

## Yost Capital Management, L.L.C.

2800 W. Lancaster Avenue  
Fort Worth, TX 76107  
817-350-6333  
[www.yostfunds.com](http://www.yostfunds.com)

Part 2A of Form ADV: Firm Brochure  
March 31, 2015

This brochure provides information about the qualifications and business practices of Yost Capital Management, L.L.C. (“YCM”). If you have any questions about the contents of this brochure, please contact Kyle Knutson at 817-350-6333 or [kyle@yostfunds.com](mailto:kyle@yostfunds.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”).

Additional information about Yost Capital Management, L.L.C. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO PURCHASE ANY SECURITIES OR INVESTMENT ADVISORY SERVICES.

## **ITEM 2. MATERIAL CHANGES**

The last annual update to YCM's Part 2a of Form ADV was March 28, 2014. A summary of the material changes since the last update of this Firm Brochure follows:

YCM's address was updated to: 2800 W. Lancaster Avenue, Fort Worth, TX 76107.

Item 4. Regulatory assets under management as of February 28, 2015 were disclosed as \$470,998,043. The combined net asset value of the Funds and SMA was updated to \$373,929,132 as of March 1, 2015 from \$189,768,871 as of March 1, 2014. YCM also amended Item 4 to add reference to a separately managed account which it manages.

Item 5. YCM amended Item 5 to add reference to a separately managed account which it manages.

Item 6. YCM amended Item 6 to add additional disclosures and to add reference to a separately managed account which it manages.

Item 7. YCM amended Item 7 to add reference to a separately managed account which it manages.

Item 8. YCM amended Item 8 to add reference to a separately managed account which it manages. Certain disclosures under Investment Strategy, Stock Selection Strategy, Long Positions, Short Positions, Investment Risks and Investment Program Risks were updated for consistency with the governing documents of the Funds. YCM updated the disclosure that trade errors will be borne by the Funds and the SMA.

Item 11. YCM amended Item 11 to add reference to a separately managed account which it manages and to update disclosures under Conflicts of Interest and related to trade allocation.

Item 12. YCM amended Item 12 to add reference to a separately managed account which it manages.

Item 13. YCM amended Item 13 to add reference to a separately managed account which it manages. YCM updated the name of the auditor to KPMG LLP from Rothstein, Kass & Company.

Item 15. YCM amended Item 15 to add reference to a separately managed account which it manages.

Item 16. YCM amended Item 16 to add reference to a separately managed account which it manages.

Item 17. YCM amended Item 17 to add reference to a separately managed account which it manages.

YCM will make a redline available to any person who wishes to see all changes made to the Part 2a of Form ADV dated March 28, 2014.

### ITEM 3. TABLE OF CONTENTS

ITEM 1. COVER PAGE.....	1
ITEM 2. MATERIAL CHANGES .....	2
ITEM 3. TABLE OF CONTENTS.....	3
ITEM 4. ADVISORY BUSINESS .....	4
ITEM 5. FEES AND COMPENSATION.....	5
ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	7
ITEM 7. TYPES OF CLIENTS .....	7
ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	8
ITEM 9. DISCIPLINARY INFORMATION .....	24
ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	24
ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	24
ITEM 12. BROKERAGE PRACTICES .....	28
ITEM 13. REVIEW OF ACCOUNTS.....	30
ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION.....	30
ITEM 15. CUSTODY .....	30
ITEM 16. INVESTMENT DISCRETION.....	30
ITEM 17. VOTING CLIENT SECURITIES.....	30
ITEM 18. FINANCIAL INFORMATION .....	31

## **ITEM 4. ADVISORY BUSINESS**

### **Description of the Adviser**

Yost Capital Management, L.L.C. (“YCM”) is an investment adviser organized as a Texas limited liability company on February 4, 2010. Carson Yost is the sole member of YCM. YCM is currently registered as an investment adviser with the United States Securities and Exchange Commission.

### **Description of Advisory Services**

YCM provides investment advisory services to pooled investment vehicles and a separately managed account (the “SMA”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). As the investment adviser of the Funds (as defined below) and the SMA, YCM’s services consist of identifying opportunities for acquisition, management, monitoring, and disposition of investments of the Funds and the SMA. Investment advice is provided directly to the Funds and the SMA, subject to the discretion and control of the general partner or the board of directors of the applicable Fund, and not individually to the limited partners or shareholders of the Funds.

The Funds currently advised by YCM are: (i) Yost Partners, L.P. (the “Master Fund”) and (ii) Yost Offshore Fund, Ltd. (the “Offshore Fund”, each a “Fund” and collectively, the “Funds”). As previously mentioned, YCM also manages the SMA. YCM may in the future organize other investment funds, including other feeder funds for the Master Fund or manage investment funds or other separately managed accounts that may either co-invest with the Funds or follow an investment program similar to or different from the Funds’ or the SMA’s program. The Offshore Fund currently invests all, or substantially all, of its assets in the Master Fund. Tomcat Management, L.P. (the “General Partner”) is the general partner of the Master Fund.

The Funds and the SMA advised by YCM currently focus on running a concentrated portfolio of high-conviction ideas. YCM’s investment strategy is neither value nor growth driven. YCM seeks to find ideas where it believes a company’s prospects are better or worse than the market expects and it intends to deploy capital when it thinks this “Expectations Gap” will close. There is strong emphasis on capital preservation and delivering out-sized, after-tax returns by making concentrated investments in companies that YCM believes will either significantly over or underperform the market. Please refer to a Fund’s offering memorandum for a complete description of investment objectives and strategy. The SMA’s portfolio will generally be similar to the Master Fund’s long portfolio (but may not include every long position in the Master Fund or have positions that are the same size as the Master Fund) subject to any investment guidelines or restrictions in the investment management agreement between YCM and the SMA and any limitations on the SMA’s ability to clear securities in certain markets.

Services are provided to the Funds and the SMA in accordance with the investment management agreements with the Funds and/or organizational documents of the applicable Fund and the investment management agreement with the SMA. Investment restrictions for the Funds and the SMA, if any, are generally established in the organizational or offering documents of the applicable Fund and the investment management agreement with the SMA.

YCM does not participate in wrap fee programs.

This brochure is qualified in its entirety by reference to each Fund’s or SMA’s governing documents (as applicable), including its private placement memorandum (if any), limited partnership agreement (if any), memorandum and articles of association (if any), subscription agreement (if any) and investment management agreement (if any).

### **Assets Under Management**

As of February 28, 2015, YCM's total regulatory assets under management ("RAUM") were approximately \$470,998,043. As of March 1, 2015, the combined net asset value of the Funds and the SMA were approximately \$373,929,132. All assets are managed on a discretionary basis.

### **ITEM 5. FEES AND COMPENSATION**

As provided under the governing documents of the Funds, YCM or its affiliates will receive from the Funds both a monthly management fee (the "Management Fee") at a fixed rate and an annual performance allocation based upon the performance of the Funds, as described further below. Subject to the terms of the investment management agreement between YCM and the SMA, YCM receives a management fee and performance fee for providing investment management services to the SMA. Although YCM has entered into agreements with the Funds and the SMA providing for the below fees, YCM and the General Partner may negotiate alternative fees on a client-by-client basis with other funds or separate account clients that they manage in the future. Different client facts and circumstances will be considered in determining such fees, including the client's investment strategy, assets under management, account composition, reporting requirements, economies of scale, if any, and any other factors YCM or the General Partner deem relevant. All such fees will be set forth in agreements with such clients.

#### **Management Fee**

YCM charges the Master Fund an annual management fee of 1.5% of the capital account balance of each limited partner of the Master Fund and of each Tracking Account (as defined below), calculated and payable monthly in advance. For accounting purposes only, the Master Fund may maintain notional capital accounts with respect to each class and/or series of shares of the Offshore Fund (each, a "Tracking Account"). The General Partner may combine Tracking Accounts maintained with respect to the shareholders of the Offshore Fund. Subscription proceeds received after the first day of a month will incur management fees as if the subscription had been received on the first day of the month. Generally, fees are not negotiable, provided, however, YCM may reduce or eliminate the Management Fee with respect to any limited partner of the Master Fund in its sole discretion. The board of directors of the Offshore Fund, in consultation with YCM, may reduce or eliminate the Management Fee with respect to any shareholder in its sole discretion.

For purposes of calculating the Management Fee, capital account balances include an investor's share of net realized and unrealized profits and losses, interest, dividends and other gains or losses. There is currently no provision for refunding management fees in the event the investment management agreement between YCM and a Fund is terminated before the end of a month after Management Fees have been paid.

The management fee paid by the SMA is calculated and paid pursuant to the investment management agreement between YCM and the SMA.

#### **Performance Allocation**

##### **Master Fund**

As of the close of each fiscal year, a performance allocation is debited against the capital account of each limited partner of the Master Fund and simultaneously credited to the capital account of the General Partner. The performance allocation is equal to 20% of each limited partner's allocable share of net profits of the Master Fund for the fiscal year. The performance allocation is subject to a modified "high water mark" limitation. Thus, if a net loss occurs in a fiscal year that results in a limited partner's capital account balance at the end of such fiscal year being lower than such limited partner's capital account balance as of the close of the last year in which a performance allocation was made (or, if no such performance allocation has been made, the capital account balance at establishment), then the

performance allocation shall be 10% of such capital account's allocable share of net profits, if any, until such time as the capital account has been allocated subsequent net profits in an aggregate amount equal to 250% of the net losses allocated to such capital account since the establishment of the existing high water mark. Thereafter, the performance allocation reverts to 20%. Net profits are calculated net of management fees and all other expenses of the Master Fund, but before the performance allocation. If a limited partner makes a withdrawal at a time when its capital account balance is below its "high water mark" level, the level is ratably reduced to reflect such withdrawal.

#### Offshore Fund

As of the close of each fiscal year, a performance allocation equal to (i) with respect to Class A shares, 15% of each shareholder's allocable share of net profits of the Master Fund (and the direct income and expenses of the Offshore Fund) for each fiscal year or (ii) with respect to Class B shares, 20% of each shareholder's allocable share of net profits of the Master Fund (and the direct income and expenses of the Offshore Fund) for each fiscal year, is debited against each Tracking Account and simultaneously credited to the capital account of the General Partner. The performance allocation is subject to a modified "high water mark" limitation. Thus, if a net loss occurs in a fiscal year that results in a shareholder's Tracking Account balance at the end of such fiscal year being less than the Tracking Account balance through the close of the last year in which a performance allocation was made (or, if no such performance allocation has been made, the Tracking Account balance at establishment), then any subsequent performance allocation shall be 10% of such Tracking Account's allocable share of net profits, if any, until such time as the Tracking Account has been allocated subsequent net profits in an aggregate amount equal to 250% of the net losses allocated to such Tracking Account since the establishment of the existing high water mark. Thereafter, the performance allocation reverts to the applicable percentage (either 15% or 20%). Net profits are calculated net of management fees and all other expenses of the Offshore Fund and the Master Fund, but before performance allocation. If a shareholder redeems at a time when its Tracking Account balance is below its "high water mark" level, the high water mark level will be ratably reduced to reflect such redemption.

For either the Master Fund or the Offshore Fund, in the case of a complete or partial withdrawal prior to the end of a fiscal year, the performance allocation is calculated and charged as of the date of the withdrawal on the basis of net profits allocated to such limited partner's capital account or shareholder's Tracking Account through the withdrawal date (but only with respect to the amount withdrawn on a pro rata basis in the event of a partial withdrawal).

The performance allocation with respect to any limited partner in the Master Fund may be waived or altered by the General Partner in its sole discretion. The performance allocation with respect to any shareholder of the Offshore Fund may be waived or altered by the board of directors of the Offshore Fund with the consent of the General Partner.

The General Partner and its affiliates are not subject to the management fee or the performance allocation but do share pro rata in all other applicable expenses.

The performance fee paid by the SMA is calculated and paid pursuant to the investment management agreement between YCM and the SMA.

#### **Other Expenses**

In addition to the Management Fee and performance allocation, each Fund bears the expenses of its organization and the offering of its interests (including legal and accounting fees, printing costs, travel, "blue sky" filing fees and expenses and out-of-pocket expenses). The Funds and the SMA bear all costs and expenses directly related to their investment programs, including, but not limited to, expenses related to proxies, underwriting and private placements, brokerage commissions (including outsourced trading

services), interest on debit balances or borrowings, rebates or charges for the borrowing of securities, custody fees, clearing and settlement charges, real-time exchange data and any withholding or transfer taxes imposed on the Funds or the SMA. The Funds also bear all out-of-pocket costs of the administration of the Funds, including accounting, audit and legal expenses, costs of any litigation or investigation involving the Funds' activities, and costs associated with reporting and providing information to existing and prospective investors. The Funds and the SMA also bear their *pro rata* share of costs for research or data providers, as determined by the General Partner or YCM, including but not limited to Bloomberg, Reuters, Data Explorers, TheMarkets.com and Street Events.

The Funds and the SMA do not have their own separate employees or offices, and they do not reimburse the General Partner and YCM for salaries, office rent and other general overhead costs of the General Partner and YCM (collectively, "Overhead Costs"). A portion of the commissions generated by the Funds' and the SMA's brokerage transactions may generate "soft dollar" credits that the General Partner and YCM are authorized to use to pay for research and other research related services and products used by the General Partner and YCM. The General Partner and YCM do not currently intend to (but may in the future) have a broker pay a third party with "soft dollars" for services acquired by the broker for the benefit of the General Partner or YCM. In the event that YCM elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the U.S Securities Exchange Act of 1934, as amended.

Notwithstanding the foregoing, any direct expenses, referred to above, of the Offshore Fund are treated as if borne by the Tracking Account maintained with respect to the participating shares to which such expenses correspond. The Offshore Fund will bear its *pro rata* portion of the Master Fund's costs and expenses.

Please see the sections titled Fees and Expenses and Brokerage and Custody in each Fund's Offering Memorandum for more detailed information. Please refer to the discussion of YCM's brokerage practices in Item 12 below.

YCM and its supervised persons do not accept compensation or commissions for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Subject to the investment management agreement between YCM and the SMA, the SMA will generally pay its *pro rata* share of any research related expenses.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As disclosed above under Item 5, FEES AND COMPENSATION, the General Partner and YCM may receive a performance allocation, which is based on the performance of the Funds or the SMA. YCM does not manage any accounts that are charged hourly or flat fees. As discussed in Item 5, investors in the Funds may be subject to a 10% performance allocation even if the value of its investment is below its "high water mark". Performance based fees may create an incentive for YCM or the General Partner to make investments that are riskier or more speculative than would be the case in the absence of such performance based fees. YCM will monitor the allocation of trades between the Funds and the SMA to alleviate any potential conflicts of interest due to different performance fee arrangements with the Funds and the SMA.

## **ITEM 7. TYPES OF CLIENTS**

YCM currently provides investment advisory services to the Funds and the SMA. Investment advice is provided directly to the Funds and the SMA, subject to the discretion and control of the General Partner or the board of directors of the applicable Fund and not individually to the investors in the Funds.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the 1940 Act and the Securities Act. Investors in the Funds or the SMA may include high net worth individuals/families, trusts, estates, charitable organizations, endowments, pension plans, corporations, limited partnerships, limited liability companies, and similar entities.

The minimum initial investment in each Fund is \$1,000,000. The Master Fund may accept investments in lesser amounts at the discretion of the General Partner. The Offshore Fund may accept investments in a lesser amount in the sole discretion of the board of directors subject to any requirements of the Cayman Islands Mutual Funds Law (as amended). YCM does not have a minimum size for a Fund. As previously disclosed, YCM also provides investment management services to the SMA. YCM decides whether to open a separately managed account on a case by case basis.

YCM may in the future provide advisory services to other funds and other separately managed accounts for high net worth individuals/families, trusts, estates, charitable organizations, endowments, pension plans, corporations, limited partnerships, limited liability companies, and similar entities.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

As stated previously, the Offshore Fund invests all, or substantially all, of its assets in the Master Fund and primarily achieves its investment objectives through its investment in the Master Fund. For purposes of Item 8, references to the Master Fund shall refer to the Master Fund and the Offshore Fund. The investment objectives and guidelines of the SMA are contemplated in the investment management agreement between YCM and the SMA. The SMA's portfolio will generally be similar to the Master Fund's long portfolio (but may not include every long position in the Master Fund or have positions that are the same size as the Master Fund) subject to any investment guidelines or restrictions in the investment management agreement between YCM and the SMA and any limitations on the SMA's ability to clear securities in certain markets. Some of the below disclosures and risk factors may not apply to the SMA.

### **Methods of Analysis and Investment Strategies**

Investing in securities involves risk of loss that clients and investors in the Funds should be prepared to bear.

### **Investment Objective**

The Master Fund's investment objective is to achieve after-tax compound annual returns that are superior to the broad global equity market averages with less risk and lower correlations to the market and long-short hedge fund indices.

### **Investment Strategy**

YCM intends to seek the Master Fund's investment objective by utilizing a range of investment strategies, including investing in publicly-traded equity securities, both long and short, as well as a broad array of other securities in public markets. Under normal circumstances, YCM intends that, at any given time, the Master Fund will have net exposure generally ranging between -10% and 60% and gross exposure generally ranging between 50% and 200%. In general, YCM intends that the Master Fund will hold approximately 10 to 20 long positions and approximately 15 to 30 short positions. In general, YCM does not expect individual long positions to exceed 15% of equity capital at cost or individual short positions to exceed 5% of equity capital at cost and 7% of equity capital at market values. The



concentration of the top ten long positions is generally expected to be at least 60% of the Master Fund's long portfolio. Long and short positions generally refer to individual positions or ideas and may not include exchange traded funds, futures contracts, securities used as hedges or other securities as determined by the Investment Manager. Certain individual positions that are related to each other may be combined when determining the number of positions. Depending on YCM's opinion of market conditions and the economy in general, the Master Fund's portfolio may at times have a net short exposure or may have more or less net or gross exposure than mentioned above. There may be times when YCM determines that it is in the best interest of the Master Fund to have a significant portion, or all, of the Master Fund's assets in cash.

YCM will generally attempt to identify stocks with at least 100% appreciation potential to serve as core long positions; therefore, assuming a 30% annual expected return target for such core long positions, YCM expects that average holding periods for core long positions will likely be over two years. YCM will attempt to identify short positions with a 50% total return potential to serve as core short positions. YCM generally expects to hold such core short positions for an average of one year. There can be no assurance that the positions initiated by YCM will achieve their expected annual return targets or expected appreciation potential or that positions will be held for the expected time horizons mentioned above. Targets set forth herein for expected annual returns or appreciation potential on individual positions should not be interpreted as a target or reasonable expectation for aggregate Master Fund returns.

YCM will generally not attempt to time the market. A guiding principle of YCM is that it generally does not invest where it does not feel it has an analytical advantage. Therefore, YCM will generally use broad sentiment extremes ("Be fearful when the market is greedy and greedy when the market is fearful") to guide the net exposure of the Master Fund. Otherwise, net exposure will be dictated by the level of conviction YCM has in the portfolio's holdings. Gross exposure (leverage) will be dictated by the portfolio's net exposure and YCM's conviction in the portfolio. For example, at 50% net exposure, gross exposure will tend to be around 150% until net exposure or market conditions change. YCM generally does not expect the portfolio to be over 100% net long.

YCM expects to invest globally, however it will generally require a higher expected return threshold on non-U.S. securities to compensate the Master Fund's portfolio for information barriers and non-U.S. market nuances. It is expected that YCM will invest in a limited number of credit and macro opportunities. In general, no more than 20% of the Master Fund's exposure will be in credit securities and the same liquidity parameters as for equity investments specified below will generally apply to credit securities and credit derivative securities.

YCM generally intends to focus the majority of the Master Fund's investments in small and mid-capitalization stocks. Liquidity and a clear path to getting paid are dominant factors in YCM's stock selection.

With respect to the size of an investment, YCM intends to employ the "Kelly Criterion"—the mathematical construct by which YCM makes large investments when its thesis is contrarian and its research strongly supports its hypothesis and smaller investments when its thesis is less contrarian but fundamentally shows a discrepancy between market perception and reality. YCM believes that this investment sizing method maximizes upside when its analysis is correct and minimizes losses when it is wrong.

YCM generally intends to maintain a liquid strategy whereby 65% of the portfolio can be liquidated within two weeks, assuming 25% of the average daily trading volume for a security. Although the Investment Manager intends to maintain a liquid portfolio and monitor the liquidity of the portfolio, there may be times when the liquidity of the portfolio varies from the above target.

YCM's core long positions will generally be companies that it believes have the ability to internally compound at high rates of return for extended periods of time. While YCM does not consider volatility to be synonymous with risk, it intends to construct a portfolio which it believes will exhibit lower volatility than the overall market. YCM believes that its investment style is helpful in preventing "beta mismatches" (long low P/E stocks and short high P/E stocks) from occurring. By sourcing ideas eclectically, away from Wall Street, YCM intends to seek to mitigate non-fundamental forces such as fund liquidations from affecting the Master Fund's portfolio. YCM expects to monitor the Master Fund's portfolio for one way exposures (industry, sector, country, etc.) that are not deliberately intended.

While YCM expects that its idea sourcing process will tend to lead to a portfolio with low correlations to the market, YCM recognizes that market activity may be extremely sensitive to macroeconomic factors. That being said, overall portfolio exposure is expected to be managed to reflect not only the underlying risk of specific ideas, but the overall market as well. If the market doesn't make sense to YCM, it won't hesitate to go to cash.

### **Stock Selection Strategy**

YCM generally employs an investment strategy using a "bottoms up" approach to selecting portfolio holdings. YCM will seek to find investment opportunities where it believes a company's prospects are better or worse than the market expects and intends to deploy capital when it thinks this "expectation gap" will close. Because YCM believes valuation is relative and dynamic, it believes cheap stocks can stay cheap and expensive stocks can stay expensive for long periods of time.

In the short-run, YCM believes there is a significant difference between the fundamentals of companies and the stocks of companies. In the short-run, stocks are affected by the macro environment, technical factors, manipulation, investor psychology, short-term bias, promotional management teams, liquidations, fund flows and institutional investor mandates. In the long-run, stocks trade in lockstep with fundamentals. Accordingly, YCM will seek to find opportunities to take advantage of the "expectation gap."

YCM generally sources investment ideas through abundant and esoteric reading, pattern recognition, general curiosity, its investor network, and primary research. YCM's passion for the "game" and its desire to make concentrated high expected-value investments drives its idea generation, the thoroughness of its work, and ultimately, the Master Fund's returns.

### **Long Positions**

In selecting long positions for the Master Fund, YCM will generally seek:

- (i) industry supply-demand changes that will favorably affect pricing for a sustained period of time;
- (ii) companies with undervalued assets (sum of the parts);
- (iii) businesses in secular change due to habits, tastes or demographics;
- (iv) low cost providers (market share gainers over time);
- (v) cyclical businesses early in an up-cycle;
- (vi) special situations; and
- (vii) other opportunities as determined by YCM.

YCM will seek to identify what it believes the market is getting wrong, and how to close the gap between its insight and the market. Better than expected earnings, resolution of an issue that scares the market, investor conferences, and media coverage are examples of events that can close this “expectation gap.”

From time to time, compelling short-term trades are expected to arise amidst companies YCM knows well due to hedge fund liquidations, short squeezes, earnings misses, and market overreaction to short-term events that don’t affect the long term value of companies.

### **Short Positions**

YCM believes short investments are generally one of the following varieties:

- (i) cyclical companies hiding out as secular change stories;
- (ii) businesses in highly competitive industries;
- (iii) product fads;
- (iv) frauds;
- (v) “trash” carried up with the tide because of thematic investment trends;
- (vi) suppliers to weak original equipment manufacturers purporting to not being susceptible to industry malaise; and
- (viii) other opportunities as determined by YCM.

The nature of short-selling generally results in more rapid realization of gains and therefore higher taxable income for those investments. Furthermore, the proliferation of hedge funds over the last few years has made finding compelling shorts more difficult. Therefore, YCM will generally not employ shorts just to “hedge” against market loss; short candidates will have an equal, if not greater hurdle than that established for longs because of their asymmetric risk profile (limited upside, infinite downside). Notwithstanding the foregoing, should the Master Fund’s net exposure level rise above YCM’s level of comfort, YCM may seek to either reduce long exposure, hedge with index or other futures contracts or exchange traded funds or buy market puts and/or volatility calls.

Hedge funds crowding around a limited number of quality short sale candidates requires YCM to maintain a keen awareness of market expectations concerning a short position. In general, YCM will seek to avoid being a late participant in a popular short thesis where the risks have been skewed by the probability of a “short-squeeze”.

YCM generally intends for its short theses to be structural in nature, not temporary.

The investment objectives and methods summarized above represent the General Partner’s and YCM’s current intentions. Depending on conditions and trends in the securities markets and the economy in general, the General Partner and YCM may pursue any objectives, employ any investment techniques or purchase, sell or sell short any type of security that they consider appropriate and in the best interests of the Master Fund whether or not described in this section. The foregoing discussion includes and is based upon numerous assumptions and opinions of the General Partner and YCM concerning world financial markets and other matters, the accuracy of which cannot be assured. Any references to target percentages or ratios are general objectives and not strict limitations or requirements. There can be no assurance that the Master Fund’s investment strategy will achieve profitable results.

## **Investment Risks**

An investment in a Fund involves a high degree of investment risk, including the risk that the entire amount invested may be lost, and is suitable only for persons or institutions of adequate financial means who have no need for liquidity in this investment. A Fund will make investments using strategies and financial techniques with significant risk characteristics. There can be no assurances or guarantees that: (i) the investment objectives of a Fund will be realized; (ii) a Fund's investment strategy will prove successful; or (iii) investors will not lose all or a portion of their investment in a Fund. Below is a list of potential risk factors that are reportable in this brochure. There is no guarantee that this is a complete list of the risks, that the below investment risks are fully explained, that a Fund will be able to control investment risks or that the risks will not aggregate in a manner adverse to a Fund. Additional risks associated with an investment in a Fund may be disclosed in the offering documents of that Fund. Please refer to the offering documents of a Fund for a more complete disclosure of the investment risks of an investment in a Fund.

The risks associated with particular investments by a Fund include, but are not limited to, the following:

### **General Structure, Market, and Regulatory Risks**

*Limited Operating History.* YCM and the Funds have a limited operating history for prospective investors to evaluate prior to making an investment in a Fund. The past performance of a Fund cannot be relied upon as an indicator of a Fund's future success. An investor must rely upon the ability of the Investment Manager and its investment professionals in identifying and implementing investments consistent with the Partnership's investment objectives and policies.

*Investment Judgment; Market Risk.* The profitability of a significant portion of the Master Fund's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that YCM will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Master Fund, there is always some, and occasionally a significant, degree of market risk.

*Reliance on Key Person.* The Master Fund will be substantially dependent on the services of Carson Yost (the "Principal"). In the event of the death, disability, departure or insolvency of Mr. Yost or the complete transfer of Mr. Yost's interest in the General Partner and/or YCM, the business of the Master Fund may be adversely affected. Mr. Yost will devote such time and effort as he deems necessary for the management and administration of the Master Fund's business. However, Mr. Yost may engage in various other business activities in addition to managing the Master Fund, and consequently he may not devote his complete time to Master Fund business.

*Master-Feeder Structure.* The Master Fund may in the future undergo a restructuring, pursuant to which it would invest through a "master-feeder" structure. Although a common investment fund structure, the "master-feeder" fund structure presents certain unique risks to investors. For example, a smaller feeder fund investing in the Master Fund may be materially affected by the actions of a larger feeder fund investing in the Master Fund. If a larger feeder fund withdraws from the Master Fund, the remaining feeder fund may experience higher pro rata operating expenses, thereby producing lower returns. The Master Fund may become less diverse due to a redemption by a larger feeder fund, resulting in increased portfolio risk. As a matter of Cayman Islands law, a Cayman Islands exempted limited partnership serving as a master fund is not a legal entity. Legal proceedings by or against a master fund may be instituted by or against any one or more of the general partners only. Expenses or liabilities of a master fund (or its general partners) arising from any such suit would be borne by such master fund, and creditors of such master fund may enforce claims against all assets of such master fund. In addition, to the extent the Master Fund's assets are invested in a master fund, certain conflicts of interest may exist due to different tax considerations applicable to the Master Fund and other feeder funds.

*Illiquidity.* The investments made by the Master Fund may be or may become illiquid, and consequently the Master Fund may not be able to sell such investments at prices that reflect the General Partner's or YCM's assessment of their value or the amount paid for such investments by the Master Fund. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the Master Fund and other factors. Furthermore, the nature of the Master Fund's investments, especially those in financially distressed companies, may require a long holding period prior to profitability. Upon the written request of a withdrawing investor, the General Partner or YCM may make distributions to such investor in kind of assets in lieu of or in addition to cash. In the event the General Partner or YCM makes distributions of assets in kind (upon the written request of a withdrawing investor), such assets could be illiquid or subject to legal, contractual and other restrictions on transfer.

*Credit Market Illiquidity.* Credit markets experienced an extended period of significant lack of liquidity beginning in 2007 and may experience such periods of significant lack of liquidity in the future. While lack of liquidity may create opportunities for the Master Fund to acquire assets at prices that YCM believes are attractive, it also creates a number of risks. There can be no assurances that an illiquid market will, in the future, become more liquid and such a market may well continue to be volatile for the foreseeable future. It is also possible that illiquidity in the market could cause prices to decline further, which may force the Master Fund, to the extent it is leveraged, or other leveraged investment vehicles to sell assets to satisfy requirements under their borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure. If there is a substantial decline in the market value of the Master Fund's portfolio of investments, investments may need to be liquidated quickly, and may not be liquidated at what YCM perceives to be fair value. Upheavals in the credit markets may cause margin borrowing costs and securities borrowing costs to increase or to make such arrangements unavailable. Such increases in borrowing costs may impact the Master Fund's ability to utilize leverage and generate returns.

*Investment Authority.* Substantially all decisions with respect to the management of the Master Fund or the Offshore Fund are made exclusively by the General Partner or YCM. Investors have no right or power to take part in the management of the Master Fund or the Offshore Fund. YCM also makes all of the trading and investment decisions of the Master Fund and the Offshore Fund.

*Performance Allocation.* Investors should be aware that a performance allocation may be due to the General Partner even if an investor's capital account is below its High Water Mark. The performance allocation made to the General Partner may create an incentive for the General Partner or YCM to make investments that are riskier or more speculative than would be the case in the absence of such performance allocation.

*Withdrawal and Transfer Restrictions.* There are severe restrictions on withdrawals (which may be settled in property other than cash) from the Master Fund and the Offshore Fund and on transfers of investor interests in the Master Fund and of shares in the Offshore Fund. The prior written consent of the General Partner, YCM or the board of directors is required for a transfer of the interest of any investor. Because of the restrictions on withdrawals and transfers, investments in the Master Fund and the Offshore Fund are relatively illiquid investments and involve a high degree of risk. Subscriptions for interests in the Master Fund or the Offshore Fund should be considered only by persons financially able to maintain their investment and who can accept a loss of all of their investment.

*No Distributions.* Since the Master Fund does not generally intend to pay distributions (other than in respect of withdrawals or in the event of termination of the Master Fund or the Offshore Fund), an investment in a Fund is not suitable for investors seeking current distributions of income. Moreover, an investor is required to report and pay taxes on his allocable share of income from the Master Fund, even though no cash is distributed by the Master Fund.

*Diversification.* Since the Master Fund's portfolio will not necessarily be widely diversified, the investment portfolio of the Master Fund may be subject to more rapid changes in value than would be the case if the Master Fund were required to maintain a wide diversification among companies, securities and types of securities.

*Valuations.* From time to time, certain situations affecting the valuation of the Master Fund's investments (such as limited or changes in the liquidity of a position, size of a position, unavailability or unreliability of third-party pricing information, and acts or omissions of service providers to the Master Fund) could have an impact on the net asset value of the Master Fund, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. The Master Fund is not required to make retroactive adjustments to prior subscription or redemption transactions or management fees or performance allocations based on subsequent valuation data.

*Soft Dollars.* YCM may enter into "soft dollar" arrangements with one or more broker-dealers whereby YCM will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although YCM will use the research and services in making investment decisions for the Master Fund, YCM may use such research or services for other accounts or clients, and the Master Fund will generally pay more than the lowest available commissions for execution of these transactions. The General Partner and YCM do not currently intend (but may do so in the future) to have a broker pay a third party with "soft dollars" for services acquired by the broker for the benefit of the General Partner or YCM.

*Trade Errors by the General Partner or YCM.* YCM is responsible for the placement of the portfolio transactions of the Master Fund. The placement of such transactions involves the purchase and sale of securities, including derivatives. The trading of securities or derivatives may be complex. YCM, during the course of its activities, may commit trade errors. YCM, the General Partner, and other Covered Persons (as defined in the Master Fund Partnership Agreement) are held harmless for any losses, claims, damages or liabilities in connection with any error in judgment in making any investment decisions and/or any trade errors, including losses due to the negligence of brokers or other agents of the Master Fund, except, in the case of a Covered Person, for any losses, claims, damages or liabilities primarily attributable to such Covered Person's willful misconduct, recklessness, or gross negligence, as finally determined by a court of competent jurisdiction, or as otherwise required by law. In addition, YCM, the General Partner, and other Covered Persons are indemnified for any losses, claims, damages, liabilities, costs or expenses (including legal fees, judgments and amounts paid in settlement) to which such Covered Person may become subject in connection with any error in judgment in making any investment decisions and/or any trade errors, unless (A) a court of competent jurisdiction, in a judgment that has become final and that is no longer subject to appeal or review, determines that any such loss, claim, damage, liability, cost or expense is primarily attributable to such Covered Person's willful misconduct, recklessness, or gross negligence; or (B) it is determined in accordance with Section 8.101 of the Texas Business Organizations Code, as amended, that such Covered Person did not act in good faith and did not reasonably believe that the Covered Person's conduct was, in the case of the General Partner (in its capacity as a general partner of the Master Fund), in the Master Fund's best interests or, in all other cases, at least not opposed to the Master Fund's best interests. The SMA is also responsible for any trade errors made in association with YCM's trading of securities for the SMA, whether the error results in profits or losses for the SMA.

*Industry Competition.* The securities industry and the varied strategies and techniques to be engaged by YCM are extremely competitive and each involves a degree of risk. The Funds will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

*Available Investment Opportunities.* While YCM believes there are currently available many attractive investments of the type in which the Master Fund may invest, there can be no assurance that such investments will continue to be available for the Master Fund's investment activities, or that available investments will meet the Master Fund's investment criteria.

*Market Risk.* The Master Fund's investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by YCM. Such factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or specific industries or companies. Securities markets are volatile, which may adversely affect the ability of the Master Fund to realize profits. As a result of the nature of the Master Fund's investing activities, it is possible that the Master Fund's financial performance may fluctuate substantially from period to period.

*Third Party Information Risk.* YCM selects investments for the Master Fund, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to YCM by the issuers or through sources other than the issuers. Although YCM evaluates all such information and data and ordinarily seeks independent corroboration when YCM considers it appropriate and when it is reasonably available, YCM is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Investments may not perform as expected if information is inaccurate.

*Inside Information.* The General Partner or YCM may receive material, non-public information that restricts its ability to buy or sell securities (including securities already held long or short by the Master Fund). Such restriction may last for a substantial period of time, may adversely affect the Master Fund's flexibility in buying or selling securities and may result in losses or foregone gains.

*Regulatory Oversight.* While the Funds may be considered similar to an investment company, they are not required and do not intend to register as such under the 1940 Act, or the laws of any country or jurisdiction and, accordingly, the provisions of the 1940 Act (which, among other matters, require investment companies to have a majority of disinterested directors, require securities held in custody to be individually segregated at all times from the securities of any other person and to be clearly marked to identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) are not applicable. Because securities of the Master Fund held by brokers are generally not held in the Master Fund's name, a failure of any such broker is likely to have a greater adverse impact on the Master Fund than if such securities were registered in the Master Fund's name.

The Master Fund may trade on a limited basis in commodities and futures. Such trading activity is regulated by the Commodity Futures Trading Commission (the "*CFTC*"). Pursuant to an exemption from registration under CFTC regulations, neither the General Partner nor YCM is required to register, and is not registered, with the CFTC or the National Futures Association ("*NFA*") as a commodity pool operator (a "*CPO*") or as a commodity trading advisor ("*CTA*"). To comply with the exemption, the General Partner and YCM are subject to specific limitations on the amount of commodities and futures that they can trade on behalf of the Master Fund. Should the Master Fund's investments in commodities or futures instruments exceed the limits provided by the applicable exemption from registration, the General Partner and/or YCM will either have to register with the NFA or cease providing commodity interest trading advice to the Master Fund and liquidate the Master Fund's holdings of commodities and futures which could result in losses and additional costs to the Master Fund.

*Government Regulation.* Interests or shares in the Funds have neither been registered under the Securities Act nor under the securities or "blue sky" laws of any state or other jurisdiction and, therefore, are subject to transfer restrictions. In connection with a purchase of an interest or shares in a Fund, prospective investors must represent that they are purchasing the interest or shares for investment

purposes only and not with a view toward resale or distribution. Neither the Funds, YCM nor the General Partner intends nor has assumed any obligation to register the interests or shares in a Fund. The interests or shares in a Fund may not be transferred except as permitted under the Securities Act and any applicable state or other securities laws, pursuant to registration or an exemption therefrom. The transferability of the interests or shares in a Fund is further subject to the consent of the General Partner or the board of directors of the applicable Fund and any other restrictions provided in the governing documents of a Fund.

*Regulation of Securities Markets.* Regulation of securities markets has undergone substantial change in recent years, and is expected to continue to change. There can be no assurance that YCM and/or the General Partner will be able, for financial reasons or otherwise, to comply with future laws and regulations. Moreover, future laws and regulations may negatively impact the business of the Funds.

*Relevant Laws.* Amendments or changes to relevant laws (including tax laws) could alter an expected outcome or introduce greater uncertainty regarding the likely outcome of an investment situation. In addition, market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the “hedge fund” industry in general, and certain legislation requiring greater regulation of the industry has been adopted by the U.S. Congress and the Securities and Exchange Commission, as well as the governing bodies of non-U.S. jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Funds, YCM and/or the General Partner, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future.

*Indemnification.* The Master Fund and the Offshore Fund will generally be required to indemnify the General Partner, YCM, their respective affiliates and the respective members, partners, shareholders, officers, directors, employees, managers and agents thereof for liabilities incurred in connection with the affairs of the Master Fund and the Offshore Fund. Such liabilities may be material and have an adverse effect on the returns to the Investors. The indemnification obligation of the Master Fund and the Offshore Fund would be payable from the assets of the Master Fund and/or the Offshore Fund.

*Side Letters.* The General Partner of the Master Fund or the board of directors of the Offshore Fund may, from time to time, enter into so-called side letters or agreements concerning an investor’s investment in a Fund. Such side letters or agreements may address various terms, including but not limited to, those involving management fees, performance allocation, reporting, lock-ups, capacity and/or withdrawal rights and may result in an investor having rights that are superior in some respect to other investors in a Fund. Generally, a side letter or agreement may contractually require the General Partner or YCM to take or prohibit the General Partner or YCM from taking, or may contractually require the General Partner or YCM to permit the applicable investor to take, certain actions concerning the investor’s investment in a Fund. The General Partner or YCM may, but is not required to, disclose the existence or terms of any such side letters or agreements to any other investor. If the General Partner or the board of Directors of the Offshore Fund enters into a side letter or agreement concerning an investor’s investment in a Fund, that investor would have rights that are superior in some respect to other investors. Any such side letter or agreement will only be entered into by the General Partner or the board of directors of the Offshore Fund to the extent it is consistent with the powers granted to the General Partner or the board of directors of the Offshore Fund.

*Counterparty Risk: Generally.* The Master Fund is subject to the risk that counterparties of derivative contracts and other instruments in which it invests and trades may default on their obligations under those instruments and that certain events may occur that have an immediate and significant adverse effect on the value of those instruments. Some of the markets in which the Master Fund effects its transactions are over-the-counter or inter-dealer markets. The participants in such markets are typically not subject to credit evaluation by an exchange or clearing organization and regulatory oversight as are members of exchange-based markets. The Master Fund therefore is exposed to a greater risk that a counterparty will not timely settle a transaction or otherwise perform its obligations in accordance with contractual terms



and conditions because of a dispute over the terms of the contract (whether or not bona fide), or because of a credit or liquidity problem, thus causing the Master Fund to suffer a loss (including, potentially, a loss of all of its assets on deposit with such counterparty). Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Master Fund has concentrated its transactions with a single or small group of counterparties. These risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement of positions and segregation and minimum capital requirements applicable to intermediaries. Although the Master Fund intends to enter into transactions only with counterparties that YCM believes to be creditworthy, it will attempt to reduce the Master Fund's exposure by obtaining collateral in appropriate cases and will pursue any available remedies under any of these contracts, there can be no assurance that a counterparty will not default and that the Master Fund will not sustain a loss on a transaction as a result. The Master Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Concentration of transactions with a limited number of counterparties could increase the potential for losses by the Master Fund. The Master Fund is subject to the risk of failure of any of the exchanges on which its positions trade or of their clearinghouses.

*Counterparty and Service Provider Risk:*. There is a possibility that the institutions, including brokerage firms, prime brokers, futures commission merchants, counterparties, custodians, banks, the administrator, accountants, auditor or tax advisors or other service providers with which the Master Fund does business, or to which securities have been entrusted for custodial purposes, will default on their obligations or encounter financial difficulties that may impair the operational capabilities or the capital position of the Master Fund or otherwise adversely affect the Master Fund.

*Suspension of Trading.* For all securities listed on a securities exchange, including options listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or continue and subject the Master Fund to loss. Also, such a suspension could render it impossible for YCM to liquidate positions and thereby expose the Master Fund to potential losses.

*Administrator.* The Administrator will not provide any investment advisory or management service to the Funds and therefore will not be in any way responsible for the Funds' performance. The Administrator will not be responsible for monitoring any investment restrictions or compliance with the investment restrictions and therefore will not be liable for any breach thereof.

*Risk of Adverse Determination.* There can be no assurance that the conclusions in the governing documents of a Fund will not be challenged successfully by the Internal Revenue Service (the "Service"), or significantly modified by new legislation, changes in the Service's positions or court decisions. Neither the Master Fund nor the General Partner has sought, or expects to seek, a ruling from the Service or any similar state, local or foreign authority with respect to any of the tax issues affecting investors or the Master Fund, nor has either of them obtained an opinion of counsel with respect to any U.S. federal, state, local or non-U.S. tax issues. No representation or warranty of any kind is made by the General Partner with respect to federal income tax consequences relating to an investment in the Master Fund. The Master Fund may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the Service, or other applicable taxing authority, there could be a materially adverse effect on the Master Fund, and an investor might be found to have a different tax liability for that year than that reported on its federal income tax return.

*Audit of Limited Partners' Returns.* An audit of the Master Fund by the Service or another taxing authority could result in adjustments to the tax consequences initially reported by the Master Fund and may result in an audit of the returns of some or all of the investors, which examination could affect items not related to an investor's investment in the Master Fund. If audit adjustments result in an increase in an

investor's tax liability for any year, such investor may also be liable for interest (and potentially penalties) with respect to the amount of the underpayment, if any. The legal and accounting costs incurred in connection with any audit of the Master Fund's tax returns, which, as the case may be, may be significant, will be borne by, and treated as expenses of the Master Fund. The cost of any audit of an investor's tax return will be borne solely by that investor.

*Tax on Profits Whether or Not Distributed or Received.* Each investor, in computing its federal income tax liability for a taxable year, is required to take into account its distributive share of the Master Fund's items of income, deduction, gain, loss, and credit ("tax items") for the taxable year of the Master Fund ending within or with the taxable year of the investor – in accordance with the allocations set forth in the Master Fund partnership agreement – regardless of whether the investor has received or will receive corresponding distributions from the Master Fund. Because the General Partner anticipates that there will be no cash (or property) distributions to the investors prior to their withdrawals, an investor may incur tax liability with respect to activities of the Master Fund without receiving sufficient distributions from the Master Fund to defray such tax liabilities. In order to satisfy its tax liability in such a case, an investor will need sufficient funds from sources other than the Master Fund. Furthermore, the Master Fund may make investments with respect to which the Master Fund may recognize income for U.S. federal income tax purposes prior to receiving cash (or property) therefrom. In addition, the Master Fund may, in one or more taxable years, recognize income for U.S. federal income tax purposes that does not reflect its income as an economic matter. Such recognition of income prior to receipt of an economic benefit, if any, may result in increased tax liability for the investors in one or more taxable years.

*Delayed Schedules K-1.* The Master Fund will provide Schedules K-1 as soon as practical after receipt of all of the necessary information. However, the Master Fund may be unable to provide final Schedules K-1 to investors for any given tax year until significantly after April 15 of the following year. The General Partner will endeavor to provide investors with estimates of the taxable income or loss allocated to their investment in the Master Fund on or before such date, but final Schedules K-1 may not be available until significantly after such date. Investors should be prepared to obtain extensions of the filing date for their income tax returns at the federal, state and local level.

*Unrelated Business Taxable Income.* The Master Fund expects to make investments or engage in activities that will give rise to unrelated business taxable income ("UBTI"). Thus, an investment in the Master Fund may be less desirable for U.S. persons who are pension plans, charities, and other tax-exempt entities (including, without limitation, certain qualified retirement plans such as individual retirement accounts ("IRAs") (each, a "**Tax-Exempt U.S. Investor**"). The Master Fund may participate in investments that give rise to UBTI through entities that are treated as partnerships for U.S. federal income tax purposes. Because of the "flow-through" principles applicable to partnerships, if UBTI is earned by the Master Fund, a Tax-Exempt U.S. Investor in the Master Fund will realize UBTI. Because of the General Partner's objective of maximizing the pre-tax returns of all the limited partners, the General Partner may be required to make certain decisions to maximize pre-tax returns that result in tax-exempt U.S. investors recognizing more UBTI than might otherwise be the case. In some cases, the General Partner may forego actions that would reduce UBTI because such actions would reduce the overall pre-tax returns to all the limited partners.

*Tax Efficiency.* The Master Fund will attempt to minimize the tax burden of the Master Fund over the long-term. However, the Master Fund will not overlook short-term trading opportunities. Therefore, investors should not expect that the Master Fund will make tax efficiency a priority or that the activities of the Master Fund will be tax efficient.

*Tax Changes.* Investors will be subject to the risk that changes to the tax law may adversely affect the federal income tax consequences of their investment in the Master Fund. Changes in existing tax laws, rules, or regulations, and/or interpretations of them, may be enacted after the date of this disclosure form, possibly with retroactive effect, and could alter the income tax consequences of an investment in the

Master Fund. Certain provisions of the Internal Revenue Code of 1986, as amended, may be further amended or interpreted in a manner adverse to the Master Fund and/or the investors, in which event any benefits derived from an investment in the Master Fund may be adversely affected. In addition, significant legislative and budgetary proposals affecting tax laws have been made, and may continue to be made, by the legislative and executive branches of the U.S. federal government. The likelihood of enactment of any such proposals, or any similar proposals, into law is uncertain. The enactment of any such proposals, including subsequent or future proposals, into law could have material adverse effects on the Master Fund and/or the investors. Enactment of such legislation, or similar legislation, could require significant restructuring of the Master Fund in order to mitigate such effects.

*Complexity of Taxation.* The tax aspects of an investment in the Master Fund and the Offshore Fund are complicated and complex and, in many cases uncertain. Statutory provisions and administrative regulations have been interpreted inconsistently by the courts. Additionally, some statutory provisions remain to be interpreted by administrative regulations. Investors may therefore be subject to uncertainty with respect to the tax consequences associated with certain aspects of an investment in the Master Fund. Each prospective investor should have the tax aspects of an investment in the Master Fund reviewed by professional advisers familiar with such investor's personal tax situation and with the tax laws and regulations applicable to the investor and private investment vehicles. Certain of the above tax risk factors may apply to either the Master Fund or the Offshore Fund or to both Funds. Investors and prospective investors should review the offering documents of the Funds for a more comprehensive disclosure of tax risk factors.

*Trading In Securities For Its Own Account.* The Master Fund intends to conduct its activities in a manner such that it should be considered to be trading securities in the United States for its own account. If the Master Fund is not considered to be trading securities in the United States for its own account, then with respect to capital gain allocable to non-U.S. persons who are beneficial owners of limited partner interests, including the Offshore Fund, such gain may be subject to U.S. income taxes and/or U.S. withholding taxes. Investors and prospective investors should review the offering documents of the Funds for a further discussion of U.S. withholding taxes, among other tax matters.

*ERISA Considerations.* Certain prospective investors may be subject to federal and state laws, rules and regulations which may regulate their participation in a Fund, or their engaging directly, or indirectly through an investment in a Fund, in investment strategies which a Fund utilizes from time to time. Each type of exempt organization may be subject to different laws, rules and regulations, and prospective investors should consult with their own advisers as to the advisability and tax consequences of an investment in a Fund. In particular, exempt organizations should consider the applicability to them of the provisions relating to "unrelated business taxable income." Investments in the Master Fund by entities subject to ERISA, and other tax-exempt entities require special consideration. Because the Master Fund is permitted to borrow, tax-exempt limited investors will incur income tax liability to the extent of their share of the Master Fund's "unrelated business taxable income."

*FATCA.* The Foreign Account Tax Compliance ("FATCA") provisions of the HIRE Act targets tax non-compliance by U.S. taxpayers having non-U.S. accounts. FATCA focuses, in part, on reporting by foreign financial institutions about financial accounts held by U.S. taxpayers and foreign entities in which U.S. taxpayers hold a substantial ownership interest. FATCA's objective is the reporting of U.S. taxpayers' foreign financial assets. FATCA generally imposes a 30% withholding tax ("FATCA Withholding Tax") with respect to "passthru payments" (as explained below) that are made to certain "foreign financial institutions" ("FFIs," as defined in Section 1471 of the Code, which includes certain non-U.S. hedge funds) and certain "non-financial foreign entities" (as defined in Section 1472 of the Code) that are not exempt from FATCA, unless an exception applies or unless they comply with FATCA's requirements. Under FATCA, "passthru payments" consist of: (i) any payments of U.S. source fixed and determinable annual or periodical ("FDAP") income (including interest and dividends), and gross proceeds from the sale or other disposition, after December 31, 2016, of any property of a type that

can produce interest or dividends that are U.S. source FDAP income (“withholdable payments”); and (ii) “foreign passthru payments.” “Foreign passthru payments” is a term not yet defined in U.S. Treasury Regulations but is generally expected to mean withholdable payments made by FFIs and payments that are attributable to withholdable payments made by FFIs. The application of FATCA’s withholding rules are being phased in beginning July 1, 2014, and the imposition of FATCA Withholding Tax on foreign passthru payments will go into effect on the later of January 1, 2017 or six months following publication of U.S. Treasury Regulations defining foreign passthru payments. The Offshore Fund is registered as an FFI under FATCA, and, generally, expects to be subject to FATCA Withholding Tax on passthru payments made to it if it is not compliant with FATCA. Investors and prospective investors are encouraged to consult their own tax advisors regarding any potential impact FATCA may have on an investment in the Master Fund or the Offshore Fund.

### Investment Program Risks

*Short Sales.* The Master Fund may enter into transactions, known as “short sales,” in which it sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the Master Fund that are not made “against the box” theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Master Fund may mitigate such losses by buying the securities sold short before the market price has increased significantly. Under adverse market conditions, the Master Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

*Derivatives.* Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate on the price movements of a particular security, financial benchmark, currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Master Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom the Master Fund contracts for the purpose of transacting over-the-counter derivative investments (the “Counterparty”). In the event of the Counterparty’s default, the Master Fund will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive, including any initial collateral pledged to the counterparty. The Master Fund also has counterparty risk to prime brokers, futures commission merchants or other custodians who clear any listed derivatives on behalf of the Master Fund.

*Futures and Related Options.* YCM may buy and sell futures contracts and related options on behalf of the Master Fund. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. The Master Fund may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income. The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and

options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in the Master Fund's portfolio which are the subject of the hedge (to the extent the Master Fund uses futures and options for hedging purposes). As with other derivatives, futures contracts are "leveraged" and may provide significantly more exposure than the money paid or deposited when the futures contract is entered into. The successful use of futures and options further depends on YCM's ability to forecast market, security, currency or interest rate movements correctly. Other risks arise from the Master Fund's potential inability to close out its futures or options positions, and there can be no assurance that a liquid market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit the Master Fund's ability to engage in futures and options transactions.

*Non-U.S. Securities.* Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Master Fund are maintained) and the various non-U.S. currencies in which the Master Fund's portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and non-U.S. securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition or changing of non-U.S. income, capital gains, withholding or other taxes; (v) differences in market access and liquidity, including less efficient means of gaining exposure (either long or short) to securities; and (vi) the extension of credit, especially in the case of sovereign debt.

*Leverage.* Subject to applicable margin and other limitations, the Master Fund may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the Master Fund's portfolio would be amplified. Interest on borrowings will be a portfolio expense of the Master Fund and will affect the operating results of the Master Fund. Also, the Master Fund could potentially create leverage via the use of instruments such as options, futures and other derivative instruments.

*Options.* Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the current market value.

*Extraordinary Corporate Transactions.* The Master Fund may employ a strategy, among others, that seeks to profit from changes in the price of securities of companies involved in extraordinary corporate transactions. The difference between the price paid by the Master Fund for securities of a company involved in an announced extraordinary corporate transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. Since the price bid for the securities of a company involved in an announced extraordinary corporate transaction will generally be at a significant premium above the market price prior to the announcement, if the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities will usually decline sharply, perhaps by more than the YCM's anticipated profit, even if the security's market price returns to a level comparable to that which exists prior to the announcement of the transaction.

*Mergers and Other Similar Transactions.* The Master Fund may purchase securities at prices slightly below the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities, in a proposed merger, exchange offer, tender offer, spin-off or other similar transaction. Such purchase price may be substantially in excess of the market price of the securities prior to the announcement of the merger, exchange offer, tender offer, spin-off or other similar transaction and may be in excess of the value of the announced transaction. If the proposed merger, exchange offer, tender offer, spin-off or other similar transaction later appears less likely or unlikely to be consummated or in fact is not consummated or is delayed, the market price of the security purchased by the Master Fund may decline sharply and result in losses to the Master Fund if such securities are sold, transferred or exchanged for securities or cash, the value of which is less than the purchase price. In certain transactions, the Master Fund may not be “hedged” against market fluctuations. This can result in losses, even if the proposed transaction is consummated. In addition, a security to be issued in a merger or exchange offer may be sold short by the Master Fund in the expectation that the short position will be covered by delivery of such security when issued or may be sold short to otherwise hedge a long position. If the merger or exchange offer is not consummated or appears less likely to be consummated, the Master Fund may be forced to cover its short position at a higher price than its short sale price, resulting in a loss.

*Takeovers.* The Master Fund may also purchase securities above the offer price for a security which is the subject of a takeover bid, if YCM determines that the offer price is likely to be increased, either by the original bidder or by another party. However, if market conditions change, the offer price is not increased, or if no transaction is consummated, substantial losses may result.

*Tender Offers.* The consummation of mergers, exchange offers, tender offers, spin-offs and other similar transactions can be prevented or delayed by a variety of factors. An exchange offer or a tender offer by one company for the securities of another may be opposed by the management or shareholders of the target company on the grounds that the consideration offered is inadequate or for other reasons, and this opposition may result in regulatory action and/or litigation which delays or prevents consummation of the transaction. Even if the transaction has been agreed upon by the management of the companies involved, its consummation may be prevented by the intervention of a government regulatory agency, litigation brought by a shareholder or, in the case of a merger, the failure to receive the necessary shareholder approvals, market conditions resulting in material changes in securities prices, and other circumstances, including, but not limited to, the failure to meet certain conditions customarily specified in acquisition agreements. Even if the defensive activities of a target company or the actions of regulatory authorities fail to defeat a transaction, they may result in significant delays, during which the Master Fund’s capital will be committed to the transaction and interest charges on any funds borrowed to finance the Master Fund’s activities in connection with the transaction may be incurred. Offerors in tender or exchange offers customarily reserve the right to cancel such offers for many reasons, including an insufficient response from shareholders of the target company. An exchange offer or a tender offer will often be made for less than all of the outstanding securities of an issuer, with the provision that, if a greater number is tendered, securities will be accepted *pro rata*. Thus, after the completion of a tender offer, and at a time when the market price of the securities has declined below the Master Fund’s cost, the Master Fund may have returned to it, and be forced to sell at a loss, a portion of the securities they tendered.

*Distressed Securities: Generally.* The fact that certain of the companies in whose securities the Master Fund may invest are in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation, means that their securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry, or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Master Fund’s investment in any instrument, and a

significant portion of the obligations and preferred stock in which the Master Funds invests may be less than investment grade.

*Distressed Securities: Credit and Market Risk.* Investment in the securities of financially troubled issuers and operationally troubled issuers involves a high degree of credit and market risk. Although the Master Fund will invest in select companies that, in the view of YCM, have the potential over the long-term for capital growth, there can be no assurance that such financially troubled issuers or operationally troubled issuers can be successfully transformed into profitable operating companies. There is a possibility that the Master Fund may incur substantial or total losses on its investments. During an economic downturn or recession, securities of financially troubled or operationally troubled issuers are more likely to go into default than securities of other issuers. In addition, it may be difficult to obtain information about financially troubled issuers and operationally troubled issuers.

*Distressed Securities: Volatility.* Securities of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing financial difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. In addition, it is anticipated that many of the Master Fund's portfolio investments may not be widely traded and that the Master Fund's investment in such securities may be substantial relative to the market for such securities. As a result, the Master Fund may experience delays and incur losses and other costs in connection with the sale of its portfolio securities.

*Reorganization.* Investments in the debt or equity of companies involved in reorganization proceedings typically entail a number of risks that do not normally apply to investments in financially sound companies. For example, if YCM's evaluation of the anticipated outcome of a reorganization or the timing of such outcome should prove incorrect, the Master Fund could experience losses. A wide variety of considerations make any evaluation of the outcome of an investment in such a company uncertain. Such considerations include, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations that limit the access of YCM to reliable and timely information concerning material developments affecting a company or that cause lengthy delays in the completion of a reorganization or liquidation proceeding. Competition from other investors may also render it difficult or impossible for the Master Fund to achieve intended results or promptly effect transactions. Investments in companies operating in workout or bankruptcy modes also present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks.

*Creditors Committees.* Some of the investments the Master Fund will make may require active monitoring and representation on official and unofficial creditors committees for the company. Accordingly, the Master Fund may seek representation on such committees from time to time if YCM, in its discretion, determines that such representation is necessary or advisable to protect or further the Master Fund's interests. Serving on an official or unofficial committee increases the possibility that the Master Fund will be deemed an "insider" or a "fiduciary" of the company they have so assisted and may restrict the Master Fund's trading of their investments in such company. Should such assistance be provided before a company enters bankruptcy proceedings, the bankruptcy court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by the Master Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of the Master Fund's managerial activities. In addition, if representation on a creditors committee of a company causes the Master Fund, the General Partner or YCM to be deemed an affiliate or related party of the company, the securities of such company held by the Master Fund may become restricted securities, which are not freely tradable. As the Master

Fund will, to the extent permitted by applicable law (including without limitation, ERISA), indemnify the General Partner, YCM or any other person serving on a committee on their behalf for claims arising from their breaches of those obligations, indemnification payments could adversely affect the return on the Master Fund's investment in a reorganization company.

*Restructuring: Litigation Risks.* As a result of the Master Fund's investments and the possibility that YCM may participate in restructuring activities, it is possible that the Master Fund may become involved in litigation respecting creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against the Master Fund including the General Partner and YCM and ultimately judgments may be rendered against the Master Fund for which the Master Fund does not carry insurance.

*Fraud in the Marketplace.* Instances of fraud and other deceptive practices committed by senior management of certain companies in which the Master Fund invests may undermine YCM's due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of the Master Fund's investments. In addition, when discovered, financial fraud may contribute to overall market volatility that can negatively impact the Master Fund's investment program.

#### *Other Possible Risks*

There is no assurance that the above list is complete or that there are not other risks that may exist now or may arise in the future.

## **ITEM 9. DISCIPLINARY INFORMATION**

Item 9 is not applicable to YCM, as it has no reportable material legal or disciplinary events.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Related Broker-Dealers**

Neither YCM nor any of our management persons is registered or have an application pending to register as a broker-dealer or a registered representative.

### **Related Futures Commission Merchant/Commodity Pool Operator/Commodity Trading Advisor**

Neither YCM nor any of our management persons is registered or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or as an associated person of any of the foregoing entities.

### **Related General Partner**

The General Partner, an affiliate of YCM serves as general partner of the Master Fund. YCM doesn't believe this relationship currently presents any conflicts of interest with clients. The Offshore Fund invests all, or substantially all, of its assets in the Master Fund.

### **Affiliated Adviser**

YCM does not currently have any affiliated advisers.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**



YCM has adopted a Code of Ethics which describes the general standards of conduct that YCM expects of all owners and personnel (collectively referred to as “employees”) and focuses on specific areas where employee conduct has the potential to adversely affect client and investors’ interests.

The following basic principles guide all aspects of YCM’s business and represent the minimum requirements to which YCM expects employees to adhere:

1. The Funds’, SMA’s and investors’ interests come before employees’ personal interests;
2. YCM must fully disclose all material facts about conflicts of which it is aware between YCM and its employees’ interests on the one hand and the Funds’, SMA’s and investors’ interests on the other;
3. Employees must operate on YCM’s behalf and their own behalf consistently with YCM’s disclosures to and arrangements with the Funds, SMA and investors regarding conflicts and its efforts to manage the impacts of those conflicts;
4. YCM and its employees must not take inappropriate advantage of their positions of trust with or responsibility to the Funds, SMA or investors; and
5. YCM and its employees must always comply with all applicable securities laws.

#### *Personal securities trading*

Trading in personal accounts is subject to review and, in many cases, prior approval by the Chief Compliance Officer (“CCO”). Employees are generally prohibited from trading most Reportable Securities (as defined in the Code of Ethics, which includes but is not limited to: stocks, exchange traded funds, bonds and options) in personal accounts. Employees will be allowed: (i) to invest in private placements or other private investments (subject to the prior approval of the CCO); (ii) to trade in exchange traded funds, both long and short, (subject to the prior approval of the CCO); (iii) to trade Reportable Securities in personal accounts to hedge exposures resulting from private placements or other private investments; and (iv) to trade Reportable Securities to unwind a legacy position(s) held or a position(s) held prior to employment with YCM. Employees may request special permission to transact in Reportable Securities contrary to the above policy. Such request should be made in writing to the CCO and must be pre-approved by the CCO. All trades in Reportable Securities must be pre-approved by the CCO. Employees are prohibited from participating in IPOs in their personal accounts.

Employees are required to submit reports of personal securities trades on a quarterly basis, and securities holdings annually. These are reviewed by the Chief Compliance Officer to ensure compliance with YCM’s policies.

#### *Inside information*

The code of ethics contains a policy regarding Company Inside Information and Firm Inside Information. Company Inside Information is material nonpublic information about the issuer of a security or the security itself. Firm Inside Information is information about decisions YCM is making or actively contemplating making about securities transactions and holdings.

If an employee has any reason to believe he/she may have Company Inside Information, the following actions should be taken:

- a) The employee must report the matter immediately to the CCO, disclosing all information believed to be relevant;
- b) The employee must not buy or sell any security to which the information relates – for any personal accounts or for any Fund, SMA or other investor account; and

- c) The employee must not communicate the information to anyone within or outside YCM, other than the CCO or management. In addition, the employee must take care that the information is secure.

Neither YCM nor any employee may trade any security of an issuer while in possession of Company Inside Information.

If an employee believes he/she may have Firm Inside Information, the employee must not buy or sell any security to which the information relates for any personal accounts.

#### *Gifts and outside business activities*

Employees should always act in the best interests of YCM and its clients and investors and should avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of YCM's business relationships. Employees should not give or accept any gifts or entertainment that have the likelihood of inappropriately influencing their own or another person's decisions regarding business transactions with YCM. An employee must report promptly to the CCO any personal gift with an estimated value greater than \$300 presented to the employee by someone outside YCM. Employees may not give or accept more than six gifts or entertainment events per year, regardless of value, to or from the same person or entity without approval from the CCO.

No employee may serve as a director of a publicly held company without prior approval by the CCO based upon a determination that service as a director would be in the best interests of a Fund, the SMA or YCM. Except for service as public company directors (which is subject to the procedure in the previous sentence), employees may not engage in significant business activities outside of their activities for YCM without first disclosing those activities to the CCO. YCM may prohibit activities that the CCO, in his or her discretion, believes (i) may pose a significant conflict of interest with YCM's activities, (ii) could result in interruption in service to its funds or (iii) could result in adverse publicity for YCM.

This summary of the code of ethics is qualified in its entirety by the code of ethics of YCM, which is available at no cost to investors and prospective investors upon request sent to Kyle Knutson at [kyle@yostfunds.com](mailto:kyle@yostfunds.com).

#### **Conflicts of Interest**

The material reportable conflicts of interest encountered by a Fund or the SMA include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Fund or the SMA. Other conflicts may be disclosed throughout this brochure and in the offering documents of each Fund or the investment management agreement between YCM and the SMA and these materials should be read in their entirety.

YCM currently manages the Funds and the SMA and the General Partner and YCM expect to manage other client accounts, some of which may have objectives similar to those of the Funds or the SMA, including other collective investment vehicles or separately managed accounts which may be managed by the General Partner and/or YCM or any of their affiliates and in which the General Partner and YCM or any of its affiliates may have an equity interest.

The governing documents of the Funds require that the General Partner and YCM act in a manner that they consider fair, reasonable and equitable in allocating investment opportunities to the Funds but do not otherwise impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunities to the Funds or any restrictions on the nature or timing of investments for the accounts of the Funds and for the General Partner's and YCM's own account or for other accounts that the General Partner, YCM, or their affiliates may manage. The General Partner and YCM are not obligated to devote any specific amount of time to the affairs of the Funds or the SMA, and are not required to accord exclusivity or priority to the Funds or the SMA in the event of limited investment opportunities arising from the application of speculative position limits or other factors.

When YCM deems the purchase or sale of securities to be in the best interests of the Funds, SMA and of other entities advised by YCM (or the respective partners, members, officers, employees, agents and affiliates of YCM (the “*YCM Affiliates*”)), YCM may aggregate the securities to be purchased or sold. In such event, allocation of the securities purchased or sold, as well as expenses incurred in the transaction, shall be made in a manner which YCM considers to be equitable. Where there is a limited supply of an investment opportunity (including, for this purpose, a limited ability to realize upon an investment under favorable circumstances), YCM shall allocate or rotate investment opportunities among the Funds, SMA and other clients of YCM (or YCM Affiliates) in a manner which it considers to be equitable. YCM shall have sole discretion to determine the fair and reasonable allocation of investment and other costs among the Funds, SMA and/or other clients managed by YCM and the YCM Affiliates.

When YCM determines that it would be appropriate for a Fund, the SMA and one or more other investment accounts to participate in an investment opportunity, YCM will seek to execute orders for all of the participating investment accounts in a manner it considers to be equitable. If YCM has determined to invest at the same time for more than one of the investment accounts, YCM will generally place combined orders for all such accounts contemporaneously, and if all such orders are not filled at the same price, it will generally average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, YCM will allocate the trade among the different accounts on a basis that it considers equitable. There may be times when a Fund, the SMA or another investment account buys a security when a Fund, the SMA or another investment account sells a security. Such instances may happen when capital inflows or outflows differ between a Fund, the SMA or another investment account, when YCM decides to change position sizes in a Fund, the SMA or another investment account or at other times as determined by YCM. Situations may occur where a Fund or the SMA could be disadvantaged because of the investment activities conducted by YCM for other investment accounts.

Investors in the Master Fund and the Offshore Fund should be aware that a performance allocation may be due to the General Partner even if an investor’s investment balance is below its high water mark. The performance allocation or performance fee made to the General Partner or YCM by the Funds and the SMA may create an incentive for the General Partner or YCM to make investments that are riskier or more speculative than would be the case in the absence of such performance allocation or performance fee.

The Funds’ organizational documents do not prohibit the General Partner or YCM, or their respective general partners, or their employees, members and/or principals or any other partner from buying or selling securities or commodity interests for their own account. YCM maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest (see “Code of Ethics” above). With respect to such personal accounts, the General Partner, YCM, their general partners or their employees, members and/or principals may generally not invest in Reportable Securities except as described in “Code of Ethics” above. The General Partner, YCM and their employees, officers and affiliates (“*Affiliates*”) may engage for their own accounts, or for the accounts of others, in other business ventures of any nature, and the Funds and the SMA have no right to participate in or benefit from the other management activities of the General Partner and YCM and the Affiliates shall not be obligated to account to the Funds or the SMA for any profits or benefits made or derived therefrom, nor shall they have any obligation to disclose or refer to the Funds or the SMA any of the investment or service opportunities obtained through such activities.

YCM’s authority to use “soft dollar” credits generated by a Fund’s or the SMA’s securities transactions to pay for expenses that might otherwise have been borne by YCM may give YCM an incentive to select brokers or dealers for Fund or SMA transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by YCM rather than giving exclusive consideration to the interests of a Fund or the SMA.

In addition, subject to YCM's obligations to seek best execution, YCM may consider referrals of investors in selecting brokers. This presents a conflict of interest in that YCM may have an incentive to select or recommend a broker based on its interest in receiving client referrals rather than on YCM's clients' interest in receiving most favorable execution.

## **ITEM 12. BROKERAGE PRACTICES**

YCM is responsible for the placement of the portfolio transactions of the Funds and the SMA and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased or sold through brokers on securities' exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases or sales of portfolio instruments through brokers involve a commission to the broker. Purchases or sales of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price.

The Offshore Fund invests all, or substantially all, of its assets in the Master Fund. Therefore, at this time, all investment activity for the Funds takes place at the Master Fund and all securities transactions for the Funds settle and clear with the Master Fund's accounts. At this time, there is no need to aggregate orders and subsequently allocate transactions between the Master Fund and the Offshore Fund. As discussed previously, YCM will allocate trades between the Funds and the SMA and future investment accounts on a basis that it considers equitable.

The Master Fund's securities trades will be cleared through Morgan Stanley and Co. LLC, Bank of America Merrill Lynch or JPMorgan Chase Bank, N.A. or certain affiliates of the above (the "Prime Brokers") pursuant to the terms of clearing agreements with YCM or the Master Fund. The SMA's securities trades will be cleared with custodians appointed by the owner of the SMA. Certain over the counter transactions may be executed with counterparties as determined by YCM. Securities transactions are executed by brokers selected by YCM in its sole discretion and without the consent of the Funds or the SMA. In placing portfolio transactions, YCM will seek to obtain the best execution for the Funds and the SMA, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); outsourced trading services, the operational efficiency with which transactions are effected, the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying YCM's other selection criteria.

In addition, subject to YCM's obligations to seek best execution, YCM may consider referrals of investors in selecting brokers. This presents a conflict of interest in that YCM may have an incentive to select or recommend a broker based on its interest in receiving client referrals rather than on YCM's clients' interest in receiving most favorable execution. YCM's prime brokers and executing brokers may from time-to-time make capital introductions. However, YCM does not have any formal arrangements, procedures or policies to direct trades to brokers in return for client or investor introductions or referrals. YCM executes transactions with a broker where an investor in the Offshore Fund is employed. No transactions were directed to this broker based on client referrals.

YCM is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if YCM determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants.

YCM is not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by YCM, and YCM's fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by the Funds or the SMA may be utilized by YCM or its affiliates in connection with its investment services for other accounts and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by YCM in performing its services for the Funds or the SMA. Since commission rates in the United States are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

In addition to research services, YCM may be offered other non-monetary benefits by broker-dealers that it may engage to execute securities transactions on behalf of the Funds or the SMA. These benefits may be available for use by the General Partner or YCM in connection with transactions in which the Funds or the SMA will not participate. The availability of these benefits may influence YCM to select one broker rather than another to perform services for the Funds or the SMA. Nevertheless, YCM will attempt to assure either that the fees and costs for services provided to the Funds or the SMA by brokers offering these benefits are not materially greater than they would be if the services were performed by equally capable brokers not offering such services or that the Funds also will benefit from the services.

YCM has the option to use "soft dollars" generated by the Funds and the SMA to pay for third party research and research related services and products. The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. In the event that YCM elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Exchange Act. The General Partner and YCM do not currently intend to (but may in the future) have a broker pay a third party with "soft dollars" for services acquired by the broker for the benefit of the General Partner or YCM.

The use of brokerage commissions to obtain investment research services creates a conflict of interest between YCM and the Funds and the SMA, because the Funds and the SMA pay for such products and services that are not exclusively for the benefit of the Funds or the SMA and that may be primarily or exclusively for the benefit of YCM. To the extent that YCM is able to acquire these products and services without expending its own resources (including management fees paid by the Funds and the SMA), YCM's use of "soft dollars" would tend to increase YCM's profitability. In addition, the availability of these non-monetary benefits may influence YCM to select one broker rather than another to perform services for the Funds or the SMA. YCM may have an incentive to select or recommend a broker based on YCM's interest in receiving the research or other products or services, rather than on the Funds' or the SMA's interest in receiving most favorable execution.

During its last fiscal year, YCM received investment and research reports and information from brokers, access to analysts at brokers, access to management meetings and invitations to conferences from brokers with whom it traded. During their last fiscal years, YCM and the General Partner did not have a broker pay a third party with "soft dollars" for any services or research acquired by the broker for the benefit of the General Partner or YCM.

## **ITEM 13. REVIEW OF ACCOUNTS**

### **Oversight and Monitoring**

YCM provides continuous advisory services for the Funds and the SMA. The portfolio investments of each Fund and the SMA are primarily reviewed by a team of investment professionals, which currently includes the Portfolio Manager, Senior Analyst and two Analysts.

### **Reporting**

The Funds have engaged an independent public accounting firm, KPMG LLP, to prepare audited financial statements of the Funds within 120 days of the end of each fiscal year (or such shorter period as may be set forth in a Fund's operative documents) or as soon as reasonably practicable thereafter. YCM also furnishes unaudited monthly reports reviewing the Funds' and the SMA's performance for such month as well as quarterly letters. Investors in a Fund receive an investor statement from the Fund's administrator, Kaufman Rossin Fund Services, LLC, each month which shows capital activity, income (loss), management fees and a pro-forma calculation of any performance reallocation. Investors may contact YCM at any time to request information about a Fund's or the SMA's positions, performance or request other information related to a Fund or the SMA. The SMA has the ability to review balances, positions, transactions and profit and loss daily through the custodian's website.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

YCM does not currently have any arrangements whereby someone who is not a client provides an economic benefit to YCM for providing investment advice or other advisory services to the Funds.

YCM does not currently have any arrangements in place whereby YCM compensates any person for client referrals.

## **ITEM 15. CUSTODY**

Item 15 is not applicable to YCM, as the Funds' "qualified custodian" is not required to send account statements. Investors in the Funds receive audited financial statements within 120 days of the end of each fiscal year. The SMA has direct access to the custodian account where the SMA's positions and cash are held.

## **ITEM 16. INVESTMENT DISCRETION**

YCM provides investment advice directly to its Funds and the SMA pursuant to a written investment management agreement with each Fund and the SMA, subject to the discretion and control of the General Partner or the board of directors of the applicable Fund, and not directly to the investors in the Funds. Powers of attorney and any restrictions on YCM's authority are set forth in the organizational documents and subscription documents of the Funds and the investment management agreement between YCM and the SMA.

## **ITEM 17. VOTING CLIENT SECURITIES**

YCM will treat voting rights of securities held in its clients', Funds' or the SMA's portfolios in a manner that it believes is in its clients', Funds' or the SMA's best interests. YCM may also abstain from voting proxies at its discretion. Other than in certain limited circumstances, YCM will vote proxies along with management's recommendation(s). In situations where YCM does not wish to vote along with management's recommendations(s), the portfolio manager or analyst will instruct the Chief Compliance

Officer as to how to vote the proxy or to abstain from voting the proxy. In the event that a client's, Fund's or the SMA's portfolio has a long position and a short position in the same security, YCM will generally abstain from voting a proxy related to the long position.

The Chief Compliance Officer will monitor the potential for material conflicts of interest relating to any proxies voted by YCM. In the event of a material conflict of interest, the CCO and the portfolio manager will determine how the proxy should be voted. The Firm may consult an independent third party to assist in resolving conflicts of interest.

The custodian or prime broker of an account held by a client, a Fund or the SMA may loan securities owned by YCM clients, Funds or the SMA to a third party in accordance with its agreement with the client, Fund or the SMA. If a client, Fund or the SMA has a margin balance with a custodian or prime broker, the custodian or prime broker may be eligible to rehypothecate a certain amount of long positions in accordance with rules provided by the SEC. If a long position is rehypothecated over record date, YCM may not be eligible to vote those securities. If YCM is lending fully paid long securities, it may not be able to vote those securities unless the securities are recalled prior to the record date.

This summary of YCM's proxy voting policies and procedures is qualified in its entirety by YCM's proxy voting policies and procedures. YCM will make information regarding how proxies were voted available, upon request, to any client and a copy of YCM's proxy voting policies and procedures is available to any client upon request sent to Kyle Knutson – [kyle@yostfunds.com](mailto:kyle@yostfunds.com).

## **ITEM 18. FINANCIAL INFORMATION**

Item 18.A is not applicable to YCM, as it does not require or solicit prepayment of fees six months or more in advance.

YCM is not currently aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.

Item 18.C is not applicable to YCM, as it has not been subject to a bankruptcy petition during the past ten years.