

**LUCROR CAPITAL ADVISORS, L.P.**

**Part 2A of Form ADV: Firm Brochure**

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**Lucror Capital Advisors, L.P.**

45 Rockefeller Plaza  
Suite 2000  
New York, New York 10020

Telephone: (212) 537-9370

Fax: (877) 630-5847

Attention: Richard J. Roy

[www.lucrorcapital.com](http://www.lucrorcapital.com)

Lucror Capital Advisors, L.P. is an investment advisor that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Lucror Capital Advisors, L.P. If you have any questions about the contents of this brochure, please contact us at 212-537-9370. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Lucror Capital Advisors, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Material Changes**

The initial Part 2A of Form ADV was submitted on July 16, 2014. In the filing of this Part 2A of Form ADV, we have updated Item 1: Advisory Business to disclose the assets under management. We recommend that you read this Part 2A of Form ADV in its entirety.

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## **1. Advisory Business**

Lucror Capital Advisors, L.P., founded in May 2013, is an investment services firm specializing in investment management for managed accounts and, in the near future, pooled investment funds. The principal owner of our firm is Richard J. Roy.

We seek to achieve superior risk-adjusted returns for our clients, with an emphasis on cash distributions, through investments in securities of U.S. publicly traded energy and energy infrastructure companies. We define energy and energy infrastructure companies as entities that derive the majority of their revenue from either activities in the energy sector or activities in the infrastructure sector, or both. The majority of our clients' investments in energy and energy infrastructure companies consist of entities that trade on public markets and take the form of master limited partnerships, or "MLPs," and limited liability companies.

For more information on the investment strategy of our clients, please see Item 5: Method of Analysis, Investment Strategy and Risk of Loss.

Our firm tailors our advisory services in accordance with each client's needs and investment strategy as disclosed in its offering document or managed account agreement.

We have full discretion in trading on behalf of our clients. We do not require, and do not seek, approval from our clients or the investors in our clients with respect to their trading.

We do not participate in any wrap fee programs.

As of March 11, 2015, we manage \$40,000,000 of client regulatory assets under management on a discretionary basis. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

Our firm typically receives two types of compensation from our managed account clients – an asset-based management fee and performance-based compensation. We anticipate that our fund clients will only pay an asset-based management fee to our firm.

Our fees are generally not negotiable. We have the general discretion to waive all or a portion of the asset-based management fee and/or the performance-based compensation. We will not charge performance-based fees to non-qualified investors in fund clients, per Rule 205-3 of the Investment Advisers Act of 1940, as amended. In addition, we may enter into side letter arrangements with certain investors in our fund clients, in which we grant them preferential terms.

Our firm and our affiliates will not pay asset-based fees for any investments in our fund clients.

We deduct the asset-based management fee described above from our managed account clients' account quarterly at the beginning of each quarter. We also deduct the performance-based fee from our managed account clients' account at the end of each year or when the client makes a withdrawal (but only on the amount withdrawn). The managed account clients also receive an invoice for the amounts of our asset-based management fees and performance-based fees reflecting the amounts deducted from its account.

We will deduct the asset-based management fee described above from our fund clients' account quarterly at the beginning of each quarter.

Our managed account clients pay for all of their own operating expenses. This includes all expenses incurred with its account transactions, such as custodial fees, brokerage commissions, research costs and expenses, taxes and any applicable registration fees.

In connection with our pooled investment fund advisory services, our fund clients will bear all of their own organizational and operational expenses. The list below details some these expenses, but does not include every possible expense our fund clients may incur.

- legal fees (including settlement costs);
- costs of any litigation or investigation involving our fund clients' activities;
- accounting costs (including tax preparation and audit expenses);
- administration costs;
- marketing expenses;
- insurance;

- costs associated with reporting and providing information to existing and potential investors;
- any governmental fees imposed on our fund clients; and
- withholding and/or transfer taxes.

These fund clients will also pay for expenses related to the investment of their assets, such as:

- proxy expenses;
- interest and commitment fees on loans and debit balances;
- borrowing charges on securities sold short;
- custodial fees;
- brokerage commissions;
- trade processing fees, including clearing and settlement charges;
- research fees and materials (including online news and quotation services);
- costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific transactions;
- bank charges; and
- other ordinary miscellaneous research and trade-related expenses.

We may choose to absorb some of these costs on behalf of our clients in our sole discretion.

For more information on brokerage transactions and costs, please see Item 9: Brokerage Practices.

The asset-based management fee that we charge our clients is payable at the beginning of each quarter. Investors in our clients will only be able to withdraw or redeem capital at the end of each quarter. Accordingly, we will not need to provide fee refunds to our clients or underlying investors in our fund clients before the end of a billing period, because they do not pay a fee in excess of what they owe. Our clients do not pay any performance-based compensation in advance.

Neither our firm nor any of our principals or employees receives any compensation for the sale of securities or other investment products, including charges or fees from the sale of mutual funds.



### **3. Performance-Based Fees and Side-By-Side Management**

Our firm receives performance-based compensation in the form of a performance fee from our managed account clients. Please see Item 2: Fees and Compensation for an explanation of our performance-based compensation. The existence of the performance fee may create an incentive for our firm to make riskier or more speculative investments for our managed account clients than would be the case if we only received compensation based on a flat percentage of assets that we manage, because these investments may allow our firm to collect larger performance-based compensation. We do not currently manage any clients that do not pay performance-based compensation; however, in the event that we manage a fund client that does not pay performance-based compensation, our firm's investment in our fund clients will aid in aligning our interests with the interests of our fund clients so that we do not favor one client over any other client.



#### **4. Types of Clients**

Currently, our sole client is a managed account; however, we anticipate providing discretionary investment management services to pooled investment funds in the near future. Our fund clients will rely on certain exclusions from the definition of “investment company” in the Investment Company Act of 1940, as amended. Accordingly, none of our fund clients or managed accounts will be or are registered as investment companies with the Securities and Exchange Commission.

The investors in our fund clients will have to qualify as both “accredited investors,” as defined in the U.S. Securities Act of 1933, as amended, and “qualified purchasers” or “knowledgeable employees,” as defined in the U.S. Investment Company Act of 1940, as amended, and the rules thereunder, or as non-United States persons.

##### Investment Requirements

We currently provide investment advisory services to a separately managed account. We decide whether to open a separately managed account on a case by case basis.

Investors in our fund clients will generally be required to make a minimum investment of \$1,000,000. We have the discretion to, and on occasion may, accept investments for a lesser amount.

This firm brochure is not an offer to invest in our fund clients.

## 5. Method of Analysis, Investment Strategies and Risk of Loss

The majority of our clients' investments in energy and energy infrastructure companies consist of entities that trade on public markets and take the form of master limited partnerships, or "MLPs," and limited liability companies. We judge that the patient and disciplined investor can achieve superior risk adjusted returns over time by exploiting short term factors (*i.e.* lack of analysis by investors, aversion to risk, liquidity) that create discrepancies between the trading value of a security and its intrinsic value (*i.e.* undervalued security). We seek to derive profits for our clients from three sources of return:

- *Initial/Current Yield:* The cash distribution or dividend income from ownership in a security;
- *Distribution or Dividend Income Growth:* The growth of the cash distribution or dividend income stream over time; and
- *Appreciation/Loss:* The gain or loss achieved from owning a position in a security that we have identified as "undervalued."

In our view, investors place too much emphasis on current distribution/yields and do not effectively value an MLP's prospects for distribution growth. Indeed, we believe that our clients' investable universe operates less efficiently than investments in the broader market, which can present opportunities for our clients to benefit (*i.e.* mistakes by less informed market participants can drive prices to incorrect levels, creating opportunities for more skilled investors).

Historically, MLPs' distribution growth rates have varied considerably, a trend that we believe will persist given the investment opportunities that lie ahead. To that point, we believe that the primary driver for MLP investment capital appreciation comes from distribution growth. Therefore, a focus on MLP's with higher distribution growth rates can help our clients' receive attractive current distributions/dividends and offer the potential for superior risk adjusted total returns.

We employ a rigorous fundamentally driven research intensive approach to investing. This approach focuses on finding MLPs with attractive, sustainable and predictable distributions/dividends. Moreover, we evaluate the potential for distribution growth in determining the desirability of a prospective investment for our clients. We view investments as ownership interests in the underlying businesses. Accordingly, we research potential investments using the same process that a buyer employs when purchasing an entire business. We focus our research process on understanding and quantifying downside risk. We place paramount importance on capital preservation for our clients.

Key components of our investment process involve:

- *Idea Generation:* Our investment process begins with analyzing the macroeconomic environment and identifying pertinent energy market investment themes that we understand well. We maintain professional relationships with other fund managers, brokers, sell-side analysts and industry contacts. Other sources of investment ideas include attending industry and investment conferences, reading investment publications and reviewing insider buying activities. We believe that the combination of our industry relationships and investment identification process provide us with many investment opportunities that individual investors may not have access to.
- *Research, Quantitative and Qualitative Analysis:* The ultimate goal of our analytical process involves gaining an understanding of the relevant drivers of business values. In conducting this analysis, we pay particular attention to the stability of the business, the quality of the balance sheet, the talent and track record of management and the valuation of the security.

In the evaluation of a security, we obtain information from SEC filings, SEC filings of competitors, review pertinent court documents (if applicable) and have conversations with the issuer's senior management team, the senior management of competing companies, other industry participants and industry analysts. In this way, we seek to obtain an informational advantage.

Importantly, we perform rigorous financial and accounting analyses, which involve the creation of detailed financial models. We believe that our skill in properly analyzing financial statements and building thorough financial models constitutes a significant edge. These models provide important insights into projected revenues and operating cash flows relative to market expectations, as well as the ability to conduct scenario analyses.

We have unique and specific industry expertise. This expertise gives us a tremendous resource when evaluating investment opportunities in the sector and when working to enhance investment value. Moreover, the repeatable analytical process helps us identify the drivers of value and understand potential deviations from expectations and fair value. The combination of these factors and inputs aides us in investing in securities that we believe can provide a margin of safety, while limiting the risk of capital losses.

- *Recommendation & Decision Making:* The investment decision-making process consists of identifying securities which meet our criteria. We consider potential investments for our clients once the idea has been researched to the point that we have completed our investment thesis. This research covers the fundamentals of the business, the quality and experience of the management team, several valuation measures (most importantly distributable cash flows), reasons to invest and the risks of investment. If we deem the proposed investment to be worthy and the upside relative to the fundamental target price to be favorable, we will typically take a small position in the security and then, over time, aim to scale into the position. We base position sizes for our clients on our level of conviction.

- *Investment Time Horizon:* Once a position is established for a client, we will consistently re-evaluate portfolio positions to monitor changes in intrinsic and trading values. We will exit a position for a client when we believe a fair value or a better use of capital exists, or if we make a fundamental change to our investment thesis.

We determine the length of an investment's holding period by our view as to the ongoing merit of that investment relative to other opportunities. Typically, we use an investment horizon of one to three years in making investment decisions; however, we will also seek to exploit short term factors that create discrepancies between the trading value of a security and its intrinsic value.

- *Risk Management:* We place strong emphasis on risk management around our investment process. In implementing our clients' investment strategy, we strive to invest and manage our clients' assets to earn superior risk-adjusted returns, while preserving capital. We place strict emphasis on reducing volatility and controlling risk through intensive research.

We contemplate risk management considerations at both the level of the individual investment and our clients' portfolios as a whole. At the individual investment level, the prime risk consideration revolves around the sustainability of the cash distribution and position size. In evaluating the sustainability of the distribution, we utilize balance sheet analysis and financial modeling. At the portfolio level, we pay close attention to individual security weightings, sector weightings and allocations, the amount of leverage employed, as well as macroeconomic and broader market considerations.

*Temporary Defensive Strategies:* If we anticipate unusual market or other conditions, we may temporarily depart from our clients' primary investment strategy as a defensive measure, and invest all or a portion of our clients' assets in cash, investment grade commercial paper, certificates of deposit and bankers' acceptances or any other fixed income securities, ETFs, stocks, options, futures and indexes. In addition, we may use various derivatives transactions for our clients to seek to generate return, facilitate portfolio management and mitigate risks.

Despite our thorough research and analysis and comprehensive investment strategies, investing in any security involves a risk of loss that clients and investors in our fund clients must be prepared to bear. Please see below for a detailed explanation of some of the significant risks associated with the investment strategies we employ.

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.

- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and option trading can, in certain circumstances, substantially increase the impact of unfavorable price movements of our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.
- *Dependence on our Firm.* The success of our clients is largely dependent upon our firm. There is no guarantee that our firm or the individuals employed by our firm will remain willing or able to provide advice to the clients' accounts or that trading on this advice will be profitable in the future. The performance of our firm depends upon certain key personnel. If any of these personnel become incapacitated, the performance of our clients may be adversely affected.
- *Financial Markets and Regulatory Change:* The instability in global financial markets has increased the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests. Is this standard language? Seems a bit harsh

The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in the investment strategies that we utilize in advising our clients.

- *Natural Resources Risks.* Under normal circumstances, our clients concentrate their investments in the energy sector, with an emphasis on securities issued by MLPs. MLPs and other energy sector companies are subject to certain risks, including, but not limited to, the following:
  - Commodity price volatility
  - Changes in production and demand for natural resources
  - Supply constraints
  - Regulatory changes
  - Weather interruptions
  - Environmental costs and liabilities
  - Catastrophe risk

- *MLP Structure Risk.* Holders of MLP units are subject to certain risks inherent in the structure of MLPs, including (i) tax risks (described further below), (ii) the limited ability to elect or remove management or the general partner or managing member (iii) limited voting rights, except with respect to extraordinary transactions, and (iv) conflicts of interest between the general partner or managing member and its affiliates, and the limited partners or members, on the other hand, including those arising from incentive distribution payments or corporate opportunities.
- *MLP Tax Risk.* The anticipated benefit from investing in MLPs comes largely from MLPs being treated as partnerships for U.S. federal income tax purposes. As a partnership, an MLP has no U.S. federal income tax liability at the entity level. If, as a result of a change in current law or a change in an MLP's business, an MLP were to be treated as a corporation for U.S. federal income tax purposes, it would be subject to U.S. federal income tax on its income at the graduated tax rates applicable to corporations. In addition, if an MLP were to be classified as a corporation for U.S. federal income tax purposes, the amount of cash available for distribution by it would be reduced and distributions received from it would be taxed under U.S. federal income tax laws applicable to corporate distributions (as dividend income, return of capital or capital gain). Therefore, treatment of MLPs as corporations for U.S. federal income tax purposes would result in a reduction in the after-tax return to our clients.
- *Equity Securities.* We buy, on our clients' behalf, undervalued equity securities, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Because of this, our clients may suffer losses if they invest in equity instruments of issuers whose performance diverges from our expectations.
- *Small and Mid-Cap Stocks.* We may invest in small and mid-capitalization stocks on behalf of our clients. Investments in small and mid-capitalization stocks involve greater risk than is customarily associated with larger, more established companies. These companies often have sales and earnings growth rates that exceed those of large companies. These growth rates may be reflected in more rapid share price appreciation. However, smaller companies often have limited product lines, markets or financial resources, and they may be dependent upon small management teams. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general.
- *Short Selling:* We may sell short securities on behalf of our clients. Short selling of securities occurs when we borrow securities, promising to buy them at a later date. If the price drops, we can buy the securities at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at the higher price, and the investment loses money.

Buying the securities can itself cause the price of the securities to rise further which would exacerbate the potential for loss.

- *Options:* We may take long or short positions in call and/or put options on behalf of our clients. There are risks associated with the sale and purchase of options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period. A seller of an uncovered option may have to pay substantial additional margin, and bears an unlimited risk of loss, since the seller must deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.
- *Leverage/Borrowing.* Subject to applicable margin and other limitations, we may borrow funds in order to make additional investments for our clients. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Derivatives:* At times, we may invest in derivative contracts on behalf of our clients. A derivative is a financial instrument that is a contract between two parties, the value of which is linked to another security or commodity, or an “underlying asset.” Some of the derivatives in which we may trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs.

Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the price

of the underlying asset can result in a loss to our clients that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in a derivative contract. Finally, derivative contracts present additional risks because, ultimately, their success depends in part on the counterparty's financial condition, that is, the counterparty's ability to turn over the cash flow it promised.

- *Illiquid Investments:* From time to time we may make illiquid investments on behalf of our clients. Illiquid investments are investments that are not heavily traded and cannot easily be converted to cash. If any of our clients requires cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.
- *Convertible Instruments.* Our clients may invest in convertible instruments. A convertible instrument is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a certain amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible debt instruments have characteristics of both fixed income and equity investments. Our clients may invest in convertible instruments that have varying conversion values. If a convertible instrument is called for redemption, our clients will be required to permit the issuer to redeem the instrument, or convert it into the underlying stock, and our clients will then hold the stock to the extent we determine that the equity investment falls within the investment objective of our clients.
- *Foreign Securities:* We may invest in foreign securities on behalf of our clients. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients' income.

We do not recommend primarily any single type of security. Our clients' generally hold a diverse range of investments, yet we still encourage our clients as well as their investors to consider all of the risk factors we have described above. Any investment can be risky and our clients and investors in our fund clients must be prepared to assume any potential loss.



## **6. Disciplinary Information**

Neither our firm nor any of our management persons has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any of our management persons has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither our firm nor any of our management persons has been subject to a proceeding before any self-regulatory organization.

## **7. Other Financial Industry Activities and Affiliates**

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

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above; however, our firm and Lucror Energy and Infrastructure Growth and Income GP, LLC, an affiliate of our firm, are each exempt from registration as a commodity pool operator and a commodity trading advisor pursuant to the Commodity Exchange Act Rule 4.13(a)(3).

We anticipate managing the following master-feeder fund structure in the near future, which are our related persons:

- Lucror Energy and Infrastructure Growth and Income Fund, L.P.;
- Lucror Energy and Infrastructure Growth and Income Offshore Fund, Ltd.;  
and
- Lucror Energy and Infrastructure Growth and Income Master Fund, L.P.

Lucror Energy and Infrastructure Growth and Income GP, LLC, an affiliate of our firm, acts as the general partner to Lucror Energy and Infrastructure Growth and Income Fund, L.P. and Lucror Energy and Infrastructure Growth and Income Master Fund, L.P.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest or have other business relationships with them that create a material conflict of interest.

## **8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We have adopted a Code of Ethics in accordance with the Securities and Exchange Commission requirements under Rule 204A-1 of the Investment Advisers Act of 1940, as amended. Our Code of Ethics works to ensure that our principal and employees act in accordance with our firm's fiduciary duty to our clients and ensures that our principal and employees act in a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. Our Code of Ethics prohibits personal trading on individual equity securities by individuals on our investment team, and investments made by any person covered by our Code of Ethics while in possession of material, non-public information. We also require preclearance before purchasing authorized investments for a personal securities account of individuals on our investment team. We also require all persons covered by our Code of Ethics to submit periodic reports of securities holdings and transactions. We require prompt internal reporting to our Chief Compliance Officer of any violation of our Code of Ethics. This paragraph only represents a summary of key provisions in our Code of Ethics. We provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our fund clients that requests one.

Principals and employees of our firm do not recommend to clients, nor do they buy or sell for client accounts, securities in which they have a material financial interest.

Principals and employees of our firm do not buy and sell for themselves securities that they also buy and sell for our clients.

## 9. Brokerage Practices

We will have complete investment and brokerage discretion over our clients' accounts; however, our current managed account client specifies the broker-dealer to be used for executing transactions for its account. In selecting broker-dealers and determining the reasonableness of their commissions for our fund clients' transactions, our firm will seek to obtain the best execution for our fund clients' portfolios and we will take into account the following factors:

- The broker-dealer's ability to effect prompt and reliable executions at favorable prices (including the applicable profit or commission, if any);
- The operational efficiency with which transactions are effected, considering the size of the order and difficulty of execution;
- The financial strength, integrity and stability of the broker-dealer;
- 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 broker-dealers that satisfy our selection criteria.

We Have the Authority to Utilize Research and Other Soft Dollar Benefits. We are authorized to pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us or our affiliates with certain investment and research information. Research services furnished by broker-dealers 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. We are not required to weigh any of these factors equally.

In addition to research services, we may be offered other non-monetary benefits by broker-dealers. These benefits may take the form of incidental meals and entertainment, quotation services and all other trading related expenses.

We have the option to use "soft dollars" generated by our clients to pay for the research and non-research related services described above. The term "soft dollars" refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment manager. 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, provides a “safe harbor” to investment managers 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 manager in the performance of investment decision-making responsibilities. The products that we may use soft dollars to obtain include company-specific research reports, industry research reports, access to the analysts who write the reports, corporate access events such as conferences where we access the management teams of the companies in which we invest for our clients. In the event that we elect to use soft dollars, we intend to limit our soft dollar use to services that fall within the safe harbor afforded by Section 28(e) of the United States Securities Exchange Act of 1934, as amended.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. If we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients’ interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research services and to pay for other costs and expenses that our firm might otherwise incur creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

We May Consider Referrals in Selecting or Recommending Broker-Dealers. We direct execution business to broker-dealers partially-based on the referral of clients. This presents an inherent conflict of interest, as we might have an incentive to direct business to brokerage firms with low-quality or high-cost execution. However, we mitigate this conflict due to the fact that the brokers that provide us with client referrals generally offer our firm the lowest-cost execution of any brokers we do business with.

Our Clients Do Not Direct Brokerage. Our current managed account client has directed us to execute transactions through a specified broker-dealer due to their existing relationship with this broker-dealer. Because our current managed account client directs the brokerage transactions for their account, we may be unable to achieve most favorable execution for their transactions, and this practice may cost our managed account client more money. For example, in a directed brokerage account, the managed account client may pay more higher brokerage commissions because our firm may not be able to aggregate orders with our fund clients that we expect to manage in the near future to reduce transaction costs, or our current managed account client may receive less favorable prices on its securities transactions through the directed brokerage relationship.

Our firm will not recommend, request or require that a fund client, nor do we permit a fund client to, direct us to execute transactions through a specified broker-dealer.

Because we currently manage only a single managed account client, we do not currently aggregate trade orders, and any research services obtained from brokers are allocated to the managed account clients. When, in the near future, we begin to manage our fund clients that have the same investment program of that of our current managed account client, we will attempt to conduct all transactions in the same securities as close to simultaneously as possible and, if possible, allocate research pro rata. We also seek to execute orders for all clients on an equitable basis. Since our current managed account client has directed us to use a specific broker for its transactions that is different from the broker we intend to use for our fund clients, we will be unable to aggregate trade orders for all of our clients investing in the same security.

## **10. Review of Accounts**

Our principal, Richard J. Roy, reviews our current managed account client on daily basis or as triggered by economic and market conditions. Where applicable, these reviews include an assessment of daily profit and loss reports with respect to our client's investment positions. Mr. Roy evaluates our clients' investments in a manner consistent with the investment goals of our clients.

We will also review accounts in certain extraordinary events, such as natural disasters, extreme political and economic events (i.e. a market crash) and any other event we believe creates abnormal market conditions. See the paragraph immediately above for a description of the other factors that may trigger reviews of client accounts.

Our current managed account client has the ability to check account balances, transactions and profit and loss of its account daily through its broker-dealer's website, and receives quarterly written account statements from the broker-dealer.

We intend to provide investors in our fund clients with monthly and/or quarterly reports reviewing our fund clients' performance for each period.

## **11. Client Referrals and Other Compensation**

We may receive certain economic benefits from broker-dealers and prime brokers which we conduct business with that might not be received otherwise. These benefits may include: company-specific research reports, industry research reports, access to the analysts who write the reports, corporate access events such as conferences where we access the management teams of the companies in which we invest for our clients. While broker-dealers generally provide these products and services at no additional cost, we may select certain broker-dealers due to receipt of these services. We address this conflict of interest by always seeking best execution from broker-dealers for our fund clients' transactions regardless of the products and services provided to us by the broker-dealers.

Our firm does not, nor do any principals or employees of our firm, compensate any person for client referrals.



## **12. Custody**

We do not custody the assets of our managed account clients. These clients receive access to their account statements directly from their custodians and should review them carefully. They should compare the account statements from their custodians with any reports that we send them.

Due to the access we will have to our fund clients and authority to deduct fees and other expenses from a fund client's account, we will be deemed under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, to have custody of the clients' funds.

In order to comply with Rule 206(4)-2, we will utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of these clients. We will also ensure that the qualified custodian maintains these funds in accounts that contain only clients' funds and securities.

When we open an account for a fund client under its name as agent or trustee, we will notify the client in writing of the qualified custodian's name and address and the manner in which the funds or securities are maintained, and also notify them in writing of any changes. In addition, we will maintain a separate record for each account which shows the dates and amount of all deposits and withdrawals and a list of each client's beneficial interest in the account.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we will not be subject to this requirement with respect to our fund clients because all fund clients managed by our firm will be subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we will distribute audited financial statements to all investors in our fund clients within 120 days of the end of the fiscal year of the client.

### **13. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, and, for our fund clients that we expect to manage in the near future, the broker through which we effect trades and the commission rates at which we effect trades. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' offering documents and/or managed account agreements. These documents cover matters such as the types and amounts of securities of which a client's portfolio will consist and the degree of risk assumed by a client's portfolio.

Prior to providing investment advice to a managed account client, we require each client to appoint us as agent and attorney-in-fact of its portfolio. This gives us complete discretionary authority to buy and sell any investment securities and instruments in the amounts and at the prices that we determine, subject to any limitations that may be imposed in certain client's managed account agreements.

Before accepting their subscriptions for interests in or shares of a fund client, we will provide all potential investors with an offering document that sets forth, in detail, our investment strategy and program for the fund client. By completing our subscription documents to acquire an interest or shares in one of our fund clients, investors give us complete authority to manage their investments in accordance with the offering document that they each received.

#### **14. Voting Client Securities**

Because clients have delegated the power to vote their securities to our firm, we have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We always strive to vote client proxies in a manner consistent with each client's best interests. Our officers, directors and employees will not be influenced by outside sources whose interests conflict with our clients' interests. We vote in a manner that we believe reasonably furthers the best interests of the client and is consistent with the client's investment philosophy as set forth in the relevant investment management documents.

If a proxy vote creates a material conflict between our interests of and the interests of a client, we will resolve the conflict before voting the proxies. We 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 our determination of the client's best interest and was not the product of the conflict. We maintain records of how we vote all proxies on behalf of our clients. These records are available to the clients, including any investor in a fund client, upon request.

## **15. Financial Information**

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.