committees, which review the Funds' investments whenever a new investment or divestment is proposed. The number of reviewers, their titles and functions are set forth in each fund's Private Placement Memorandum, which is available upon request.

Investors in the PE Funds receive written quarterly reports, which include unaudited financial statements, a description of current holdings of the portfolio, transaction updates and capital account balances. Annual reports are also sent to investors and include audited financial statements, where applicable. Zephyr holds an annual investor meeting for most of its PE Funds.

Marketable Securities

The Marketable Securities Funds (as of the date hereof, this refers to Zephyr Latin America Fund, L.P., the currently active Marketable Securities Fund) are actively managed by their portfolio management team (whether personnel of Zephyr, a sub-adviser, or, in the case of ZLAF, the investment adviser of the underlying fund in which ZLAF is a feeder fund) and the performance of the Marketable Securities Fund is reviewed regularly. In addition the portfolio management teams continuously review the portfolio to assure conformity with the objectives and guidelines of such Fund. In addition, the Fund is reviewed in light of emerging trends and developments as well as market volatility. In addition, the portfolio managers meet with investors on request. The review process and the persons responsible for reviews a Fund's Private Placement Memorandum, which is available upon request.

Investors in the Marketable Securities Funds receive written monthly newsletters and account statements, quarterly unaudited financial statements and annual audited financial statements. Zephyr typically holds at least one general investor call per year for the investors of a Marketable Securities Fund.

From time to time, Fund investors may request information about their accounts or Fund performance in addition to what is routinely provided to investors, and may include more frequent reports or more detailed information. These requests will be accommodated whenever possible.

Client Referrals and Other Compensation

Zephyr may have from time to time arrangements with various placement agents to sell the Funds advised by Zephyr on a non-exclusive basis. For the Marketable Securities Fund, the compensation paid to each placement agent is based upon the amount of capital raised by the placement agent and varies depending on the arrangement agreed with such placement agent. For the PE Funds, the compensation paid to a placement agent will also vary, and is commonly 2% of the amount of capital raised by such placement agent. Placement fees are paid by Zephyr and not by investors, unless agreed otherwise with the investors.

Custody

Zephyr is deemed to have custody over the funds and securities held by the Zephyr Funds due to its, or an affiliated person's, role as General Partner (or similar control capacity) of the Funds. To the extent possible and practicable, the Funds' assets are held in custody by unaffiliated broker/dealers or banks. Generally, investors will not receive Fund account statements from the custodians. Instead the Funds are subject to an annual audit and the audited financial statements, prepared in accordance with generally accepted accounting principles, are distributed to each investor within 120 days of the Funds' fiscal year end.

However, investors in Zephyr Internet Partners, L.P. will receive quarterly, or more frequent, account statements directly from the fund's custodian. Investors should carefully review those statements, and should compare those statements to any Fund information provided by Zephyr.

Investment Discretion

Zephyr accepts discretionary authority to manage securities accounts on behalf of clients, including the Funds. If Zephyr has not delegated its investment discretion to a sub-adviser, Zephyr's discretionary authority is not limited, other than by the client's investment policies, except that in the case of PE funds, Zephyr generally must also obtain the consent of the respective PE Fund's investment committee.

For separately managed account clients, restrictions on Zephyr's discretionary authority may be individually negotiated, and will be documented in each client's investment management agreement.

With regard to the clients for which Zephyr has engaged a sub-adviser to carry out the investment supervisory services, the sub-advisers ordinarily determine which securities are purchased and sold for client accounts and the amount of such purchases and sales.

Voting Client Securities

Where Zephyr is the primary portfolio manager with respect to a stock, Zephyr monitors corporate actions and receives and votes client proxies for portfolio securities consistent with the best economic interests of its clients. It is Zephyr's policy to disclose any known conflicts of interest with respect to a proxy vote to clients, or in the case of a Fund, to the Fund's Advisory Committee or other investor body of the Fund in accordance with the Fund's governing documents. On routine matters, Zephyr may elect not to vote proxies where it would not prejudice the interest of clients to do so. Ordinarily, and especially in the case of a relatively liquid publicly traded stock, Zephyr will vote proxies in accordance with the recommendations of management. In the case of a private equity investment, Zephyr may or may not vote in accordance with the request of management.

Where Zephyr has delegated its investment supervisory authority to sub-advisers, the sub-advisers have been granted the authority and responsibility to vote proxies for portfolio securities.

Clients or investors may contact Zephyr for more detailed information regarding Zephyr's or any of the sub-advisers' proxy voting policies and procedures (including copies of such procedures) and for information on how the securities in Clients' portfolios were voted.

Financial Information

Zephyr has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.