

## **Context Capital Management, LLC**

Business address: 2223 Avenida de la Playa, Suite 300  
La Jolla, CA 92037

Contact: Michael S. Rosen  
[mrosen@contextfunds.com](mailto:mrosen@contextfunds.com)  
858.481.3666 x1

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This brochure provides information about the qualifications and business practices of Context Capital Management, LLC ("CCM"). If you have any questions about the contents of this brochure, please contact us at 858.481.3666. 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 CCM is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

CCM is an investment adviser registered with the SEC. This registration does not imply a certain level of skill or training.

## **Item 2            Material Changes**

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Item 4 has been updated to reflect that CCM had assets under discretionary management of \$171,147,000 at December 31, 2015.

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

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Context Capital Management, LLC provides investment management services for an investment limited partnership and separately managed accounts. CCM was formed in 2001 and has been registered as an investment adviser with the SEC since 2005.

CCM specializes in fixed income and relative-value strategies including convertible arbitrage, fundamental credit and event-driven situations. CCM invests in securities consisting principally of convertible debt instruments, convertible preferred stock, equities and other equity-linked securities. The instruments that CCM invests in include senior and subordinated debt, notes, options, warrants, rights, bank debt, private claims, futures and other commodity interests, other derivatives, special purpose acquisition corporations (SPACs) and other equity or fixed-income securities sold in U.S. and non-U.S. public markets and private placements. CCM is authorized, however, to enter into any type of investment transaction that it deems appropriate under the terms of each client's partnership or other account agreement.

As of December 31, 2015 CCM managed approximately \$171,147,000 on a discretionary basis for its investment advisory clients. CCM only manages assets on a discretionary basis.

Michael S. Rosen is CCM's co-founder, Chief Executive Officer and Chief Compliance Officer, and William D. Fertig is CCM's co-founder and Chief Investment Officer. Mr. Rosen and Mr. Fertig are the Managing Members of CCM. They and various trusts of their immediate family members are the owners of CCM.

The investors in the investment partnership that CCM manages have no opportunity to select or evaluate any that fund's investments or strategies. CCM selects all fund investments and strategies.

CCM typically does not tailor its services to the individual needs of individually managed accounts, but instead manages such accounts according to the investment strategy selected by the client. CCM's discretionary authority in these cases, however, is limited as described in Item 16.

In some cases, CCM tailors its services to the individual needs of an individually managed account. In such cases, CCM:

- Manages each such account based on the client's financial situation and investment objectives and in accordance with any restrictions that the client imposes on managing the account. CCM obtains this information from a client in a questionnaire or otherwise.
- At least annually, contacts each client (either in person or by telephone) to ask about any changes in the client's financial situation or investment objectives and whether the client desires to impose or modify any restrictions on managing the account.

- Notifies each client quarterly in writing to contact CCM if there are any changes in the client's financial situation or investment objectives, or if the client desires to impose or modify any restrictions on managing the account.
- CCM makes itself reasonably available to clients for consultation.

In addition to investment advisory services, CCM provides, on a limited basis, business consulting services to companies on matters such as corporate restructurings, capital formation, mergers and acquisitions, and management and strategic issues. As discussed in Item 11, these companies include companies whose securities CCM invests in for its advisory clients.

## **Item 5            Fees and Compensation**

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Investment Advisory Services. Compensation provided to CCM for its investment advisory services is negotiable and varies, but typically consists of the following components. First, CCM typically charges an annual fee of up to 1.5% of assets under management, which amount is payable in monthly or quarterly installments at the beginning or end (depending on the provisions of each account agreement) of each calendar month or quarter based on the net market value of the account on the date the fee accrues and becomes payable. Second, CCM typically receives from each individually managed account a performance fee up to 20% of net profits for hedged accounts (including both realized and unrealized gains and losses), and is allocated from each limited partner in the investment partnership a performance allocation up to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to that limited partner. Performance fees and performance allocations are assessed in arrears on a quarterly or annual basis, and are only applied to profits that exceed the cumulative losses previously incurred by or allocated to the clients. CCM complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations and fees may create an incentive for CCM to make more risky and speculative investments than it would otherwise make.

CCM typically deducts management fees and performance allocations and fees directly from client accounts but may bill a client for such amounts on request.

CCM believes that its advisory fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees than those charged by CCM.

Each investment advisory account is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. CCM bears its own operating, general, administrative and

overhead costs and expenses, other than the expenses described above. All or part of these costs and expenses may be paid, however, by securities brokerage firms and futures commission merchants that execute clients' securities trades, as discussed in Item 12 below.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in an investment limited partnership of which CCM is general partner, to use the "alternative reporting option" to report CCM's compensation as "eligible indirect compensation" on the Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

Except as may be otherwise negotiated in particular cases, a client may terminate an individually managed account by giving 30 to 60 days' written notice, depending on the account agreement. CCM's relationship with its investment partnership is terminable on expiration of the term of the partnership or dissolution of the partnership pursuant to the terms of its partnership agreement or on CCM's withdrawal as general partner. Each limited partner is able to withdraw from the partnership, on specified prior written notice, on the last day of any calendar quarter. In all cases, expenses, the pro rata portion of the annual fee and the performance fee or allocation through the date of termination are charged to the client. All prepaid but unearned advisory fees are refunded to the client on termination of an account.

Business Consulting Services. The fees CCM charges for its business consulting services are negotiated separately with each consulting client and generally consist of hourly charges or fixed project-based fees. In cases where CCM provides consulting services in connection with transactions in which CCM purchases securities for its investment advisory clients, CCM generally passes its consulting fees through to its investment advisory clients. In cases where CCM's consulting services are not related to securities CCM purchases for its advisory clients, CCM may retain the consulting fees. In addition, some issuers compensate CCM for consulting services by allowing CCM to purchase their securities for its own or its advisory clients' accounts at discounted prices.

Each business consulting relationship between CCM and a company may be terminated on notice by either party.

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

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CCM currently manages only investment advisory accounts that pay performance-based compensation as described in Item 5. It does not manage investment advisory accounts that do not pay performance-based compensation.

## **Item 7            Types of Clients**

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CCM generally provides investment management services to high net worth individuals, corporations and a pooled investment fund.

CCM generally requires a minimum of \$15,000,000 to open an individually managed account, but reserves the right to waive this minimum. Limited partners in CCM's investment partnership are required to invest a minimum of \$1,000,000 but CCM may waive the minimum.

CCM provides business consulting services to public and private companies.

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

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CCM employs a variety of investment strategies for its clients. It focuses primarily on convertible arbitrage, but also engages in capital structure arbitrage, catalyst/event driven trading, relative value trading, credit opportunity, and fundamental overlay. CCM does not use fixed guidelines in allocating client assets among different investment strategies and may increase or decrease exposure to any particular strategy at any time.

**Convertible Arbitrage.** The convertible arbitrage strategy seeks to generate profit from situations where a mis-pricing exists between a convertible security and the value of the underlying stock into which the convertible security is convertible. This strategy generally involves the purchase of a convertible or exchangeable security and the short sale of the underlying stock into which that security is convertible. In addition to the short sale of underlying stock, CCM may use other hedging strategies, including option trading.

**Capital Structure Arbitrage.** This strategy seeks to profit from inefficiencies and mis-pricings within a company's capital structure and balance sheet. This strategy involves identifying relationships and relative value opportunities between securities across a company's capital structure, including preferred and equity Securities, convertible and non-convertible senior and subordinated debt, commercial paper, bank loans, and trade claims. The strategy may involve using credit derivatives (such as asset swaps and credit default swaps, among others) and options, as well as equity derivatives. Sources of returns from this strategy may

include the current yield of fixed income securities, changes in credit spreads, equity volatility, and changes within an issuer's balance sheet or capital structure.

**Catalyst/Event Driven Trading.** This strategy seeks to profit from the expectation or occurrence (or non-occurrence) of a specific event, or from the uncertainty surrounding such an event. These events may include mergers, spin-offs or other corporate reorganizations, exchange offers, dilutive effects from issuances of securities, ratings upgrades, industry sector recovery, asset sales, issuances of structured notes that affect an issuer's stock, or a security's being included in or excluded from an index. CCM uses both a passive, trading-oriented approach, as well as an active approach (direct dialogue with management and/or role in the restructuring process) in pursuing this strategy. CCM often pursues this strategy by investing in Securities issued by SPACs (special purpose acquisition corporations) – publicly traded companies formed for the purpose of completing a business combination. CCM may invest in the full spectrum of Securities issued by SPACs, including equities, warrants, and other securities issued either before or after the announcement or completion of acquisitions, and may engage in publicly or privately structured transactions with SPACs and/or their management teams.

**Relative Value Trading.** This strategy seeks to profit from the convergence or divergence of credit spreads or equity volatilities of companies. This strategy seeks to take advantage of anomalies or relative differences in the credit curve or equity volatility, either on a spot basis or a forward basis. The strategy may involve long/short trading, pairs trading, and trading in an index versus the index's component securities.

**Credit Opportunity.** This strategy seeks to benefit from changes in a company's credit life cycle that CCM believes may present profit opportunities from investing across the full spectrum of securities in a company's capital structure. The strategy may involve investing in securities across the full credit spectrum, including investment grade, sub-investment grade, stressed high yield, distressed and defaulted securities. The strategy may involve credit default swaps, credit indices, and credit correlation products.

**Fundamental Overlay.** This strategy seeks to combine CCM's expertise in the strategies listed above with a fundamental investment approach. The goal is to isolate equities with asymmetric risk-return profiles and then apply option overlays to create synthetic securities with fixed income-like returns. An example of this strategy could include combining a long equity position with an overlay call or put option position.

In pursuing these investment strategies, CCM conducts fundamental analysis of issuers and securities and uses both proprietary and third-party models in an effort to accurately predict pricing relationships. CCM analyzes issuers' credit based on factors such as the company's total outstanding debt, debt structure, covenants on public debt issues and bank debt, debt to total capitalization and debt coverage ratios. CCM also analyzes "convertible specific" attributes of convertible debt securities, such as the pricing relationship between the convertible security and the underlying common stock, based on factors such as common stock price volatility, credit quality, current yield, yield to maturity, common stock yield, conversion value, conversion



premium, investment value premium, breakeven analysis, maturity date, call features and special features.

The investment strategies summarized above represent CCM's current intentions, are general in nature and are not exhaustive. Except as specified in fund or client account agreements, CCM is authorized to enter into any type of investment transaction that it deems appropriate for its clients.

### Risk Factors

Investing in securities involves risk of loss that clients should be prepared to bear. Below are some of the risks that investors should consider before investing in the fund or any other account that CCM manages. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a client or investor may encounter. Potential investors in the fund should review the fund's offering document carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. The risks described below also generally apply to individually managed accounts. A potential client should discuss with CCM's representatives any questions that such person may have before opening an account.

- Client accounts may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect a client's investments.
- CCM may not be able to obtain complete or accurate information about an issuer or an investment and may misinterpret the information that it does receive. CCM also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.
- CCM may take positions in securities of distressed companies and companies undergoing major restructurings or reorganizations. Such securities may be highly illiquid at times. In addition, the anticipated corporate events and reorganization plans may not occur or be implemented, or may occur on a different timetable than CCM expects, reducing the value of the securities CCM holds.
- CCM engages in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument.

- CCM sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase. In addition, management and stockholders of an issuer may sue short sellers to prevent short sales of the issuer's securities. CCM could be subject to such actions, even if they are baseless, and CCM's fund could incur substantial costs defending them.
- CCM uses leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, all of which increase volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses.
- CCM sells covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- CCM enters into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- CCM invests in securities of non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- A CCM client account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which CCM does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- CCM may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if CCM holds a large position in an issuer's securities, it could depress the market for those securities.
- Some of a client's positions may be or become illiquid, in which case CCM may not be able to sell such positions.

- CCM may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.
- A client's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- CCM determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If CCM's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- CCM and its affiliates and agents generally are not responsible to any client for losses incurred in an account unless the conduct resulting in such loss breached CCM's fiduciary duty to the client.
- There is not and will not be an active market for interests in the fund that CCM manages. It may be impossible to transfer any such interests, even in an emergency.
- The fund may not be able to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force CCM to liquidate investments too rapidly, and may so reduce the size of the fund that it cannot generate returns or reduce losses.
- The fund may limit or suspend withdrawals of an investor's assets from the fund.
- The fund may establish a reserve for contingencies if CCM considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that CCM and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for CCM to find attractive investments as the amount of assets that it must invest increases.
- No investor in CCM's fund has been represented by separate counsel. The attorneys who represent CCM or its manager do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.
- The fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- CCM, an administrator or any government agency may freeze assets that any of them believes a client holds in violation of anti-money laundering laws or rules or on behalf of

a suspected terrorist, and may transfer such assets to a government agency. None of CCM, a fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.

- The fund does not intend to make distributions, but intends instead to reinvest substantially all income and gain. Therefore, an investor in the fund may have taxable income from the fund without a cash distribution to pay the related taxes.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that CCM must devote to regulatory compliance, to the detriment of investment activities.
- CCM is not registered with the SEC as a broker-dealer, or with the Commodity Futures Trading Commission as a commodity pool operator. The equity interests in the fund are not registered under the Securities Act of 1933, and the fund is not a registered investment company under the Investment Company Act of 1940. CCM believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, CCM and any fund could be subject to expensive legal action and potential termination. In addition, investors in the fund do not have certain regulatory protection that they would have if these registrations were in place.
- CCM's investment activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- CCM's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- If the fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- CCM and its affiliates may spend time on activities that compete with clients without accountability to investors, including investing for other clients and their own accounts. If CCM receives better compensation and other benefits from managing other assets or client accounts compared to managing others, it has incentive to allocate more time to those other activities. These factors could influence CCM not to make investments on a client's behalf even if such investments would benefit that client.
- CCM may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or clients.

The above is only a brief summary of some of the important risks that a client or an investor in CCM's fund may encounter.

**Item 9            Disciplinary Information**

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Not applicable.

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

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A brother of William Fertig is a registered representative at BCP Securities. CCM executes some trades for its client accounts through BCP Securities, and to CCM's knowledge, this registered representative receives no compensation from BCP Securities with respect to such trades. Nevertheless, this affiliation with BCP Securities may influence CCM's judgment and create a conflict of interest for CCM in using BCP Securities to execute brokerage transactions for CCM's clients.

Context Advisory, LLC, a company controlled by Michael Rosen and William Fertig, owns an interest in GRC Global Fund Management, LLC ("GRC"). GRC is the general partner of a private investment fund (the "GRC fund") that invests in claims against insolvent insurance companies. Messrs. Rosen and Fertig participate in the profits of the GRC fund through their interest in GRC. They participate in GRC's investment decisions for the GRC fund and help raise capital for that fund, although they do not devote a material amount of time to such activities. Some of CCM's clients invest in the GRC fund. However, the investment strategy of the GRC fund is unrelated to the investment strategies employed by CCM, and there is no overlap between the types of claims that the GRC fund invests in and the types of instruments that CCM invests in for CCM's clients.

In addition, Michael Rosen is Co-Founder, Director and Chairman of Reality Shares, an ETF company that seeks to deliver long-term capital appreciation based on the growth of dividends, not stock price, of companies included in the S&P500 and NASDAQ 100 indexes. The investment strategy of Reality Shares is unrelated to the investment strategies employed by CCM and no CCM fund or client account invests in Reality Shares. CCM does not invest in Reality Shares for client accounts. Mr. Rosen is not involved in the day to day operations of Reality Shares and Board meetings are one afternoon each quarter.

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

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CCM has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, which establishes standards of conduct for CCM's supervised persons. The Code of Ethics includes general requirements that CCM's supervised persons comply with

their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to report their personal securities transactions and holdings quarterly to CCM's Compliance Officer, or certify that all information in the account statements and confirmations provided to the Firm during the period is accurate and complete, and requires the Compliance Officer to review those reports and/or statements/confirmations. It also requires supervised persons to report any violations of the Code of Ethics promptly to CCM's Compliance Officer. Each supervised person of CCM receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received the materials. Quarterly, each supervised person must certify that he or she complied with the Code of Ethics during that quarter. Clients and prospective clients may obtain a copy of CCM's Code of Ethics by contacting Michelle Mott at (858) 481-3666.

Under CCM's Code of Ethics, pre-clearance is required for all transactions in personal accounts of CCM's employees. Clearance to trade in personal accounts will not be given if the security is held in any client account or CCM is contemplating building a position in such security for a client account, unless the transaction is a closing/liquidating trade and takes place at least seven calendar days after trades executed for a client account. CCM and its officers, managers, members and employees may also buy or sell specific securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which CCM does not deem appropriate to buy or sell for clients.

CCM solicits investors who may or may not be CCM's clients to invest in the limited partnership that CCM manages. CCM has an incentive to cause a client to invest in the fund instead of an individually managed account because of the reduced expenses and administrative burdens of managing a fund compared to an individually managed account, CCM's performance compensation from the fund receives more favorable tax treatment than that from an individually managed account and limited partners have less transparency and liquidity than individual account clients. In addition, if a fund investor also has an individually managed account with CCM that uses an investment strategy that is similar to that of the fund, the investor may use knowledge of the other account's portfolio to decide if and when to make an additional investment or withdraw assets from the fund at times when other fund investors would have made similar decisions had they had similar transparency. CCM discloses these conflicts of interest to clients and investors.

Because CCM manages more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, CCM selects investments for each client based solely on investment considerations for that client. Different clients may have differing investment strategies and expected levels of trading. CCM may buy or sell a security for one type of client but not for another, or may buy (or sell) a security for one type of client while simultaneously selling (or buying) the same security for another type of client. CCM attempts to resolve all such conflicts in a manner that is generally fair to all of its clients. CCM may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing

or nature of action that it takes on behalf of any other client so long as it is CCM's policy, to the extent practicable, to allocate investment opportunities to its clients fairly and equitably over time. CCM is not obligated to acquire for any account any security that CCM or its managers, members or employees may acquire for its or their own accounts or for any other client, if in CCM's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

As noted in Item 4, CCM occasionally provides business consulting services (on matters such as corporate restructuring, capital formation, mergers and acquisitions, and other management and strategic issues) to companies, including companies in whose securities CCM's investment fund and other advisory clients have invested or may invest. Only a few of CCM's employees are involved in providing these occasional services, and they take only a small part of such employees' total time. CCM's consulting relationships with issuers, however, may create conflicts of interest with CCM's advisory clients. For example, CCM may acquire nonpublic information in the course of providing such services to an issuer that restrict CCM's ability to buy or sell that issuer's securities for client accounts at opportune times. CCM may be influenced to purchase or to refrain from purchasing such an issuers' securities for client accounts, based on the issuers' willingness to engage or continue to engage CCM as a consultant. Also, if such an issuer were to compensate CCM by issuing CCM discounted stock or options or warrants to purchase the issuer's stock, conflicts of interest may arise relating to the timing of any exercise or sale of such securities by CCM, for example if subsequent purchases for the accounts of CCMs' advisory clients were to cause the price of the security to rise, benefiting CCM.

## **Item 12      Brokerage Practices**

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In most or all cases, CCM has complete discretion over the selection of the broker to be used and the commission rates to be paid. In selecting a broker for any transaction or series of transactions, CCM may consider a number of factors including, for example:

- clearance, settlement, reputation
- financial strength and stability
- special execution capabilities, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, efficiency of execution and error resolution, and the availability of stocks to borrow for short trades
- research services, economic and market information, general reports and industry and company comments
- on-line pricing
- offering on-line access to computerized data regarding clients' accounts

CCM does not have any “soft dollar” relationships, in which brokers that CCM uses to execute transactions for client accounts pay a portion of CCM’s operating costs and expenses, with such payments tied to the level of commissions that CCM’s client accounts pay such brokers.

CCM may, however, pay a brokerage commission higher than that which another broker/dealer might charge for effecting the same transaction in recognition of the value of the general level of services provided by that broker, as described above. In such a case, however, CCM determines in good faith that such commission is reasonable in relation to the value of brokerage services provided by such broker/dealer, viewed in terms of either the specific transaction or CCM’s overall responsibilities to the portfolios over which CCM exercises investment authority. An account may, however, pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity.

CCM annually evaluates the trade execution services that CCM receives from the brokers and futures commission merchants that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and futures commission merchants. CCM considers, among other things, alternative market makers and market centers, the quality of execution services, the value of adding or removing brokers or futures commission merchants, and the appropriate level of commission rates.

CCM may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts managed by CCM or with accounts of affiliates of CCM. In such event, the average price of all securities purchased or sold in such transactions may be determined and a client may be charged or credited, as the case may be, the average transaction price. As a result, however, the price may be less favorable to the client than it would be if similar transactions were not being executed concurrently for other accounts. CCM may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both such clients.

If a client directs CCM to use a specific broker, CCM may not have negotiated the terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker. CCM does not have any responsibility for obtaining for the client from any such broker the best prices or particular commission rates with or through any such broker. The client may not obtain rates as low as it might otherwise obtain if CCM had discretion to select broker-dealers other than those chosen by the client. The client may not participate in aggregate securities transactions, as described above, and may trade after such aggregate transactions and receive less favorable execution.

CCM may direct a certain amount of brokerage to a broker in return for the broker’s referral of prospective clients. The direction of brokerage to a broker in exchange for investor referrals creates a conflict of interest in that CCM has an incentive to refer its clients’ brokerage business to brokers to which it might not otherwise direct its brokerage transactions.

A brother of William Fertig, CCM’s Chief Investment Officer, is a registered representative at BCP Securities. CCM executes some trades for its client accounts through BCP Securities.



Although this registered representative does not, to CCM's knowledge, receive compensation from BCP Securities with respect to such trades, CCM's interest in obtaining best execution for its clients conflicts with its interest in benefiting Mr. Fertig's brother. See additional disclosure in Item 10.

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

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All accounts are managed and reviewed weekly by Mr. Rosen and Mr. Fertig. Asset allocation, cash management, market prospects and individual issue prospects are considered. Particular attention is given to changes in company earnings, industry outlook, market outlook and price levels.

Each investor in the investment partnership managed by CCM receives monthly and annual written reports that provide commentary on investment results and market outlook. Reports for separately managed accounts are at CCM's discretion and may be oral or written.

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

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CCM may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and CCM complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

### **Item 15      Custody**

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CCM sends annual audited financial statements to investors in the limited partnership that CCM manages. Separately managed account clients receive monthly account statements from the broker-dealer, bank or other qualified custodian. Each client should carefully review those statements and compare them with the statements they receive directly from CCM, if any.

## **Item 16          Investment Discretion**

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CCM has discretionary authority to manage investment accounts on behalf of clients pursuant to a grant of authority in its investment partnership's limited partnership agreement or a limited power of attorney in each client's account agreement. Except for CCM's limited partnership client, such discretion is limited by the requirement that clients advise CCM of:

- the investment objectives of the account;
- any changes or modifications to those objectives; and
- any specific investment restrictions relating to the account.

A client must promptly notify CCM in writing if the client considers any investments recommended or made for the account to violate such objectives or restrictions. A client may at any time direct CCM to sell any securities or take such other lawful actions as the client may specify to cause the account to comply with the client's investment objectives. In addition, a client may notify CCM at any time not to invest any funds in the client's account in specific securities or specific categories of securities.

## **Item 17          Voting Client Securities**

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CCM will decide whether to vote a proxy on behalf of each account over which CCM has proxy voting authority after considering whether the proposal will have a material effect on the investment strategy pursued by CCM for the account. This analysis typically leads to a determination by CCM not to vote proxies. In determining whether a proposal serves the best interests of an account, CCM will consider a number of factors, including:

- the economic effect of the proposal on shareholder value
- the threat posed by the proposal to existing rights of shareholders
- the dilution of existing shares that would result from the proposal
- the effect of the proposal on management or director accountability to shareholders
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual

CCM will abstain from voting proxies when CCM believes that it is appropriate. Usually, this occurs when CCM believes that the proposal will not have a material effect on the investment strategy pursued by CCM.

If a material conflict of interest over proxy voting arises between CCM and a client, CCM will vote all proxies in accordance with the policy described above. If CCM determines that this

policy does not adequately address the conflict of interest, CCM will notify the client of the conflict and request that the client consent to CCM's intended response to the proxy solicitation. If the client consents to CCM's intended response or fails to respond to the notice within a reasonable period of time specified in the notice, CCM will vote the proxy as described in the notice. If the client objects to CCM's intended response, CCM will vote the proxy as directed by the client.

A client can obtain a copy of CCM's proxy voting policy and a record of votes cast by CCM by contacting Michelle Mott at (858) 481-3666.

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**Item 18      Financial Information**

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Not applicable.

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**Item 19      Requirements for State-Registered Advisers**

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Not applicable.

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**Privacy Policy**

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CCM and the investment limited partnership for which it serves as general partner:

- collect non-public personal information about their clients and investors from the following sources:
  - information received from clients or investors on applications or other forms, and
  - information about clients' or investors' transactions with CCM, its affiliates or others;
- do not disclose any non-public personal information about their clients or investors or former clients or investors to anyone, except as permitted by law;
- restrict access to non-public personal information about their clients and investors to their employees who need to know that information to provide services to clients; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard clients' and investors' personal information.