

# LakeWater Capital LLC

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This brochure provides information about the qualifications and business practices of LakeWater Capital LLC ("LakeWater"). If you have any questions about the contents of this brochure, please contact us at 315.295.1520. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about LakeWater is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended, (the "Advisers Act") does not imply any level of skill or training.

This document is not an advertisement for the advisory services of LakeWater, nor an offer to sell or the solicitation of an offer to purchase interests in any fund managed by LakeWater.

## Item 2: Material Changes

This Brochure has been updated since the last Brochure dated June 30, 2014. There were no material changes. However, the following items were updated within the form:

1. Updated Item 4 – Advisory Business

LakeWater Capital LLC ("LakeWater") has established LakeWater Strategic Credit Master Fund, Ltd. and its two feeder funds, LakeWater Strategic Credit Fund, L.P. and LakeWater Strategic Credit Offshore Fund, Ltd.

LakeWater Strategic Credit Equity Partners, L.P., an affiliate, is the General partner of the onshore feeder fund.

2. Updated Item 10 – Other Financial Industry Activities and Affiliations

LakeWater Strategic Credit Equity Partners, L.P. is the General Partner of the LakeWater Strategic Credit Fund, L.P.

In addition, throughout the Brochure minor updates were made to accommodate the new Funds/GP and to further clarify LakeWater's processes.

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Daniel Sperrazza, Managing Partner, at [das@lakewatercapital.com](mailto:das@lakewatercapital.com).

Additional information about LakeWater is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4: Advisory Business**

LakeWater Capital LLC ("LakeWater"), a Delaware limited liability company established in November 2013, provides investment management services on a discretionary basis to private funds and separately managed accounts. LakeWater also provides investment management services to registered investment companies (mutual funds).

The Managing Partners are Daniel Sperrazza and Michael Wamp. Glenn Migliozi, another LakeWater Partner, and Michael Wamp are Co-Chief Investment Officers of the Firm. Edward Casey and Derek Jerina are the other two partners and portfolio managers at LakeWater.

LakeWater is the investment manager of LakeWater Total Return Opportunity Fund, L.P., a Delaware limited partnership. LakeWater Total Return Equity Partners, LLC, an affiliate, is the general partner of the private fund.

In addition, LakeWater has established LakeWater Strategic Credit Master Fund, Ltd., a Cayman Island exempted corporation with two feeder funds. LakeWater Strategic Credit Offshore Fund, Ltd., a Cayman Island exempted corporation, is the offshore feeder fund and LakeWater Strategic Credit Fund, L.P., a Delaware limited partnership, is the onshore feeder fund. LakeWater Strategic Credit Equity Partners, L.P., an affiliate, is the general partner of the onshore feeder. The Firm anticipates funding these new investment vehicles this year.

LakeWater has full discretionary authority with respect to investment decisions, and its advice is made in accordance with the investment objectives and guidelines set forth in each Fund's offering memorandum. Similarly, LakeWater's investment decisions and advice with respect to the mutual funds it subadvises are in accordance with their prospectus and the objectives and guidelines detailed in the Client's investment management agreement. LakeWater requires an investment management agreement be executed for each client account detailing their investment authority over the account and any investment guidelines or restrictions.

As of December 31, 2014 discretionary assets under management were approximately \$216.9 million.

## **Item 5: Fees and Compensation**

### **Management Fees**

LakeWater receives a management fee at the annual rate of 1.50% from the private funds. The fee is paid monthly in advance in accordance with the terms outlined in the private offering memoranda. Management fees are calculated by the third party administrator, approved by LakeWater and deducted from each investor's capital account. LakeWater has discretion to waive or reduce the management fee with respect to the accounts of one or more investors/shareholders.

Management fees charged for the separately managed accounts may vary, are negotiated on a case by case basis and are outlined in the investment management agreements with each client. Management fees are billed on a periodic basis as outlined in the agreement. Investment management services may be terminated in accordance with the terms outlined in the respective investment management agreements.

### **Other Fees**

The Private Funds bear all costs and expenses directly or indirectly related to their investments and operations, including, but not limited to, the management fee, legal, audit and account expenses (including third party accounting services), administrator fees and expenses, investment expenses such as commissions, custodial fees and any other reasonable expenses related to the purchase, sale or transmittal of fund assets. Investors/shareholders should refer to the fund offering documents for a complete description of fees and compensation.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

### **LakeWater Funds**

For each fiscal year, 20% of each Limited Partner's share of net profits, if any, will be paid from the capital account of each Limited Partner to the capital account of the General Partner, subject to a high water mark as outlined in the fund offering documents.

LakeWater and its affiliates have discretion to waive or reduce the incentive fee with respect to the capital accounts of one or more investors/shareholders without notifying the other investors/shareholders or without reducing the fee with respect to the capital accounts of the other investors/shareholders.

LakeWater offered a pre-launch share class of LakeWater Total Return Opportunity Fund, L.P. that provided initial investors a share in the revenue of fund through December 31, 2017. This share class is currently closed to new investors.

LakeWater is currently offering pre-launch share classes of LakeWater Strategic Credit Fund, L.P. and LakeWater Strategic Credit Offshore Fund, Ltd. that will provide initial investors a share in the revenue of the funds for a period of time.

### **Separate Accounts**

Performance-based fees charged for the separately managed accounts are outlined in the investment management agreements with each client. These fees may vary and are negotiated on a case by case basis.

LakeWater recognizes that these types of arrangements may create an incentive to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. LakeWater also recognizes that such fee arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities and that such fee arrangements create an incentive to favor accounts for which the principals have a personal capital investment. In order to address these potential conflicts, LakeWater has developed policies and procedures for treating all clients in a fair and equitable manner.

## **Item 7: Types of Clients**

As disclosed in Item 4, LakeWater provides investment management services to private funds and registered investment companies and intends to provide services to separately managed accounts in the future. Generally, the minimum initial investment for the LakeWater Total Return Opportunity Fund is \$500,000 and \$5,000,000 for the LakeWater Strategic Credit Funds. However, LakeWater or its affiliates reserve the right to accept lesser amounts as long as the investor qualifies to invest based on all other suitability and regulatory requirements.

LakeWater may decline to accept a proposed investment even if the proposed investor satisfies such suitability and regulatory requirements. LakeWater has discretion to accept additional capital contributions in different amounts from one or more investors without notifying the other investors and, in certain cases, has entered into such arrangements with certain investors.

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

### **Investment Objective and Strategy**

LakeWater specializes in managing long and short credit portfolios. We are focused on carefully researched investments in companies in the non-investment grade and investment grade space. We seek consistent returns with lower market correlation through the utilization of investment strategies that capitalize on market and company capital structure inefficiencies. LakeWater exploits these inefficiencies

by investing both long and short throughout the companies' capital structures, seeking the best risk-adjusted return that the market allows while focusing on preserving capital, reducing volatility and limiting downside risk.

### **Methods of Analysis**

LakeWater is a fundamental, deep value, bottoms-up investor with a focus on portfolio and risk management throughout the entire investment process. The Firm generally focuses on long biased high yield and distressed positions and short biased investment grade positions. Portfolio Managers will typically develop a watch list of prospective long and short opportunities through quantitative screening, Street research, industry news, security trading activity and relative value analysis. They identify deep value opportunities, potential restructuring processes or pricing inefficiencies within a capital structure or between different securities. In addition, they focus on such areas as corporate governance and management compensation, contingent liabilities and exposure to geographic risks.

Once a potential opportunity has been identified, the Portfolio Managers and Research Analysts will conduct a detailed analysis. Following that detailed analysis, the Team will develop an investment thesis, review the opportunity's investment rationale, size the position for applicable portfolios and continuously review.

Portfolios may generally be allocated among some or all the following five categories:

*Cash and Cash Equivalents.* The positions will be cash in a banking or brokerage account, Treasury securities, short maturity high yield or investment grade credit instruments or called bonds maturing in 60 days or less.

*Core Positions.* High yield and stressed debt positions that the Investment Manager believes have been mispriced make up the core positions. These are typically secured bonds or bank debt with low duration risk and limited principal risk.

*Hedge Positions.* A hedge opportunity whereby the Investment Manager will go long and short securities within an issuer's capital structure.

*Special Situation Positions.* These positions are typically event driven; where the issuer's securities are purchased at a price the Investment Manager believes is cheap relative to the issuer's perceived underlying asset value.

*Portfolio Management Positions.* These positions will involve the use of indices, derivatives, futures and short positions to reduce exposure risk and volatility to various asset classes from an overall portfolio perspective.

*Short Positions.* These positions typically involve purchasing default protection via Credit Default Swaps ("CDS"). Most often, these positions reference investment grade corporate issuers the Investment Manager believes have an attractive return potential from possible credit spread widening associated with re-leveraging events or fundamental credit quality deterioration.

### **Risks**

Performance may be adversely affected by unforeseen events involving such matters as political crises, economic or market conditions, changes in currency rates or interest rates or forced redemptions of securities. Certain of the strategies are based on historical trends in, and relationships between, asset prices. There can be no assurance that such historical trends or relationships will continue, and LakeWater can make no representation as to the results achieved based on such trends and relationships. Each Fund's offering memorandum discusses risks that should be carefully evaluated before making an investment. Those risks include, but are not limited to, the following:

### **Nature of Investments**

LakeWater has broad discretion in making investments and transactions which will generally consist of credit instruments and other fixed income securities and other assets and liabilities that may be affected by business, financial market or legal uncertainties. There can be no assurance that LakeWater will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return

on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of portfolio activities and the value of investments. In addition, the value of the portfolio may fluctuate as the general level of interest rates fluctuates. No guarantee or representation is made that the investment objective will be achieved.

### **Debt Obligations**

LakeWater invests in corporate debt obligations and other forms of indebtedness. The risks of debt investments include (among others): (i) limited liquidity and secondary market support, (ii) the possibility that earnings or cash flows of the obligor may be insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the borrower during periods of economic downturn, (iv) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (v) if the investment is subordinated, subordination to the prior claims of other loans or senior lenders.

Debt investments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for loans and corporate debt and adversely affect the value of outstanding fixed income holdings and the ability of the borrowers thereunder to repay principal and interest. Moreover, defaults may prove to be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

Debt instruments may become non-performing for a variety of reasons. Non-performing instruments may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal. Portfolios managed by LakeWater may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a debt instrument.

### **Market Price Risk**

The value of a portfolio's investments may decline because of changing valuations of the investments' secondary market prices. Market prices for the portfolios' investments – both longs and shorts – may decline for reasons including but not exclusive to changes in perceived credit risks and changes in interest rates.

### **Credit Risk**

Credit risk is the risk that a security in a portfolio will decline in price or the issuer will fail to make dividend, interest or principal payments when due because the issuer of the security experiences a decline in its financial status. Issuers may be highly leveraged and financial covenants may affect the ability of issuers to operate effectively. If the principal payments of a corporate debt obligation cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the issuer's cash flow may not be sufficient to repay all maturing debt outstanding. In addition, an issuer's obligation to comply with financial covenants, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict a company's range of operating activity. An issuer, therefore, may be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions, which may be beneficial to the operation of the issuer.

### **Interest Rate Risk**

Interest rate risk is the risk that fixed income securities will decline in value because of changes in market interest rates. Generally, when market interest rates rise, the market value of such securities will decline, and vice versa. A portfolio's investment in such securities means that the portfolio's net asset value may tend to decline if market interest rates rise.

During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. This is known as extension risk. During periods of declining interest rates, an issuer may be able to exercise an option to prepay principal earlier than scheduled, which is generally known as a call or prepayment risk. If this occurs, a portfolio may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity.

An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.

### **Credit Derivatives Risk**

LakeWater may use one or more credit default swaps (“CDS”) including contracts, options on CDS and tranches on CDS as part of its strategy in a portfolio. A CDS is a swap designed to transfer the credit exposure of fixed income products between parties. It is an agreement between a protection buyer and a protection seller whereby the buyer pays a periodic fee in return for a contingent payment by the seller upon a credit event (such as a certain default) happening in the reference entity. In general, LakeWater will enter into swaps as a buyer of protection with a financial institution or broker/dealer as counterparty. The fees paid to enter into such swaps will reduce returns, although the swaps should offer protection to the portfolio from default and should reduce volatility in the portfolio. LakeWater may also sell credit protection on occasion. It will receive the benefit of fees paid by the buyer of protection but may sustain losses if a credit event occurs and it must make a payment to the buyer of protection.

The use of credit derivatives is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If the Investment Manager is incorrect in its forecasts of default risks, market spreads or other applicable factors, the investment performance of the portfolio would diminish compared with what it would have been if these techniques were not used. Moreover, even if the Investment Manager is correct in its forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being protected. A portfolio's risk of loss in a credit derivative transaction varies. For example, if the portfolio purchases protection under a CDS, and if no default occurs with respect to the security, the portfolio's loss is limited to the premium it paid for the CDS. In addition, CDS are also subject to counterparty risk if there is a default by the seller of protection under a CDS. In such case, the portfolio's loss will include both the premium that it paid for the CDS and the loss of payments made under the swap. As noted above, if the portfolio sells protection, it will have to make payments to the buyer if a credit event occurs.

The U.S. federal income tax treatment of swaps, which in a typical case will be treated as “notional principal contracts,” is complex, unresolved, and subject to considerable controversy. The U.S. federal income tax treatment of any particular swap will depend on the particular terms of that swap.

### **Lower-Rated Securities**

LakeWater may invest and transact in fixed income securities and other instruments rated lower than Baa3 by Moody's or lower than BBB- by S&P (or, if not rated, deemed by the Investment Manager to be of comparable quality). Securities rated lower than Baa3 by Moody's or lower than BBB- by S&P are sometimes referred to as “high yield” or “junk” bonds. Lower-rated securities may include securities that have the lowest rating or are in default. Investing in lower-rated securities involves special risks in addition to the risks associated with investments in higher-rated fixed income securities, including a high degree of credit risk. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. Lower-rated securities may be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher-grade securities. Securities that are in the lowest rating category are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, and to be unlikely to have the capacity to pay interest and repay principal. The secondary markets on which lower-rated securities are traded may be less liquid than the market for higher-grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of a portfolio. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower-rated securities, especially in a thinly traded market. Furthermore, with respect to certain residential and commercial mortgage-backed securities, it is difficult to obtain current reliable information regarding delinquency rates, prepayment rates, servicing records, as well as updated cash flows.

The use of credit ratings as the sole method of evaluating lower-rated securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of lower-rated securities. In addition, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was rated.



## **Loans**

LakeWater will observe certain limitations in its ability to purchase loans in order to ensure that it is not treated as a “dealer in securities” or otherwise treated as engaged in a trade or business within the U.S. for U.S. federal income tax purposes.

Loans acquired may be rated below an S&P Rating of BBB- or better, or a Moody's rating of “Baa3” or better (“Investment Grade”) and will have greater credit and liquidity risk than Investment Grade loans. The risks of loans include (among other things): (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the obligor may be insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the borrower of such loan during periods of economic downturn, (iv) the obligor is often a small or mid-size company representing only local or regional interests, (v) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (vi) if subordinated, subordination to the prior claims of other loans or senior lenders. Loans are generally subject to market value volatility that may or may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for loans and adversely affect the value of outstanding loans and the ability of the borrowers thereof to repay principal and interest. Moreover, the default history for loans is limited; actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

## **Distressed Securities**

LakeWater may invest in companies involved in work-outs, liquidations, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, LakeWater may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which LakeWater may invest, there is a potential risk of loss by a portfolio of its entire investment in such companies.

## **Preferred Stocks**

LakeWater may invest in preferred stocks in its portfolios. The primary difference between preferred stock and common stock related to the order in which shareholders are paid in the event of bankruptcy or other corporate restructuring. If the issuing company seeks bankruptcy protection, then the owners of preferred shares take priority over common shareholders (but not debt holders) when it comes time to pay dividends and liquidate company assets. The other main difference between preferred and common shares relates to dividends. Although dividends paid on common stock are not guaranteed and can fluctuate from quarter to quarter, preferred shareholders are usually guaranteed a fixed dividend paid on a regular basis. As a result, preferred stocks often act similar to bonds. Because they act similar to bonds, preferred shares are exposed to interest rate risk. When interest rates rise, preferred stock can decline in value. Preferred shares also tend to move more slowly to the upside than common stock. Most preferred shares are also callable, meaning the issuer can redeem the shares at any time. And finally, preferred shareholders generally do not enjoy the same voting privileges as the holders of common stock.

## **Common Stocks**

LakeWater may invest in common stocks for portfolios it manages. Common stockholders have the lowest priority claim on assets of an issuer in the event of a bankruptcy or similar event. Given LakeWater's focus on investing in the stressed debt space, purchases of common stock may entail a heightened degree of risk than would be the case with purchasing equities issued by non-stressed companies.

## **Hedging**

LakeWater may attempt to structure its investments, and/or use various investment strategies and instruments, in a manner intended to partially hedge a portfolio's exposure to market movements or other risks. No assurance can be given that any hedging strategies or techniques employed will be successful or will operate as intended. The use of hedging instruments or strategies may reduce the profit realized by a portfolio in some cases, and may cause a portfolio to incur additional expenses.

### **Short Sales**

LakeWater may use short sales in certain portfolios. Short sales are when portfolio securities are sold that are not owned at the time of sale. By doing so, the portfolio will become obligated to purchase and deliver securities against the short position. In the event that the price of a security increases between the short sale and the portfolio's subsequent purchase of shares of that security, the portfolio will decrease accordingly. There can be no assurance that the portfolio will not suffer such losses. In theory, a short sale has the potential for unlimited loss. In connection with short sales, the portfolios will have to deliver cash or U.S. Treasury securities or other securities to brokers to assure delivery of securities against short positions. The portfolios will be able to keep only a negotiated percentage of the yield of such U.S. Treasury or other securities.

The availability of shares to borrow to execute a short can change quite dramatically and quickly. This presents a risk not faced with long positions. Recent moves by securities regulators all over the world to ban or limit short selling creates a new dimension of the risk. Dramatic changes in the availability of borrowed securities for shorting are an event not typically addressable through fundamental security analysis. Short squeezes or short covering rallies can be quite detrimental to overall profits. Avoiding hard-to-borrow shares or illiquid names is a basic risk management discipline. Easy-to-borrow shares can become hard-to-borrow quickly. The negative "crowding out" effect is more prevalent with the rapid growth in the number of long-short funds.

### **Use of Borrowed Funds**

LakeWater may cause a portfolio to leverage its investment positions by borrowing funds from securities broker-dealers, banks, or others. Such leverage increases both the possibilities for profit and the risk of loss. In a downward trending market, the use of leverage for long positions could have a material adverse effect on a portfolio's profitability and operations, and the reverse is true in a rising market with respect to short positions. Extensions of credit by broker-dealers will typically be secured by the portfolio's securities and other assets. Under certain circumstances, a broker-dealer may demand an increase in the collateral that secures the portfolio's obligations, and if the portfolio were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the portfolio's obligation to the broker-dealer. Liquidation in such manner could have materially adverse consequences. In addition, the amount of the portfolio's borrowing and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the portfolio's profitability.

### **Futures**

LakeWater may invest and trade in futures. A futures contract is an agreement between two parties which obligates the purchaser of a futures contract to buy and the seller of a futures contract to sell a security or basket of securities for a set price on a future date. Unlike most other futures contracts, a stock index futures contract does not require actual delivery of securities but results in cash settlements based upon the difference in value of the index between the time the contract was entered into and the time of its settlement. The risk of loss in trading futures can be substantial. If a portfolio purchases a future it may sustain a total loss of the initial margin funds and any additional funds deposited with a broker to establish and maintain its position in the future. If the market moves against the portfolio's position, the portfolio may be required to deposit a substantial amount of additional margin funds in order to maintain its position. The placements of contingent or stop orders by the portfolio will not necessarily limit its losses to the intended amounts, as market conditions may make it impossible for such orders to be executed. There can be no assurance that, at all times, a liquid market will exist for offsetting a futures contract that a portfolio has bought or sold. This could be the case if, for example, a futures price has increased or decreased by the maximum allowable daily limit and there is no one presently willing to buy the futures contract the portfolio wants to sell or sell the futures contract the portfolio wants to buy. The high degree of leverage that can be used in trading futures can lead to large losses.

### **Options**

LakeWater may engage in options trading. Options that may be purchases or sold by portfolios include options not traded on a securities exchange. Options not traded on an exchange are not issued by the Options Clearing Corporation; therefore, the risk of nonperformance by the obligor on such an option may be greater and the ease with which a portfolio can dispose of such an option may be less than in the case of an exchange traded option issued by the Options Clearing Corporation. The trading of options is highly speculative and may entail risks that are greater than those present when investing in other securities. Prices of options are generally more volatile than prices of other securities. To the extent that a portfolio

purchases options that it does not sell or exercise, it will suffer the loss of the premium paid in such purchase. To the extent that a portfolio sells options and must deliver the underlying securities at the option price, the portfolio has a theoretically unlimited risk of loss if the price of such underlying securities increases. To the extent that a portfolio must buy the underlying securities, it risks the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Special risks are associated with the use of options. A decision as to whether, when and how to use options involves the exercise of skill and judgment which are different from those needed to select securities, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. The potential loss incurred by a portfolio in writing uncovered options is unlimited.

### **Counterparty Risk**

LakeWater may purchase and sell derivative instruments such as swaps in “over-the-counter” or “interdealer” markets. The participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes LakeWater to the risk that a counterparty will not settle a transaction in accordance with contractual obligations whether due to insolvency, bankruptcy or other causes. Moreover, disputes over the terms of a derivatives contract (whether or not bona fide) may cause settlement delays because such markets may lack the established rules and procedures for swift settlement of disputes among market participants found in “exchange-based” markets. These factors may cause a portfolio to suffer a loss due to adverse market movements while replacement transactions are executed or otherwise. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the portfolio has concentrated its transactions with a single or small group of counterparties.

## **Item 9: Disciplinary Information**

LakeWater has no legal or disciplinary events to report that would impact the evaluation by a client, prospective client or investor, of our advisory business or the integrity of our management.

## **Item 10: Other Financial Industry Activities and Affiliations**

LakeWater and its management persons are not registered as broker-dealers and do not have any applications pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

LakeWater and its management persons are not registered as, and do not have any application to register as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

LakeWater Total Return Equity Partners, LLC and LakeWater Strategic Credit Equity Partners, LP are the General Partners of the private funds. These entities are under common control as LakeWater Capital LLC.

LakeWater recognizes the potential conflict of interest that this affiliation presents. In order to address any potential conflicts, the firm has developed and implemented various policies and procedures, as well as a comprehensive compliance program administered by the firm’s Chief Compliance Officer, to ensure that all clients are treated fairly and equally.

Matthew S. Hardin is a securities attorney and is licensed to practice law in Pennsylvania, Missouri and Illinois. Mr. Hardin owns Hardin Law Group LLC, a law firm based in Pennsylvania. In addition, Mr.

Hardin owns Hardin Compliance Consulting LLC, a firm specializing in providing regulatory compliance consulting services to registered investment advisers, broker-dealers, investment companies and private funds. Mr. Hardin serves as the Chief Compliance Officer of LakeWater.

## **Item 11: Code of Ethics**

### **Code of Ethics**

LakeWater has adopted a Code of Ethics for all supervised persons. The Code describes the Firm's high standard of business conduct and fiduciary duty to its clients and includes provisions relating to the confidentiality of client information, a prohibition on insider trading, guidelines surrounding gifts and business entertainment items, personal securities trading procedures, conflicts of interest, among other things. All supervised persons must acknowledge the terms of the Code annually, or as amended.

LakeWater permits trading in personal accounts subject to certain restrictions. In order to avoid a potential conflict with client accounts, employees are not permitted to trade in any securities or instruments of issuers of long-term securities that LakeWater holds in its portfolios without prior approval from the Chief Compliance Officer. The Firm maintains a Restricted List of these names. Prior to placing any trades in their personal accounts, employees are required to check the restricted list to confirm the name is not restricted. The restricted list is updated daily, as needed, and employee account statements are reviewed quarterly to verify compliance with the policy.

A copy of the LakeWater Code of Ethics is available upon request.

### **Conflicts Related to Performance-Based Fees**

LakeWater recognizes that these types of arrangements may create an incentive to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. LakeWater also recognizes that such fee arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities and that such fee arrangements create an incentive to favor accounts for which the managing Partners have a personal capital investment. In order to address these potential conflicts, LakeWater has developed policies and procedures for treating clients in a fair and equitable manner and our policies and procedures require that investment decisions be made based on the best interests of our clients, without consideration of firm or employee pecuniary interests.

### **Principal and Cross Transactions**

It is LakeWater's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts.

## **Item 12: Brokerage Practices**

LakeWater has full discretionary authority to manage client assets, including the decisions as to which securities are bought and sold, the brokers used to execute transactions, the amount and price of those securities and commissions paid to brokers. LakeWater's overall objective when trading is to meet investment objectives while managing within any established guidelines. In selecting an appropriate broker-dealer to affect a Client trade, LakeWater seeks to obtain best execution, taking into consideration the specifics for each trade such as transaction size, market characteristics, the liquidity of the security and type of security. The Firm also considers which brokers are able to execute transactions timely and minimize incomplete trades and market impact, among other items.

LakeWater also understands that it has a fiduciary duty to clients to allocate securities involving more than one client in a fair and equitable manner. When investing in the same security in the same direction for more than one investment account, LakeWater's policy is to place the orders simultaneously. If all orders are not executed at the same price, trades are allocated such that the order for each account is

filled at the same average price. Similarly, if an order for more than one account cannot be fully executed under prevailing market conditions, trades will be allocated among the different accounts on a fair and equitable basis.

#### **Soft Dollars and Directed Brokerage**

LakeWater does not currently participate in any soft dollar or directed brokerage arrangements and does not select brokers based upon client referrals.

## **Item 13: Review of Accounts**

#### **Reviews**

For each account, portfolio reports are updated as warranted by portfolio activity. These reports include, but are not limited to, cash balance reports, trade blotters, and detailed holdings reports. Cash balance reports include all transaction activity in an account (e.g., trade settlements, investor subscriptions, fees and expenses). Trade blotters capture trade order details and holdings reports capture certain position information for client accounts. The investment team members regularly review these reports at the end of each day in which they are updated.

#### **Reporting-LakeWater Private Funds**

On a monthly basis, investors receive individualized capital statements prepared by the Fund Administrator.

On an annual basis, investors receive a copy of the Fund's audited financial statements prepared by the independent auditors and tax reporting information. LakeWater may also provide periodic ad hoc reports/information (e.g. portfolio manager commentary) to investors upon request.

#### **Reporting-Separately Managed Account Clients**

Customized monthly or quarterly reports of performance, holdings and capital values are prepared for clients, often by a third party administrator. LakeWater may supplement these third party reports with market commentary and a discussion of periodic portfolio trading activity.

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

LakeWater has agreements in place with Pinnacle Investments, LLC and Cedi Capital Markets, LLC (a.k.a. Triliad Securities, LLC), both registered broker-dealers, whereby the firms agree to introduce LakeWater to potential investors for the Private Funds. For these services, the firms are paid a fee, in connection with investments obtained or advisory mandates received as a result of their efforts, equal to 20% of the advisory fee and performance allocation fee paid or allocated to LakeWater or its affiliates. All such compensation is paid by LakeWater and/or its affiliates from the advisory fees or performance allocations that they receive, and no additional fees or other kind of payment is added to those fees or allocations as a result of the participation of Pinnacle or Triliad in the introduction of new investors or clients.

## **Item 15: Custody**

LakeWater does not maintain physical possession of client cash and/or securities. However, as the investment manager and with two affiliated General Partners for the Funds, LakeWater does have access to cash and securities in the Funds, along with the authority to perform various acts that may be deemed to result in custody, as defined under Rule 206(4)-2 of the Advisers Act.

Consistent with the requirements under the Advisers Act, client assets are held in accounts maintained with custodians that qualify as "Qualified Custodians." Qualified Custodians are banks, registered broker-

dealers, registered futures commission merchants and foreign financial institutions that hold customer assets in separate customer accounts.

Clients will receive account statements from the account administrator/custodian.

The Funds are audited annually in accordance with GAAP by an independent public accounting firm that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board (the PCAOB). Copies of the audited financial statements are independently distributed to each investor within 120 days of the Funds fiscal year end.

## **Item 16: Investment Discretion**

LakeWater has full discretionary authority over all assets it manages pursuant to investment management agreements. Discretion is exercised in a manner consistent with the investment objectives and strategies described in the investment management agreements. With respect to LakeWater's investment company client, its ability to transact in certain securities may be limited by restrictions within the Investment Company Act and/or the prospectus and registration statement.

## **Item 17: Voting Client Securities**

LakeWater has authority to vote proxies on behalf of its clients as defined in its investment management agreements. A proxy voting policy is maintained and followed to ensure proxies are voted in the best interests of the Client and address any conflicts of interests that may arise between the Investment Manager and the Client.

If a proxy vote creates a material conflict between the interests of LakeWater and a client, it will be resolved before voting the proxies. LakeWater will either disclose the conflict to the client and obtain consent or take other steps designed to ensure that a decision to vote the proxy was based on the investment management team's determination of the client's best interest and was not the product of the conflict.

LakeWater maintains records of (i) all proxy statements and materials received on behalf of Clients; (ii) all proxy votes that are made on behalf of clients; (iii) all documents that were material to a proxy vote; (iv) all written requests from clients regarding voting history; and (v) all responses (written and oral) to clients' requests. Such records are available to the clients upon request.

Clients may obtain a copy of LakeWater's Proxy Voting Policy and Procedure and/or information about how their securities were voted upon request.

## **Item 18: Financial Information**

Registered investment advisers are required in this Item to provide certain financial information or disclosures about their financial condition. LakeWater has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

**Daniel A. Sperrazza**

**LakeWater Capital LLC**

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March 18, 2015

This Brochure Supplement provides information about Daniel A. Sperrazza that supplements the Brochure for LakeWater Capital LLC (LakeWater), a copy of which you should have received. Please contact Daniel Sperrazza, Managing Partner, if you did not receive the Brochure or if you have any questions about the contents of this supplement.

## **Educational Background and Business Experience**

**Daniel A. Sperrazza: Born 1966**

Managing Partner

### **Education**

The Wharton School of the University of Pennsylvania, M.B.A. (1994)

State University of New York at Buffalo, B.S. (1988)

### **Business Background**

Mr. Sperrazza has 26 years of investment experience in fixed income portfolio management and research. Prior to forming LakeWater Capital LLC, Mr. Sperrazza was a Founding Partner of Green Eagle Capital Management, LLC and Green Eagle Capital LLC. Mr. Sperrazza was Director of Fixed Income Research at Northern Trust Global Investments from 2002 to 2004. He has also served as Director of Fixed Income Research at Fleet Investment Advisors and Director of Corporate Finance at Aetna.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Mr. Sperrazza has no disciplinary information to report.

## **Other Business Activities**

Mr. Sperrazza is not engaged in any other investment related business activities and is not actively engaged in any other business or occupation.

## **Additional Compensation**

Mr. Sperrazza does not receive compensation for providing advisory services to anyone other than clients of LakeWater.

## **Supervision**

LakeWater has five principal owners/partners. Mr. Sperrazza works closely with Michael Wamp (Managing Partner/Co-Chief Investment Officer), Glenn Migliozi (Partner/Co-Chief Investment Officer), Edward Casey (Partner/Portfolio Manager) and Derek Jerina (Partner/Portfolio Manager) in providing all investment management services to the firm's clients. Most investment decisions are collaborative. Compliance services are provided by an independent consulting firm which allows for additional oversight.



**Michael J. Wamp**

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March 18, 2015

This Brochure Supplement provides information about Michael J. Wamp that supplements the Brochure for LakeWater Capital LLC (LakeWater), a copy of which you should have received. Please contact Daniel Sperrazza, Managing Partner, if you did not receive the Brochure or if you have any questions about the contents of this supplement.

## **Educational Background and Business Experience**

### **Michael J. Wamp: Born 1969**

Managing Partner and Co-Chief Investment Officer

#### **Education**

University of Rochester, M.B.A (1998)

University of Rochester, B.A. (1992)

#### **Business Background**

Mr. Wamp has 20 years of investment experience in stressed debt, high yield debt, leveraged loans and equity derivatives. Prior to forming LakeWater Capital LLC, Mr. Wamp was a Founding Partner and Chief Investment Officer of LakeWater Capital Management, LLC, a private fund company. Mr. Wamp was the Managing Partner and Portfolio Manager for Talon Total Return Partners from 2003 to 2009. He has also served as a Senior Institutional Sales Trader at UBS Warburg and Lehman Brothers and was a High Yield Research Analyst at Robertson Stephens.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Mr. Wamp has no disciplinary information to report.

## **Other Business Activities**

Mr. Wamp is not engaged in any other investment related business activities and is not actively engaged in any other business or occupation.

## **Additional Compensation**

Mr. Wamp does not receive compensation for providing advisory services to anyone other than clients of LakeWater.

## **Supervision**

LakeWater has five principal owners/partners. Mr. Wamp works closely with Daniel Sperrazza (Managing Partner), Glenn Migliozi (Managing Partner/Co-Chief Investment Officer), Edward Casey (Partner/Portfolio Manager) and Derek Jerina (Partner/Portfolio Manager) in providing all investment management services to the firm's clients. Most investment decisions are collaborative. Compliance services are provided by an independent consulting firm which allows for additional oversight.

**Glenn T. Migliozi, CFA**

**LakeWater Capital LLC**

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March 18, 2015

This Brochure Supplement provides information about Glenn T. Migliozi that supplements the Brochure for LakeWater Capital LLC (LakeWater), a copy of which you should have received. Please contact Daniel Sperrazza, Managing Partner, if you did not receive the Brochure or if you have any questions about the contents of this supplement.

## **Educational Background and Business Experience**

**Glenn T. Migliozi: Born 1959**

Partner and Co-Chief Investment Officer

### **Education**

Sloan School of Management at Massachusetts Institute of Technology, S.M. (1986)  
State University of New York at Albany, B.S. (1981)

### **Business Background**

Mr. Migliozi has 31 years of investment experience as a senior leader of global fixed income investment organizations. Prior to forming LakeWater Capital LLC, Mr. Migliozi was a Founding Partner and Chief Investment Officer of Green Eagle Capital Management, LLC and Green Eagle Capital LLC. Mr. Migliozi was Director of Fixed Income at Northern Trust Global Investments from 2002 to 2003. He has also served as Director of Fixed Income at Fleet Investment Advisors, Portfolio Manager at State Street Global Advisors and Director of Corporate Finance at Aetna. Mr. Migliozi began his career as a credit analyst at National Westminster Bank.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Mr. Migliozi has no disciplinary information to report.

## **Other Business Activities**

Mr. Migliozi is not engaged in any other investment related business activities and is not actively engaged in any other business or occupation.

## **Additional Compensation**

Mr. Migliozi does not receive compensation for providing advisory services to anyone other than clients of LakeWater.

## **Supervision**

LakeWater has five principal owners/partners. Mr. Migliozi works closely with Daniel Sperrazza (Managing Partner), Michael Wamp (Managing Partner/Co-Chief Investment Officer), Edward Casey (Partner/Portfolio Manager) and Derek Jerina (Partner/Portfolio Manager) in providing all investment management services to the firm's clients. Most investment decisions are collaborative. Compliance services are provided by an independent consulting firm which allows for additional oversight.

**Edward J. Casey**

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March 18, 2015

This Brochure Supplement provides information about Edward J. Casey that supplements the Brochure for LakeWater Capital LLC (LakeWater), a copy of which you should have received. Please contact Daniel Sperrazza, Managing Partner, if you did not receive the Brochure or if you have any questions about the contents of this supplement.

## **Educational Background and Business Experience**

**Edward J. Casey: Born 1973**

Partner and Portfolio Manager

### **Education**

Trinity College, University of Dublin, M.A. (2001)

Trinity College, University of Dublin, B.S. (1996)

### **Business Background**

Mr. Casey has 17 years of investment experience in high yield and credit derivatives. Prior to forming LakeWater Capital LLC, Mr. Casey was a Portfolio Manager at Green Eagle Capital LLC since 2008. Mr. Casey was also a Portfolio Manager at Northern Trust Global Investments from 2002 to 2008. He also served as Fixed Income Securities Trader at Fleet Investment Advisors from 1996 to 2002.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Mr. Casey has no disciplinary information to report.

## **Other Business Activities**

Mr. Casey does not receive compensation for providing advisory services to anyone other than clients of LakeWater.

## **Additional Compensation**

Mr. Casey does not receive compensation for providing advisory services to anyone other than clients of LakeWater.

## **Supervision**

LakeWater has five principal owners/partners. Mr. Casey works closely with Daniel Sperrazza (Managing Partner), Michael Wamp (Managing Partner/Co-Chief Investment Officer), Glenn Migliozi (Partner/Co-Chief Investment Officer) and Derek Jerina (Partner/Portfolio Manager) in providing all investment management services to the firm's clients. Most investment decisions are collaborative. Compliance services are provided by an independent consulting firm which allows for additional oversight.

**Derek A. Jerina**

**LakeWater Capital LLC**

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March 18, 2015

This Brochure Supplement provides information about Derek A. Jerina that supplements the Brochure for LakeWater Capital LLC (LakeWater), a copy of which you should have received. Please contact Daniel Sperrazza, Managing Partner, if you did not receive the Brochure or if you have any questions about the contents of this supplement.

## **Educational Background and Business Experience**

### **Derek A. Jerina: Born 1975**

Partner and Portfolio Manager

#### **Education**

Duke University, B.S. (1997)

#### **Business Background**

Mr. Jerina has 16 years of investment experience with a concentration on fixed income and special situations. Prior to forming LakeWater Capital LLC, Mr. Jerina was a Founding Partner and Portfolio Manager of LakeWater Capital Management, LLC, a private fund company. Mr. Jerina was a Senior Analyst and Portfolio Manager at 3V Capital Management from 2003 to 2008. He has also held Senior Analyst and Trading positions at Litespeed Partners, UBS Asset Management and Lehman Brothers. Mr. Jerina began his career as an Associate at D. E. Shaw & Company.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. Mr. Jerina has no disciplinary information to report.

## **Other Business Activities**

Mr. Jerina is not engaged in any other investment related business activities and is not actively engaged in any other business or occupation.

## **Additional Compensation**

Mr. Jerina does not receive compensation for providing advisory services to anyone other than clients of LakeWater Capital LLC.

## **Supervision**

LakeWater has five principal owners/partners. Mr. Jerina works closely with Daniel Sperrazza (Managing Partner), Michael Wamp (Managing Partner/Co-Chief Investment Officer), Glenn Migliozi (Partner/Co-Chief Investment Officer) and Edward Casey (Partner/Portfolio Manager) in providing all investment management services to the firm's clients. Most investment decisions are collaborative. Compliance services are provided by an independent consulting firm which allows for additional oversight.