

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



**Northwater Capital Management Inc.**

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This brochure provides information about the qualifications and business practices of Northwater Capital Management Inc. ("**Northwater**"). If you have any questions about the contents of this brochure, please contact us at (416) 360-5435. 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.

Northwater is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

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

## **Item 2 Material Changes**

This brochure, dated March 30, 2016, is the updated disclosure document of Northwater Capital Management Inc., prepared according to the requirements of the Securities and Exchange Commission.

The following are material changes since Northwater's last annual update of this brochure on March 30, 2015:

- As of March 1, 2016, Northwater changed its Chief Compliance Officer from Jennifer Schwartz to Shauna Cassidy.
- On March 22, 2016, Northwater received notice from its large, sophisticated non-US pension plan client on behalf of which Northwater manages a segregated account providing exposure to commodities that this client will be terminating this mandate with effect as of June 30, 2016.
- Northwater continues its efforts to wind down its fund of hedge funds business and distribute the proceeds of such liquidations to Northwater's investors. Northwater will continue to work with clients throughout 2016 to manage the liquidation process.
- As of January 29, 2016, all the units of Four Quadrants Fund were redeemed and the Four Quadrants Fund was terminated.

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#### **Item 4 Advisory Business**

Northwater is an internationally recognized investment firm formed in January 1989 and based in Toronto, Ontario, Canada. Northwater employs a team of 21 individuals, including ten investment professionals, in its Toronto and Chicago offices. Northwater offers investment advisory services to (1) private investment funds; (2) pension plans; (3) other corporate or business entities; and (4) certain high net worth individuals.

Northwater is indirectly wholly owned by David G. Patterson.

This brochure and the material contained herein is not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of any of the funds described.

##### Intellectual Property/Venture Capital

Northwater advises private investment funds with respect to the selection of private equity, venture capital and other types of investments that derive a significant portion of their value from or that have direct or indirect exposure to intellectual property assets, including patents and other forms of intellectual property. Northwater currently advises three intellectual property funds with \$420 million in assets under management.

##### Segregated Accounts

Northwater also advises clients that establish private investment accounts. Northwater currently manages \$402 million in one segregated account for a large and sophisticated non-US pension plan client. The mandate of the account is to assist with the selection of exchange-traded futures contracts and exchange-traded funds with a view to creating a balanced diversified portfolio providing exposure to commodities with minimal volatility. On March 22, 2016, Northwater received notice from this client that they will be terminating the Investment Management Agreement in respect of this mandate with effect from the close of business on June 20, 2016.

##### Proprietary Trading

Northwater advises a private investment trust with respect to the selection of exchange-traded futures contracts and exchange-traded funds with a view to creating a balanced diversified portfolio with minimal volatility. This investment trust currently holds only assets of David G. Patterson, the Chair and founder of Northwater, and the assets of one of Mr. Patterson's family members.

##### Funds of Hedge Funds

Northwater continued to make progress in the process of winding down its remaining traditional fund of hedge funds business. All of the remaining private investment companies advised by Northwater in connection with the selection and monitoring of potential hedge fund investments are currently being liquidated with a view to returning cash proceeds to the investors in such private investment companies as soon as possible, subject to the liquidity of the underlying hedge fund managers. Northwater seeks in all cases to balance the timeliness of the return of capital to investors without sacrificing the value achieved in such liquidations of illiquid holdings of the underlying hedge funds held in the various remaining portfolios.

Northwater's business focuses on the advisory services provided by Northwater to private investment funds in the firm's intellectual property focused private equity / venture capital business described above along with the balanced portfolio investment strategy employed in the Segregated Accounts and the Proprietary Trading platform described above.

Discretionary management for the funds and segregated accounts is provided in accordance with the investment objectives indicated in either the relevant offering documents or the relevant investment management or investment advisory agreements.

Northwater currently does not participate in wrap fee programs.

As of December 31, 2015, Northwater managed approximately \$720.6 million of client assets on a discretionary basis.

## Item 5 Fees and Compensation

### Fee Schedule:

#### **Intellectual Property/Venture Capital**

##### Northwater Intellectual Property Fund L.P. 1/Northwater Intellectual Property Fund L.P. 2

#### **Management Fee:**

2% per annum of the net asset value of the fund payable quarterly in arrears.

#### **Carried Interest:**

20% of all amounts otherwise distributed to investors after the return of the aggregate capital contributions of investors.

##### Northwater Intellectual Property Fund L.P. 3A

#### **Management Fee:**

2% per annum of the net asset value of the fund payable quarterly in arrears.

#### **Carried Interest:**

20% of all amounts otherwise distributed to investors after the return of the aggregate capital contributions of investors and a hurdle rate.

#### **Segregated Accounts**

#### **Asset Based Fee:**

1% per annum of the net asset value of the account on the first \$100 million committed payable quarterly in arrears (subject to reduction as the client commits additional funds to the account).

In certain limited circumstances, Northwater may consider alternative fee arrangements. For example, for private investment fund clients and for private accounts investing in private funds, Northwater may charge a higher asset based fee in lieu of a performance fee. Performance fees charged by Northwater comply with Rule 205-3 under the Investment Advisers Act of 1940, as amended, to the extent applicable.

#### **Fund of Hedge Funds**

#### **Asset Based Fee:**

1% per annum of the net asset value of the fund payable quarterly in arrears.

In relation to the funds under Northwater's management, Northwater is entitled to deduct fees from the clients' assets by issuing an authorized notice to the fund administrator. The fund administrator will then verify that the calculation methodology is consistent with the governing documents and that the

calculations have been performed correctly. The fund administrator will then authorize payment of the fees.

In relation to the segregated accounts advised by Northwater, Northwater receives payment for its fees directly from the investor by issuing an invoice to the investor.

Fund investors may also incur fees and expenses, other than management fees and performance fees including, but not limited to: (1) legal, accounting and operational fees incurred by the fund, (2) brokerage commissions and securities transaction costs, (3) fees and expenses of the administrator and custodian and (4) in certain circumstances, organizational expenses incurred in connection with the formation and organization of the fund. For additional information regarding brokerage costs, please see Item 12 below.

All fees charged to clients are payable in arrears.

Neither Northwater nor its supervised persons accepts compensation for the sale of securities or other investment products.

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

Northwater receives performance based compensation from certain clients as set forth in Item 5 above. As described above, Northwater provides investment advisory services to certain clients that are charged a performance based fee and to certain clients that are only charged an asset based fee.

Currently, the only funds that Northwater manages which do not pay performance based fees are those funds in the process of liquidation and the segregated accounts managed by Northwater that seek to provide a balanced, diversified exposure to commodities markets.

Northwater will focus on providing advisory services to private investment funds in Northwater's intellectual property focused private equity / venture capital business. The funds for which Northwater provides advisory services each pay Northwater based on the same fee schedule for both asset based fees and performance fees.

To the extent that Northwater charges a performance fee for a particular client account or investment fund, Northwater may be perceived to have an incentive to maximize gains in that account (and, therefore, maximize Northwater's performance fee) by making investments for that account that are riskier or more speculative than would be the case in the absence of a performance fee. Northwater may charge different advisory fees to investment funds and/or separately managed accounts that it advises. This may create a potential conflict of interest in that it may be more beneficial to Northwater to direct certain investment opportunities to an investment fund or account in which it has a higher performance fee or management fee structure or by devoting more resources to the management of those funds or accounts. Northwater seeks to mitigate the conflicts which may arise from managing investment funds and accounts that charge different advisory fees by monitoring and enforcing its policies and procedures, including those related to fairness in investment allocations.

Funds in the process of liquidation pay only asset based fees to Northwater. Northwater faces a potential conflict of interest in the incentive for Northwater to allocate a disproportionate amount of time to advising those funds which are still paying a performance fee. Northwater manages this conflict by acknowledging its fiduciary duty to act in the best interests of the funds that are in the process of liquidation and committing to devote such time and attention to the funds in liquidation as is required to conduct an orderly liquidation of the funds and preserve the value of their remaining assets.



## **Item 7 Types of Clients**

As described in Items 4 and 5 above, Northwater provides investment advice to pension plans, certain high net worth individuals related to the Chair and CEO and other private organizations. Northwater also provides advice to certain trusts, limited partnerships and corporations in which pension plans, certain high net worth individuals related to the Chair and CEO and other private organizations have made an investment. Northwater also provides investment advice to certain high net-worth individuals, all of which has been limited to the friends and family of Northwater's principals.

Each private investment fund advised by Northwater has minimum investment requirements as set forth in its respective offering documents.

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

Northwater is an internationally recognized investment firm that manages more than \$720.6 million as of December 31, 2015 in intellectual property focused private equity / venture capital strategies, segregated accounts and market-neutral funds of hedge funds, for sophisticated institutional investors. The market-neutral funds of hedge funds strategy is currently in the process of being wound down as described in Item 4 above and no new investments are being made in such strategies. The Four Quadrants Fund was terminated as of January 29, 2016. The segregated account designed to provide risk-based exposure to commodities will be terminated as of June 20, 2016. The intellectual property focused private equity / venture capital strategy is further described below.

### **Intellectual Property**

This strategy involves investing in, holding, selling and otherwise dealing in a diversified portfolio of intellectual property assets. The intellectual property assets are expected to derive their value from direct investment in, economic exposure to, or commercialization of, patents and other types of intellectual property. As part of this investment strategy, client assets will generally be invested in assets of the type contemplated below. Investments are made in companies that derive a substantial portion of their value from intellectual property that they hold. Northwater also expects to consider investments either directly or indirectly in intellectual property and to take an active role by advising with respect to the development of these investments with a view to increasing the value of intellectual property assets in which its clients invest. Northwater will seek to diversify the intellectual property portfolio across a spectrum of intellectual property assets, including, without limitation:

- Securities of public or private companies that derive a significant portion of their value from intellectual property;
- Securities of private investment vehicles (including companies, partnerships, trusts, etc.) that hold or manage intellectual property portfolios;
- Financing transactions related to intellectual property assets (such as advances and/or loans to entities managing portfolios of intellectual property assets, including patents);
- Trade secrets;
- Patents, including the negotiation of royalty agreements for patents; and
- Patent rights agreements including the assertion of intellectual property rights in patents.

This list is provided for illustrative purposes. Client assets are not expected to be invested in every type of intellectual property asset listed above and may invest in intellectual property assets that are not listed, including new and emerging forms of intellectual property.

Client assets may be temporarily invested in cash pending investment or distribution in high quality, liquid short-term investments, including money market funds.

### **Material Risk Factors**

***Loss of Investment.*** Investing in the aforementioned strategy should be considered speculative and involves the risk of loss or all or a part of a client's investment.

***Limited Ability to Dispose of Investments.*** Given the long-term and illiquid nature of the investments contemplated by the investment strategy, there is a significant risk that a client will be unable to sell any particular asset (or otherwise complete any monetization or other exit strategy as to the asset) at an attractive price and/or on its desired timetable. These risks could arise, for example, from changes in the financial condition or prospects of particular companies or intellectual property assets, changes wrought

by emerging technologies, the impact of advances in intellectual property similar in nature to and competing with the intellectual property assets, changes in national or international economic conditions, and changes in laws, regulations, fiscal policies or political conditions of countries in which investments are made. In addition, it is unlikely that there will be a market for the assets held by a client. Trading in intellectual property assets is typically effected only after both extended efforts to identify potential buyers and “one-on-one” negotiations of terms. In some cases, a client may be prohibited by contract from selling an intellectual property asset for a period of time or otherwise be restricted from disposing of its investment. Trading in intellectual property assets is unregulated and, for intellectual property assets that are not securities, is not expected to be subject to the protections of the securities laws.

***Potential for Unprotected Property Rights.*** The value of an intellectual property asset can be significantly influenced by the legal regime available to the owner of an asset seeking to enforce relevant property rights and by various political events affecting that regime. In particular, an asset’s value will be reduced to the extent the owner’s property rights in the asset cannot be effectively enforced against infringers. While principles and legal procedures of enforcement in developed, industrialized economies are relatively well established, the enforcement of such rights in developing economies may be highly uncertain. In addition, legal protections available in all markets require affirmative efforts and the commitment of resources on the part of property owners to effect enforcement and are subject to technical interpretation and legal challenge.

***Industry-Specific Intellectual Property Considerations.*** Certain types of intellectual property are subject to risks specific to their industry. For example, the value of some intellectual property, such as music, film, entertainment, print and art copyrights, is significantly affected by changing consumer tastes and technology advances, which can be difficult to predict. Also, for example, some intellectual property, especially in the green energy, energy storage, medical devices, medical, pharmaceutical and biotech industries, is dependent on approvals from regulators and faces government regulation and limits on reimbursement rates. The inability to obtain or maintain such approvals may significantly impair the value of an intellectual property asset. Intellectual property assets in the medical, pharmaceutical and biotech industries are subject also to the risks of potentially undesirable side-effects experienced by users of the relevant products. Those risks include public relations concerns and/or the prospect of litigation. Certain types of intellectual property face intense competition. For example, the green energy, energy storage, medical devices, software, pharmaceutical and biotech industries are highly competitive and rapidly evolving. The length of any product’s commercial life, including that of any product in which a client may own a royalty, cannot be predicted. There can be no assurance that any intellectual property that a client owns will not be rendered obsolete or non-competitive by new intellectual property or by new products or improvements made to existing products, either by the current marketer of the product or by another manufacturer. If a product in which a client owns a royalty is rendered obsolete or non-competitive by new products or improvements on existing products, such developments could have a material adverse effect on a client’s investment performance.

While Northwater will devote its best efforts to the management of a client’s portfolio, there can be no assurance that such client will not incur losses. Many unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp fluctuations in the value of the royalties.

***Other Intellectual Property Considerations.*** Intellectual property generally has limited value in and of itself. To the contrary, “unlocking” the value of an intellectual property asset typically requires complementary assets, such as production capability, a trained workforce and/or distribution networks. For these and other reasons, intellectual property can be expensive to bring to market effectively. There can be no guarantee that complementary assets will be effectively leveraged (or even available) in respect of the intellectual property assets in which a client invests. In addition, regardless of the availability of

complementary assets, some intellectual property will not make the transition from development to cost-effective commercial application. This may result from technical weaknesses, incompatibility with existing infrastructure or market practices, limited adoption by consumers or for other reasons. Finally, every intellectual property asset is subject to the risk of commercial displacement by competitive intellectual property, whether currently existing or developed in the future. The pace of obsolescence cannot be predicted and can be rapid. There can also be no assurance that the better technology embodied in intellectual property will prevail in a competitive market where there are other factors at work.

***Participation in Litigation.*** A client may participate in patent rights or other intellectual property litigation and may do so either as plaintiff (or by providing financing to the plaintiff) to enforce rights to which it believes the plaintiff is entitled or as a defendant in cases when another party claims infringement of that party's rights. Among other risks, litigation is complex. It requires consideration of a variety of procedural, strategic and other matters, and the skills required to understand those considerations differ significantly from those applicable to managing an investment portfolio. Because litigation can be of uncertain duration and may extend for many years, the financial and administrative burdens of prosecuting (or defending) a litigation claim – including costs represented by adverse publicity and other management distractions – are difficult to predict. A client may invest a substantial portion of its assets in one or more litigations that may not have a successful outcome. Prosecuting a litigation claim also exposes a client to the risk of countersuits.

***Significant Investments in Individual Companies.*** Northwater at times may advise a client to take significant positions in the companies to which such client has committed resources. Those interests may be represented by either direct debt or equity investments in a company or by holdings in intellectual property assets significant to a company. In these cases, a client may obtain the right, among other things, to appoint a representative or observer to the company's board of directors or to exercise special voting privileges on various corporate matters. Depending on the particular factual circumstances, such client's interest in a company may be deemed to represent control of the company, which may limit such client's rights upon the company's bankruptcy, may limit the manner in which the client may dispose of its interest in the company, and may expose the client to claims by other interested parties, including creditors and government agencies.

***Product Liability Claims.*** The manufacturers, developers or marketers of products in which a client owns royalties could become subject to product liability claims. A successful product liability claim could adversely affect the amount of revenues payable to such client on the particular royalty. Although Northwater does not believe that a client will bear responsibility in the event of a product liability claim against the company manufacturing, marketing and selling the underlying products, there can be no assurance that such claims would not materially and adversely affect such client's investment performance.

**Item 9 Disciplinary Information**

As of the date hereof, Northwater has no disciplinary information to report pursuant to this Item 9.

## Item 10 Other Financial Industry Activities and Affiliations

Northwater is registered as a commodity pool operator and a commodity trading adviser with the Commodity Futures Trading Commission and is also a member of the National Futures Association. Affiliates of Northwater act as general partner to certain limited partnerships for which Northwater acts as investment adviser. These limited partnerships have been formed under the laws of the State of Delaware. Certain of these limited partnerships invest in portfolios of intellectual property assets.

Northwater is registered as (i) an investment fund manager in the province of Ontario; (ii) a dealer in the category of exempt market dealer in the provinces of Ontario, British Columbia, Alberta and Saskatchewan; (iii) an adviser in the category of portfolio manager in the provinces of Ontario, British Columbia, Alberta, Saskatchewan and Québec; and (iv) an adviser in the category of commodity trading manager under the *Commodity Futures Act* (Ontario).

Northwater has been granted an exemption under paragraph 911A(2)(1) of the Australian Corporations Act 2001 by the Australian Securities and Investments Commission (“ASIC”) from the requirement to hold an Australian financial services license. The decision of ASIC was printed in the Commonwealth of Australia Gazette ASIC 35/06, Tuesday, 5 September 2006. The exemption is contingent on Northwater’s continued registration as an investment adviser in the United States with the Securities and Exchange Commission.

## Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Northwater's Code of Ethics is intended to address its commitment to the maintenance of high standards of conduct and professionalism for all of its employees, officers and directors.

The general principles governing Northwater's Code of Ethics, and that pertain to the fiduciary duties of Northwater and its employees, include the following:

- 1) the duty to place the interests of Northwater's clients first;
- 2) the duty to act in a professional and ethical manner;
- 3) the duty to act with independence and objectivity;
- 4) the duty to act with skill, integrity, competence and diligence;
- 5) the duty to communicate with clients in a timely and accurate manner;
- 6) the requirement that all personal securities transactions be conducted in such a manner as to be consistent with Northwater's Policy on Personal Securities Transactions and Additional Prohibitions;
- 7) the fiduciary principle that investment advisor personnel should not take inappropriate advantage of their positions;
- 8) the fiduciary principle that information concerning the identity of the holdings and financial circumstances of clients is confidential;
- 9) the obligation to uphold the applicable rules governing capital markets to which the Registrant is subject; and
- 10) the principle that independence in the investment decision-making process is paramount.

Northwater's Code of Ethics deals with a variety of issues, including fiduciary duties, personal securities transactions, insider trading, gifts, conflicts of interest, corporate responsibility, anti-money laundering, press and media dealings and other related issues.

A copy of Northwater's Code of Ethics is available to any client or prospective client on request.

From time to time, a related person of Northwater may make an investment in a private investment company or an investment trust (an "**Investment Vehicle**") for which Northwater or a related person serves as investment manager, as the case may be. An investment in any such Investment Vehicle may also be recommended to clients, subject to their receiving appropriate disclosure. Northwater and/or its related persons may recommend to clients that they buy or sell interests in the same investment products in which it, or its related persons may have a financial interest, including ownership and Northwater and/or its related persons may own, buy or sell for themselves the same interests in the same investment products that they may have recommended to clients.

### **Investment of Northwater's Capital**

Northwater or related persons may invest their own capital in investment products in which its clients may also have made investments. Such investments are typically made on the same terms as those of its clients. Northwater or related persons and consultants to Northwater may also invest their own capital in securities in which an investment has been made by private investment funds advised by Northwater. In addition, certain legacy investments in securities in which private investment funds advised by Northwater are also invested may have been made by consultants prior to their association with affiliates of Northwater.

### **Northwater's Participation as General Partner**

From time to time, Northwater or related persons may provide investment advice to limited partnerships formed to invest in private securities. Northwater or its related persons may be a limited partner or act as the general partner. In these cases, the general partner will receive a portion of the profits of the partnership once a return to partners has been obtained.

### **Other Private Equity Program Participation by Employees**

Certain consultants of Northwater or related persons may purchase securities in non-public transactions. Thereafter, Northwater or related persons may recommend the purchase of securities of the same issuers for private investment funds in which its clients are invested. In this event, the consultant who made a personal investment in a non-public transaction of such issuer will not participate in the consideration of whether Northwater's clients should invest in that issuer's securities. Such consideration will be subject to independent review by Northwater's investment personnel having no personal investment in the issuer. All purchases made by employees, officers or directors of Northwater are subject to the standards of Northwater's Code of Ethics. (See above.)

Northwater employees are permitted to trade their own accounts. However, Northwater has established certain policies governing securities transactions of its employees that are designed to minimize conflicts of interest by requiring pre-clearance of certain transactions. Specifically, a Northwater employee may not engage in any investment transaction under circumstances in which the Northwater employee benefits from or interferes with the purchase or sale of investments on behalf of a Northwater client, use information concerning the investments or investment intentions of Northwater on behalf our clients, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of any Northwater client; or trade in a "covered security" without the appropriate pre-clearance.

In addition, for the purposes of Northwater's intellectual property funds and its go forward business, Northwater has appointed its Chief Legal Officer to sit on the Investment Committee.



## Item 12 Brokerage Practices

Northwater typically has the authority to determine, without obtaining specific client consent, the securities to be bought and sold, the amount of the securities to be bought or sold, the broker or dealer to be used, if applicable, and the commission rates to be paid on behalf of each client.

Otherwise, Northwater expects that generally, its clients will not use brokers or dealers for their portfolio transactions. Purchases and sales of portfolio securities for clients will usually be principal transactions directly with the issuer or an underwriter or market maker for the securities. Purchases from underwriters may include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers will include the spread between the bid and asked prices.

In certain instances, however, Northwater may use futures commission merchants or broker/dealers.

In selecting broker/dealers for client securities transactions, Northwater will work to obtain the best available price and execution. Northwater will not, however, base execution decisions solely on whether the lowest possible commission costs may be obtained. Northwater also evaluates the various broker/dealers and the services they provide, including their credit strength, reliability and integrity, execution capability (including transaction terms), ability to reconcile transactions electronically, willingness to take positions in securities, operational capabilities and their ability to transact in global markets as well as any other matter that may be relevant in the selection of a broker or dealer. Northwater does not pay any referral fees to third party entities for introducing new clients to Northwater.

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

The trading activity of the portfolios managed by Northwater is reviewed on a regular basis by senior portfolio managers assigned to the portfolio in question. Reviews are conducted on an account by account basis and with the help of computer support systems, on a security holding and performance exception basis.

Portfolios may be rebalanced daily, weekly and/or monthly depending upon the mandate involved.

Trading is also reviewed on a periodic basis by non-trading personnel to ensure that portfolio mandates are adhered to. The frequency of review depends on the nature of the account.

The finance and risk management group also monitors investment activity on a daily basis, reconciling investment transactions and resulting positions with statements provided by trust companies and brokers. Discrepancies are noted and resolved in a timely manner, and senior management is appropriately involved.

In addition to ensuring compliance with the terms of each investment mandate, senior management of Northwater monitors investment decisions and results relative to additional stringent measures imposed by the firm to augment the investment terms constraints. Compliance monitoring occurs for each sensitive component for each portfolio, including leverage, credit exposure, currency position and asset allocation. Results are reviewed by senior management, who ensure that discrepancies are resolved on a timely basis.

Trade authorization and the movement of cash into and out of investor trust and custody accounts are restricted to qualified investment personnel named in certificates of incumbency that Northwater provides to trust companies and custodians, and are subject to other limitations. The certificates of incumbency are reviewed on a periodic basis.

Internal reports are designed for the purpose of compliance monitoring and other risk management requirements. Each report is reviewed by senior management to ensure that any errors or other discrepancies are identified and appropriately addressed.

External written reports and statements are produced periodically, at month end and/or quarter end, depending upon the terms of the investment mandate, including with respect to the liquidating portfolios. Intended for investors and/or the trust companies and custodians involved, these reports contain details of investment transactions, subscriptions or redemptions, exposures and positions, income and expenses, and other financial information relevant to the investment as appropriate. Reports may also contain an attribution analysis. Each report and statement is reviewed by the risk management group for correctness and completeness before being released to the client. The private funds advised by Northwater provide investors with annual audited financial statements.

**Item 14 Client Referrals and Other Compensation**

As of the date hereof, Northwater has no client referrals or other compensation to report in this Item.

## Item 15 Custody

For all segregated accounts, Northwater does not take custody of client accounts at any time. Accounts are custodied at the various firms that hold client accounts. Such firms are “qualified custodians” as that term is defined in Rule 206(4)-2(d)(6) of the Investment Advisers Act of 1940. Northwater believes based upon due inquiry that all segregated account clients receive written statements directly from their custodian no less frequently than quarterly. Northwater encourages its segregated account clients to compare information contained in reports provided by Northwater with the statements provided by their custodian.

For the Intellectual Property/Venture Capital private investment funds, Northwater is deemed to have custody because affiliates of Northwater act as the general partner to the funds. Each private investment fund will be audited at least annually by an independent public account and Northwater will distribute the audited annual financial statements (prepared in accordance with U.S. generally accepted accounting principles) to the investors in each private investment fund within 120 days of each fund’s fiscal year end.

In addition, pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940, Northwater may be viewed for regulatory purposes as having custody of certain client assets due to Northwater’s ability to deduct fees directly from certain client accounts.

**Item 16 Investment Discretion**

Northwater has discretionary authority to buy and sell securities for client accounts without obtaining specific client consent pursuant to authority granted to it by certain investment management and investment advisory agreements. Northwater's discretionary authority is limited by the investment objectives set forth in the relevant offering documents or investment management or investment advisory agreement, as applicable.

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

Northwater has adopted policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 under the Investment Advisers Act. Most of the accounts managed by Northwater generally do not include securities for which proxies are regularly solicited. Nonetheless, these policies and procedures are designed to ensure that proxies received with respect to securities in client accounts where Northwater exercises voting discretion, if any, are voted in the best interests of such clients and that Northwater maintains records of its proxy voting in compliance with the Investment Advisers Act. Unless otherwise instructed by a client, Northwater will vote client proxies consistent with general guidelines that Northwater has adopted and that it believes reflect the best interests of its clients, after taking into consideration all relevant facts and circumstances at the time of the vote. Northwater will provide to any client at no cost a copy of these voting policies and procedures and information regarding how such client's proxies have been voted in the past. Clients wishing to receive this information should contact Northwater by telephone during normal business hours.

**Item 18 Financial Information**

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