

PHILADELPHIA FINANCIAL MANAGEMENT OF SAN FRANCISCO, LLC
Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Philadelphia Financial Management of San Francisco, LLC, an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). If you have any questions about the contents of this brochure, please contact us at 415-352-4463 or rachael@phillyfin.com. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Registration with the SEC does not imply a certain level of skill or training.

Additional Information about Philadelphia Financial Management of San Francisco, LLC is also available on the SEC's website at www.adviserinfo.sec.gov

MATERIAL CHANGES

There have been no material changes to this brochure since Philadelphia Financial Management of San Francisco, LLC filed its brochure in March 2014.

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ADVISORY BUSINESS

Philadelphia Financial Management of San Francisco, LLC (“Philadelphia Financial” or “we”) began operation in March of 2004. We provide discretionary investment advisory services to four private investment funds. Two of those investment funds are limited partnerships of which we are the sole general partner. The other two are non-U.S. companies of which we are the investment manager. We refer to all of these investment funds collectively as the “Funds.” At this time we do not manage assets for or provide investment advice to any clients other than the Funds, although we may in the future.

Jordan Hymowitz and Justin Hughes are Philadelphia Financial’s principal equity owners.

We have full discretion to invest and trade the Funds’ assets. The Funds have broad investment mandates, with no contractual limitations on types of instruments in which we may cause them to trade or invest. We cause the Funds to invest and trade in a variety of securities, primarily U.S. and Canadian publicly traded securities of companies involved in the financial services sector. The Funds sell securities short, engage in some short-term trading, and may invest and trade in options, other derivatives and other instruments.

We manage each Fund pursuant to the objectives specified in the materials by which the Fund offers its ownership interests to investors. We, as general partner, determine those objectives for the Funds that are limited partnerships. The boards of directors of the non-U.S. Funds have the authority to determine those objectives, subject to our agreement, and to supervise those Funds’ investment and trading activities. Our agreements with the Funds impose no limits on the types of securities or other instruments in which the Funds may invest, the types of positions they may take, the concentration of their investments by sector, industry, fund, country, class or otherwise, the amount of leverage they may employ or the number or nature of short positions they may take. The Funds’ investors do not have the right to specify, restrict, or influence their Funds’ investment objectives or any investment or trading decisions.

We do not participate in wrap fee programs.

As of December 31, 2014, the Funds’ aggregate regulatory assets under management (which we manage) was \$1,044,322,893. We manage no assets on a nondiscretionary basis.

FEES AND COMPENSATION

Compensation to Philadelphia Financial. Each Fund pays us a “management fee” at the beginning of each calendar quarter equal to 0.375% (1.5% *per annum*) of the value of investors’ holdings in the Fund (limited partner interests or shares). Each non-U.S. Fund also pays us, as an “incentive fee,” 20% of the increase in value of the outstanding Fund shares to the extent those increases exceed previous decreases in value (a “high water mark”). As general partner of each partnership Fund, we are specially allocated as an “incentive allocation” 20% of the increases in the limited partners’ capital account balances to the extent those increases exceed a similar “high water mark.” The Funds pay incentive fees and make incentive allocations at the end of each calendar year and at other times when Fund investors withdraw capital or, in the case of non-U.S. Funds, redeem shares, but then only in relation to the amount of capital withdrawn or shares redeemed. For each period and for each Fund, the foregoing fees and allocations are the aggregate of amounts calculated separately for each investor or group of investors in each Fund. They are not generally negotiable, but our agreements with the Funds give us the authority to vary them for particular investors.

The Funds pay our fees directly from their assets that we manage. Incentive allocations from partnership Funds take the form of increases in the value of our general partner interest in those Funds.

Other Fees and Expenses. Each Fund pays all the expenses of its administration and operation, including those for:

- brokerage commissions and other transaction-related services (see “Brokerage Practices” below);
- research;
- legal and auditing;
- accounting;
- administration;
- price validation;
- risk monitoring;
- investment related consultants and other service providers;
- preparation, duplication and distribution to investors and prospective investors of offering documents, annual reports and other financial information; and
- similar ongoing operational expenses.

The Funds do not currently pay custodial fees directly. Their assets are held by “prime brokers” as custodians. The Funds may be considered to pay for custodial services indirectly through: payments to the prime brokers of commissions and other transaction costs; payments of financing charges related to margin borrowings and stock loans; and the prime brokers’ ability to earn money on certain balances the Funds maintain with them (subject to laws and regulations governing their activities).

Each Fund bore certain costs in connection with its organization and the initial offering and sale of ownership interests in it and continues to bear the costs of its ongoing offering of those ownership interests.

We may advance costs described above for a Fund and the Fund must reimburse us.

We provide office personnel and space required for the performance of our services for the Funds. The Funds do not reimburse us for doing so (except to the extent of our fees and incentive allocations).

Prepayment of Fees. The Funds pay management fees quarterly in advance. If we were to terminate our status as general partner of a partnership Fund or as investment manager of a non-U.S. Fund otherwise than as of the end of a quarter, we would refund to the Fund a portion of the management fee that was paid at the beginning of the termination quarter, pro rata for the portion of the quarter during which we were not the general partner or investment manager. Fund investors are generally allowed to withdraw capital or redeem shares as of the end of a calendar quarter, at which time there generally will be no prepaid fees. However, if an investor were allowed to withdraw or redeem at a time other than a calendar quarter-end, we would refund a portion of the management fee pro rata for the portion of the quarter after the effective time of the withdrawal or redemption.

Other Compensation. We do not and our personnel do not accept compensation for the sale of securities or other investment products.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Each non-U.S. Fund pays us a performance-based “incentive fee” and each partnership Fund allocates to us a portion of the increase in value of investors’ investments, as described above in “Fees and Compensation.” We do not manage any accounts that do not provide for performance-based profit participation. While we have the right to waive incentive fees or incentive allocations as to particular investors in a Fund, we manage each Fund’s assets as an undivided pool, so any such waiver would not give rise to incentives to favor any particular account over another. Our potential to receive incentive fees or allocations, and the fact that we will not have to refund any such fees or allocations if the Funds later experience losses, may create an incentive for us to make investments that are riskier or more speculative than would otherwise be the case.

TYPES OF CLIENTS

We provide investment advice only to the Funds. They are privately-offered investment funds that are not regulated under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) because of Sections 3(c)(1) and 3(c)(7) of that act and, in the case of the U.S. Funds, their adherence to the substantive provisions of Section 3(c)(7) as to non-U.S. Funds. Each Fund imposes minimum investor qualification standards and minimum investment requirements.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Investment Objectives and Strategies

We seek to achieve the Funds’ investment objective of maximizing total returns by investing primarily in the financial service industry. We invest predominantly (but not exclusively) in U.S. and Canadian publicly-traded securities of finance companies including: banks, thrifts, brokers, asset managers, insurance, mortgage, specialty finance, REITs, homebuilders, financial technology, and other financial intermediaries. Although the predominant emphasis is on the financial sector, we may invest a portion of the Fund’s assets in other sectors in which we have investment experience, such as the automotive sector.

We take long positions primarily in undervalued small to medium sized companies we believe offer attractive investment opportunities while shorting those with what we consider deteriorating fundamentals, questionable accounting practices, or flawed business models.

Although we have long-term views, when appropriate, we may cause the Funds to trade on a short-term basis. Funds may use leverage and stock options in attempts to hedge positions and enhance returns. They may invest in any type of instrument, including private equity, distressed debt or securities of financial service companies. While the Funds may invest throughout the world, we expect that less than fifteen percent (15%) of a Fund’s assets, as measured on an ongoing, mark-to-market basis, will be invested in investments other than U.S. securities, Canadian securities and securities traded on the London Stock Exchange or Euronext.

We maintain internal parameters for a variety of portfolio characteristics including levels of: investment in the financial services sector (a high level); investment in non-U.S., non-Canadian, non-London Stock Exchange listed, non-Euronext securities; investment in private placements;

investment in nonconvertible debt securities; gross long and gross short exposure; concentration of investment in any particular company; overall number of positions; and options exposure.

Investing in securities involves a risk of loss that investors should be prepared to bear.

Material Risks of Our Strategy

The following is a summary of some of the material risks associated with our investment activities. It does not attempt to describe all of the risks associated with those activities. The confidential offering memoranda by which the Funds offer ownership interests contain more complete descriptions of those risks, as well as some risks that arise out of the Funds' particular attributes, but no such description can fully describe all risks of investing.

Reliance on Key Personnel. Our investment advice depends on the judgment and analysis of our investment professionals and in particular Jordan Hymowitz and Justin Hughes. Should either of them terminate his relationship with us, die or become otherwise incapacitated for any period of time, the Funds' investments could suffer.

Economic and Business Conditions. General economic and business conditions may affect the Funds' activities. Interest rates, the prices of securities, and participation by other investors in the financial markets may affect the value of securities purchased by a Fund. Unexpected volatility or liquidity in the markets in which a Fund directly or indirectly holds positions could impair a Fund's ability to carry out its business and could cause it to incur losses.

Lack of Sector Diversification. Since a large portion of each Fund's portfolio will be concentrated in the financial services industry and its portfolio will not be widely diversified, the investment portfolio of a Fund may be subject to more rapid change in value than would be the case if the Fund were required to maintain a wide diversification among companies or industry groups.

Regulatory Oversight. Financial services companies are subject to extensive regulation, supervision, and examination by various federal and state authorities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, State banking commissions, State Insurance Commissioners, the SEC, etc. Generally, each institution must file regular reports with its regulators with respect to its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions that may be subject to certain minimum capital requirements, and may be subject to periodic examination to assess compliance with various regulatory requirements. Adverse action by regulatory agencies, or any change in the laws, regulations, or policies applicable to financial institutions, whether by Congress, the states or federal or state regulators, could have a material adverse impact on the industry or on institutions in which a Fund may have an investment.

Other Factors Affecting Financial Services Industry. The profitability of most financial institutions is dependent to a large extent upon the interest rates that can be earned on and charged for financial products. Accordingly, an institution's business, results of operation and financial condition may be significantly impacted by changes in the interest rate environment and the institution's ability to manage its assets and liabilities in response to such movements. Results of operations may also be materially affected by national and local economic conditions and real estate cycles, particularly with respect to the type and volume of business that an institution does and the institution's exposure to credit losses, and the monetary and fiscal policies of the federal government.

Reliance on Certain Information. We may make decisions based on information and data filed by the issuers of securities with the SEC or made directly available to us by those issuers or through other sources. Although we evaluate such information and data and seek independent corroboration when we consider it appropriate and when it is reasonably available, we are not in a position to confirm the completeness, genuineness, or accuracy of such information and data.

Risk Relating to Size of Issuer. There is no limitation on the size or operating experience of the companies in which a Fund may invest. Some small companies may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Short Selling and Leverage. The Funds may sell securities short and leverage their portfolios through margin borrowing. These practices can, in some circumstances, increase the risks involved in the Funds' investments.

Short Selling. A Fund may sell short securities of an issuer in the expectation of covering the short sale with securities purchased in the open market at a price lower than that received in the short sale. If the price of the issuer's securities declines, the Fund may then cover the short position with securities purchased in the market. The profit realized on a short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale. The possible losses from selling a security short differ from losses that could be incurred from a cash investment in the security: they may be unlimited. Short selling is subject to restrictions imposed by the federal securities laws and the various national and regional securities exchanges, which restrictions could limit a Fund's investment activities. Securities necessary to cover a short position may be unavailable for purchase, or for purchase at reasonable prices, when a Fund wishes to cover the position or when the Fund's lender (its prime broker) seeks to cover.

Leverage. A Fund may use leverage in its investment program when we consider it appropriate. At times, the amount of such leverage may be substantial. Leverage creates an opportunity for greater returns, but at the same time increases exposure to capital risk and higher current expenses. If a Fund purchases securities on margin and the value of those securities falls, it may be obligated to pay down the margin loans to avoid liquidation of the securities. If loans to a Fund are collateralized with portfolio securities that decrease in value, the Fund may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses. Moreover, counterparties of a Fund, in their sole discretion, may change the leverage limits that they extend to the Fund.

Non-U.S. Securities. The Funds may invest in securities and other instruments of non-U.S. corporations and countries. Investing in certain countries (such as emerging nations or countries with less well regulated securities markets than the United States or the United Kingdom or other European Union countries) involves risks not usually associated with investing in securities of United States companies or the United States Government, including among other things, political and economic risks, such as greater risks of expropriation, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; government

policies that may restrict a Fund's investment opportunities; and in some cases less effective government regulation than is the case with securities markets in the United States.

Hedging Transactions. The Funds expect to utilize hedging in order to reduce market risk and volatility. It is anticipated that use of these techniques may reduce a Fund's performance during periods of strong market performance in its target industries, while decreasing its volatility and risk of loss during less optimal market conditions. However, to the extent our assessment of certain market movements is incorrect, the use of hedging could result in losses greater than if hedging had not been used. Moreover, it should be noted that the Funds do not generally intend to hedge particular positions with short positions in the same security. Therefore, there is no assurance that the hedging positions that are selected will in fact reduce volatility and risk of loss. Also, the portfolio of each Fund will always be exposed to certain risks that cannot be hedged.

Option Trading. In seeking to enhance performance or hedge capital, a Fund may purchase and sell call and put options on both securities and stock indexes. Both buying and selling call and put options involve risks. Although an option buyer's risk is limited to the amount of the purchase price (premium) of the option, an investment in an option may be subject to greater fluctuation than an investment in the underlying securities. In theory, the exposure to loss is potentially unlimited in the case of an uncovered call writer (*i.e.* a call writer who does not have and does not maintain during the term of the call an equivalent long position in the stock or other security underlying the call), but in practice the loss is limited by the term of existence of the call. The risk for a writer of an uncovered put option (*i.e.*, a put option written by a writer that does not have and does not maintain an offsetting short position in the underlying stock or other security) is that the price of the underlying security may fall below the exercise price. The effectiveness of purchasing or selling stock index options as a hedging technique may depend upon the extent to which price movements in investments that are hedged to correlate with price movements of the stock index selected. Because the value of an index option depends upon movement in the level of the index rather than the price of a particular stock, whether a gain or loss will be realized from the purchase or writing of options on an index depends upon movements in the level of stock prices in the stock market generally, rather than movements in the price of a particular stock.

Risks of Derivatives. A Fund may trade derivatives beyond exchange-traded options. The risks posed by derivatives include (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risks (adverse movements in the price of a financial asset or commodity); (3) legal risks (an action by a court or by a regulatory or legislative body that could invalidate a financial contract); (4) operations risks (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risks (exposure to losses resulting from inadequate documentation); (6) liquidity risks (exposure to losses created by the inability to prematurely terminate a derivative); (7) systemic risks (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risks (exposure to losses from concentration of closely-related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risks (the risk that a Fund faces when it has performed its obligations under a contract but has not yet received value from its counterparty).

Debt Securities. A Fund may invest in debt instruments, including instruments of companies that are in financial difficulty, and may be in, or emerging from, bankruptcy proceedings or other legally-mandated forms of liquidation proceedings. Such proceedings may be governed by U.S. or non-U.S. bankruptcy regimes. The length and complexity of bankruptcy and other insolvency proceedings may make it difficult for a Fund to realize upon its investments when it desires.

Arbitrage Transactions. The Funds may take corresponding long and short positions in the same or similar securities in order to take advantage of arbitrage opportunities.

Portfolio Turnover. There may be times when we cause a Fund to engage in significant short-term trading. High portfolio turnover involves, among other things, high transaction costs. A Fund's portfolio turnover from time to time may exceed that of other investment vehicles.

Institutional Risk and Custodial Risks. The institutions, including brokerage firms and banks, with which a Fund (directly or indirectly) does business, or to which securities have been entrusted for custodial and prime brokerage purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund. Brokers may trade with an exchange as a principal on behalf of the Fund, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Fund (for example, the transactions which the broker has entered into on behalf of the Fund as principal as well as the margin payments which the Fund provides). In the event of such broker's insolvency, the transactions which the broker has entered into as principal could default and the Fund's assets could become part of the insolvent broker's estate, to the detriment of the Fund. In this regard, Fund assets may be held in "street name" such that a default by the broker may cause the Fund's rights to be limited to that of an unsecured creditor.

DISCIPLINARY INFORMATION

On October 17, 2012, Philadelphia Financial self-reported a late short disclosure to the Comision Nacional del Mercado de Valores (CNMV) of Spain. The disclosure of short selling positions is an obligation set up in the Agreement of the Executive Committee of the CNMV adopted on May 27, 2010. The fulfillment of that obligation requires disclosures to be made before the end of the trading day following the day on which the disclosure obligation has been triggered. The CNMV required, according to article 85 of the SMA, a written statement from Philadelphia Financial regarding the late disclosure to be published by the CNMV on its website. Philadelphia Financially undertook prompt remediation and cooperated with the CNMV. No penalties or sanctions were incurred.

On September 16, 2013, without admitting or denying the SEC's findings (except as to jurisdiction), Philadelphia Financial voluntarily consented to the SEC's entry of an Order that included findings, a Cease and Desist order, a requirement to pay \$154,443.60 in disgorgement and interest, and a \$65,000 civil penalty. The SEC alleged that in 2009 Philadelphia Financial violated Rule 105 of Regulation M under the Securities Exchange Act because investment funds we manage purchased shares in two follow-on public offerings after having sold short the issuer's stock during the offerings' restricted periods. Rule 105 is a strict-liability, prophylactic rule that irrespective of intent prohibits buying in a secondary offering after having shorted during a (generally) 5-day restricted period -- unless the short seller has, after its last restricted-period short sale and in accordance with other technical timing requirements, made "bona fide purchases" of at least as many securities as it sold short during the restricted period. As reflected in the SEC's Order, Philadelphia Financially undertook prompt remediation and cooperated with the SEC during its investigation. The SEC also announced On September 17, 2013 having brought actions against 22 other firms for essentially the same types of violations, as part of its Rule 105 enforcement effort.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither we nor any of our employees are registered, or have an application pending to register as a broker-dealer or registered representative of a broker-dealer, futures commission merchant, or commodity pool operator. Neither we nor any of our employees have any relationships or arrangements with other financial service companies that pose material conflicts of interest.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

As an SEC-registered advisor, we have adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”). Our Code of Ethics provides a general statement of our expectations regarding the ethical standards that all of our members and employees should adhere to. Each of our members and employees is expected to read and become familiar with the ethical standards described in the Code of Ethics and may be required, from time to time, to affirm his or her agreement to adhere to such standards by signing a compliance certificate. The Code of Ethics includes our policies as they relate to: (i) compliance with laws, rules and regulations; (ii) conflicts of interest; (iii) confidentiality; (iv) protection and proper use of our assets; (v) use of copyrighted information; (vi) fair dealings; (vii) accurate and timely periodic reports; (viii) proprietary information; and (ix) reporting and effect of violations.

Our Code of Ethics limits members and employees from trading any individual equities in their personal accounts (excluding particular exceptions explicitly authorized by the Chief Compliance Officer, such as exchange-traded funds (“ETFs” and preferred equities). Employees and members may buy equities in their personal accounts, but are subject to a 350 day holding period.

Our Code of Ethics is available to investors and potential investors upon request.

Conflicts of Interest

We do not cause the Funds to buy securities from or sell securities to us or our affiliates, which include our members, officers, directors, employees and entities (the “Related Parties”), or otherwise cause the Funds to transact in securities in which we or our Related Parties have material financial interests.

As noted above, we limit Related Parties from buying and selling equity securities, specifically so that they do not buy and sell the same securities the Funds buy and sell at the same time as the funds. To address the potential conflict, we restrict the Related Parties’ trading the stock for three days after the funds’ execution. Exceptions to that general rule include ETFs (one day restriction) and preferred equity securities. If any two or more Funds’ accounts are trading in a security on the same day, all trading accounts will receive the average price and commission rate.

We attempt to act in a fair and reasonable manner in allocating investment and trading opportunities, considering both the best interests and specific restrictions of the accounts. We allocate investment opportunities that may be considered “scarce” (such as initial public offerings and purchases of thinly-traded securities) generally on the basis of assets under management for the Funds and personal accounts for which the transactions are appropriate. Because we intend to ensure that each investment is appropriate for each account in light of the characteristics of the

specific security and the overall portfolio composition of such account, this may mean that only our smallest Fund is allocated purchases of certain smaller and more illiquid securities.

We and/or our members may have investments in one or more Funds. That might be considered to give us an incentive to favor those Funds over Funds in which we do not own an interest.

BROKERAGE PRACTICES

Each Fund will spend substantial amounts on brokerage commissions and other expenses for transactions in its portfolio. We have complete discretion to decide who will execute transactions and how much each Fund will pay them. Some brokers (and others involved in portfolio transactions) will provide us with information, services and other products beyond pure transaction execution. As a result, we will face conflicts of interest in exercising our discretion.

Types of Transactions and Transacting Parties

A Fund may hire brokers to execute transactions as the Fund's agent. When it does so, it will pay a commission at a rate that is fully disclosed. Electronic crossing networks ("ECNs") are generally brokers who charge commissions for trades a Fund effects through them. Their commission rates are generally lower than other brokers.'

A Fund may also trade directly with a dealer who buys or sells a security for its own account — as a principal. Historically market makers in over-the-counter stocks have traded this way, as have bond dealers. When a Fund trades in this manner, the dealer generally does not charge a commission, but instead receives its compensation as part of the transaction price — as a markup or markdown. The amount of profit a dealer receives on a principal transaction is less apparent than a commission. Brokers, dealers, ECNs and other transacting parties are referred to as "Transacting Parties."

Selection Criteria, Generally

In choosing Transacting Parties, we seek "best execution" of the Fund's securities transactions. However, what constitutes "best execution" and determining how to achieve it are inherently uncertain. In evaluating whether a Transacting Party will provide best execution, we consider a range of factors. These include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement and error correction capabilities of the Transacting Party generally and in connection with securities of the type and in the amounts to be bought or sold; the Transacting Party's willingness to commit capital; the Transacting Party's reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the security; and as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party. We are not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to other Transacting Parties. A Fund may at times pay more than the lowest transaction cost available in order to obtain for itself and/or us services and products other than the execution of securities transactions.

"Soft Dollars"

We may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide to a Fund or to us. Selecting a Transacting Party in

recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.”

A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as Philadelphia Financial) of soft dollars generated by securities transactions to pay for various expenses but provides a safe harbor from breach of fiduciary duty claims if certain conditions and requirements are met. Under the safe harbor, soft dollars may be used to acquire “research” and “brokerage” services and products for which a Fund would not otherwise be required to pay. Services or products generally constitute “research” under Section 28(e) if they constitute advice, analyses or reports any of which express reasoning or knowledge as to the value of or investing in or trading securities, or as to issuers, industries, economic factors and trends, portfolio strategy or performance, but only to the extent we use them for lawful and appropriate assistance in making investment decisions for a Fund and our other clients. “Brokerage” services and products are those used to effect portfolio transactions or for functions that are incidental to effecting those transactions (such as clearance, settlement or short-term custody related to effecting clearing or settling transactions) or regulatorily required in connection with transactions. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited. Section 28(e) only protects commissions or commission equivalents on transactions in securities; markups and markdowns on many principal transactions, commissions paid to futures commission merchants on transactions in futures contracts, and compensation from transactions in swaps or other derivative instruments are not protected.

Conflict of Interest. Because many services and products we may receive from Transacting Parties may benefit us, our interests in allocating a Fund’s securities transactional business may conflict with a Fund’s. For example, we may have an incentive, in order to induce brokers and dealers to provide us with services or benefits to, among other things, cause a Fund to: (i) pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products; (ii) place more trades than would be optimal for a Fund’s investment strategy; (iii) use broker-dealers that do not obtain for a Fund the best possible price on portfolio transactions; and (iv) use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions. The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. We may or may not use other clients’ soft dollars to pay for services and products a Fund pays for and, if we do, that use may not be in proportion to account size, transaction volume, or uses of those services and products. We generally intend to use a Fund’s soft dollars (including markups and markdowns on principal transactions where protected) for purposes, and in ways, that satisfy the requirements of the Section 28(e) “safe harbor.”

“Research and Brokerage.” The types of “research” we may receive from Transacting Parties include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems (to the extent used to assist in making investment decisions), quotation services; and other products or services that may enhance our investment decision-making. “Brokerage” services and products (beyond typical execution services) include (but are not limited to): computer systems and facilities (including hardware) used for such things as communicating orders and settlement related

information electronically to executing Transacting Parties and the Fund's prime brokers, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions. We may use Fund soft dollars for "mixed use" products and services—products and services that are used in part for research or brokerage purposes and in part for other purposes. Even where our use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), we will have a conflict of interest in connection with that use because we might otherwise have to pay cash for those services and products and we may have an incentive to use Transacting Parties who provide those services and products more than we otherwise would.

Fund Expenses. A Fund may use brokerage commissions, markups and markdowns, and other transaction-related compensation (as well as interest the Fund's prime brokers receive on the Fund's cash balances, margin borrowings and borrowings of securities to maintain short positions) to pay the Fund's prime broker for recordkeeping, custodial and related services provided to the Fund. Generally, the Fund, and not us, would otherwise be obligated to bear all of these expenses. We therefore do not believe it would have a significant conflict of interest in selecting a Transacting Party in recognition of that party's payment of them.

Procedures. Transacting Parties from which we obtain soft dollar services or products generally establish "credits" based on past transactional business (including markups and markdowns on principal transactions, such as transactions with market-makers for Nasdaq securities), which may be used to pay or reimburse us for specified expenses. In some cases the process is less formal; a Transacting Party simply may suggest a level of future business that would fully compensate the broker or dealer for services or products it provides. A Fund's actual transactional business with a Transacting Party may be less than the suggested level but may exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because a Fund's investment activities generate aggregate commissions in excess of the levels of future business suggested by all Transacting Parties who provide services and products. And it may be in part because those Transacting Parties may also provide superior execution and may therefore be most appropriate for particular transactions. We may ask a Transacting Party who is executing a transaction for several accounts (*see* the discussion below regarding aggregation of orders) to "step out" of a portion of the transaction in favor of a Transacting Party who has provided or is willing to provide products or services for soft dollars. That is, the executing Transacting Party will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar Transacting Party. This assists us in acquiring products and services with soft dollars while providing the benefits of aggregated transactions described below. It may result in a Fund paying additional commissions or other transaction compensation to the Transacting Party to whom the Fund's portion of an aggregated transaction is "stepped out" and therefore incurring higher transaction costs for that transaction than do our other clients who are buying or selling the same security at the same time.

The above procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage. However, Section 28(e)'s safe harbor is not available where transactions are effected on a principal basis, as most transactions with market-makers in over-the-counter securities are, with a markup or markdown paid to the Transacting Party. We generally do not intend to use such markups and markdowns as soft dollars.

Referrals of Investors and Advisory Clients

We currently do not use any external referral services to obtain investors and/or advisory clients. However, in the future if we should do so, we may consider the Transacting Party's referrals of investors to a Fund or other investment funds we manage, referrals of advisory clients to us, the

potential for future referrals, and/or the Transacting Party's willingness to pay third-party finders' fees for such referrals. To the extent we would otherwise be obligated to pay for "finding" services, we have a conflict of interest in considering those services when selecting a Transacting Party. We also face a conflict because we benefit from increases in the size of a Fund.

Cross Transactions

We may (but are not obligated to) cause a Fund and other accounts that we manage to effect "cross" transactions (*i.e.*, buy and sell securities from and to each other), subject to applicable law or regulation. We may do so, if we believe that the cross transaction will be beneficial to both parties. The Employee Retirement Income Security Act of 1974, as amended ("ERISA") and other laws or regulations may prevent a Fund from engaging in "cross" transactions that could be beneficial to the Fund.

Aggregation of Orders

We may combine a Fund's orders with orders for other accounts for which we or our principals have trading authority, or in which we or our principals have an economic interest. When we do, we will generally allocate the proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. We believe combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to a Fund than if the Fund had been the only account effecting the transaction or had completed its transaction before the other participants. Because of our interest in a Fund, there may be circumstances in which the Fund's transactions may not, under certain laws and regulations, be combined with those of some of ours and our affiliates' other clients, and the Fund may obtain less advantageous execution than those other clients.

We may place orders for the same security for different clients at different times and in different relative amounts due to, among other things, differences in investment objectives, cash availability, size of order and practicability of participating in "block" transactions. The level of participation by different clients in the same security may also be dependent upon other factors relating to the suitability of the security for the particular client. We have adopted policies and procedures intended to ensure that its trading allocations are fair to all its clients.

In addition, we and/or our related persons or funds may buy or sell specific securities for our or their own account that are not deemed appropriate for a Fund at the time, based on personal investment considerations that differ from the considerations on which decisions as to investments for the Fund are made. Where execution opportunities for a particular security are limited, we attempt in good faith to allocate such opportunities among clients in a manner that, over time, is equitable to all its clients.

Directed Brokerage; Prime Brokerage

We do not have any "directed brokerage" arrangements with the Funds. While not "directed brokerage," Funds may pay a portion of their own costs using soft dollars. In particular, each Fund obtains custodial, clearing and related services through what is known as a "prime brokerage" arrangement. By using brokerage firms for these functions the Fund avoids paying custodial fees that banks charge other institutional investors. Prime Brokers are compensated through brokerage commissions, interest on credit balances, margin borrowings, and stock loans. A Fund might be thought of as seeking to have us direct transactions to a Prime Broker in order to pay for the custodial, clearing and related services it obtains from the Prime Broker.

A Prime Broker may provide services to us and/or our affiliates, distinct from the custodial, lending and related services the Prime Broker provides a Fund and other clients. These services may include, among other things, information technology, website hosting, portfolio management software license and support service, consulting services with respect to various aspects of our business and introducing us to prospective advisory clients and prospective investors in the Fund and other investment funds we manage. They may be provided at lower than the market price for similar services or for no charge. A Prime Broker may also enter into financial transactions with us or our affiliates, and these transactions may be on terms more favorable than the terms available with other counterparties. These transactions might include lending money to us or our affiliates or investing in funds managed by us. To the extent we or our affiliates receive services from the Prime Broker at lower than market prices, or enter into transactions on terms better than terms available in the market, or collect fees from investments by a Prime Broker into funds managed by us, because we are responsible for selecting the Prime Broker or negotiating the rates of compensation paid to the Prime Broker by the Fund, conflicts may exist between our interests and the Fund's. We may have an incentive to cause a Fund to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) than might be available otherwise or to continue to use a Prime Broker when a Fund would not otherwise do so. We believe the compensation a Fund pays the Prime Brokers is reasonable and competitive with rates charged by other prime brokers for services of comparable quality.

REVIEW OF ACCOUNTS

Our Portfolio Managers, Jordan Hymowitz and Justin Hughes, conduct a high level review each Fund's portfolio daily as part of our ongoing portfolio management activities. We also conduct more broad-based, strategic reviews weekly, in which those officers as well as our Chief Financial Officer, analysts and traders participate.

We do not provide formal reports to the Funds, as we are their sole general partner or investment manager. Each Fund prepares annual financial statements that it causes to be audited by an independent certified public accounting firm and provides those statements to its investors and, in the case of a non-U.S. Fund, its board of directors. We also provide investors with monthly summaries of basic performance information as well as a summary of Fund investors' account values. The partnership Funds provide investors with Forms K-1 or other appropriate information to enable their investors to prepare their income tax returns.

CLIENT REFERRALS AND OTHER COMPENSATION

Other than as discussed above in "Brokerage Practices," we do not receive economic benefits from non-clients in connection with the provision of investment advice to clients and we do not compensate others for client referrals.

CUSTODY

Under a rule under the Investment Advisers Act, as general partner of the partnership Funds we are considered to have "custody" of those Funds' assets, even though an independent custodian (the Prime Broker) actually holds those assets. That Rule generally requires investment advisers that have custody of their clients' assets to cause certain account statements detailing holdings and transactions to be sent to clients and impose certain other obligations. However, advisers to investment funds like the Funds need not comply with those requirements if, among other things, the Funds provide investors with audited financial statements by a specified time each year and those

financial statements meet certain requirements. We satisfy those conditions and therefore are not subject to reporting and other obligations.

INVESTMENT DISCRETION

The partnership Funds' Agreements of Limited Partnership and our investment management agreements with the non-U.S. Funds each grant us complete discretion to manage the Funds' investment portfolios, without any specific limitations. See the description above in "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss."

VOTING CLIENT SECURITIES

The partnership Funds' Agreements of Limited Partnership and our investment management agreements with the non-U.S. Funds each grant us the authority to vote the securities held by the Funds. None of the Funds or any investor in the Funds may direct us to vote in any particular way on any particular matter.

The Funds may hold some positions for brief periods, in which case we do not consider voting to be meaningfully related to the Funds' interests in those positions. In those cases, we do not vote or evaluate proxies. We will do so when we believe the matter subject to vote is material to the Funds' account and our vote may affect the outcome. If and when we do vote proxies, we vote them in the economic interests of, and for the purpose of providing economic benefits to, the Funds. We generally do not consider social, political, or other objectives unrelated to the value of the Funds' investments.

When we do vote proxies, we follow procedures designed to identify and address material conflicts that may arise between our interests and those of the Funds. Specifically, we monitor the potential for conflicts of interest that might arise from personal relationships we or our Related Parties may have with parties involved in the vote, significant Fund investor relationships with those parties, and special circumstances.

If we determine that a conflict of interest exists as to a particular issuer, our Chief Operating Officer will determine whether the conflict of interest is material to the vote. If we determine that the conflict of interest is not material, we may vote proxies. If we determine that the conflict of interest is material, we will resolve the conflict in one of several possible ways including: 1) disclosing the conflict and obtaining consent, 2) engaging a third party to recommend a vote with respect to the proxy, or 3) such other method as is deemed appropriate under the circumstances.

Fund investors may request a copy of our Proxy Voting Policy, as well as relevant proxy voting records.

FINANCIAL INFORMATION

We have never filed for bankruptcy and are not aware of any financial condition that could be expected to affect our ability to manage client accounts.