

# Villafranco Wealth Management

Investment Adviser Brochure (Form ADV: Part 2A)

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This brochure provides information about the qualifications and business practices of Villafranco Wealth Management. If you have any questions about the contents of this brochure, please contact us at 212-546-6211. 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 Villafranco Wealth Management also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Villafranco Wealth Management is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated March 1, 2016 we have no material changes to report.

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## Item 4 Advisory Business

Southwind Associates of NJ, Inc. ("Southwind") d/b/a Villafranco Wealth Management is a registered investment adviser based in New York, NY. We are organized as a corporation under the laws of the State of New Jersey. Southwind has been providing investment advisory services since 1995 and is wholly owned by William S. Villafranco, President.

Southwind utilizes the name Villafranco Wealth Management ("VWM") when providing investment management services. Southwind primarily uses its full legal name when providing hedge fund marketing services. Since Southwind and VWM are the same corporate entity, as used herein, Southwind also refers to VWM.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we", "our" and "us" refer to VWM and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm.

VWM provides investment management services which services are personalized to each individual client. Southwind also provides hedge fund marketing services as further described in greater detail under Item 10.

### Investment Management Services

We offer discretionary investment management services. VWM tailors its investment management services to the individual needs and objectives of clients. VWM's investment management services include: 1) assisting clients in determining their investment objectives and goals and 2) determining which general investment strategies should be employed in managing client portfolios to meet such objectives and goals. VWM is also responsible for making specific purchase and sale decisions for clients.

If you retain our firm for investment management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information at the beginning of our advisory relationship. We will use the information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our investment management services, we will invest your assets according to one or model portfolios which may be customized based on your tolerance for risk, personal financial situation and other relevant criteria. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and in your financial circumstances.

VWM primarily invests its clients' assets in mutual funds, exchange traded funds ("ETFs") and equities. In addition, VWM invests its clients' assets in private funds (e.g., hedge funds, private equity funds, etc.).

VWM typically limits its investment advice to these types of investments although VWM may occasionally invest in fixed income securities. VWM may also monitor investments held in a client's portfolio at the beginning of the advisory relationship or other investments held by the client but not initially recommended by VWM. Clients may, but generally do not, impose restrictions on investing in certain securities or types of securities.

As part of our investment management services, we also recommend that you use the services of a third party money manager ("MM") to manage your entire, or a portion of your, investment portfolio. After gathering information about your financial situation and objectives, we will recommend that you

engage a specific MM or investment program. Factors that we take into consideration when making our recommendation(s) include, but are not limited to, the following: the MM's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. We will periodically monitor the MM(s)' performance to ensure its management and investment style remains aligned with your investment goals and objectives

We include the assets managed by the MM when calculating our advisory fee or in the alternative Mr. Villafranco may receive a portion of the advisory fee charged by the MM. The advisory fee charged by the MM is separate and apart from the advisory fees charged by our Firm. The advisory fee you pay to the MM is established and payable in accordance with the brochure provided by each MM to whom you are referred. These fees may or may not be negotiable. .

You will be required to sign an agreement directly with the recommended MM(s). You may terminate your advisory relationship with the MM according to the terms of your agreement with the MM. You should review each MM's brochure for specific information on how you may terminate your advisory relationship with the MM and how you may receive a refund, if applicable. You should contact the MM directly for questions regarding your advisory agreement with the MM.

### **Related Funds**

Mr. Villafranco owns the investment managers and/or general partners of three private funds (collectively, the "Related Funds") and provides investment advisory services to such funds in this capacity. For one of the Related Funds, Mr. Villafranco owns the investment manager and general partner together with an employee of VWM. VWM recommends that clients invest in the Related Funds. The Related Funds are described below.

#### Central Partners, L.P. ("Central")

Northpoint Management LLC ("Northpoint"), wholly owned by Mr. Villafranco, serves as the general partner of Central. Central is a private fund that in turn invests in underlying private funds (this is commonly referred to as a "fund-of-funds"). Mr. Villafranco, through Central, selects the managers and underlying investment vehicles with which Central will invest. However, since Central is a fund-of-funds, Central does not invest in individual securities.

#### Insignia Fund ("Insignia")

Croton LLC ("Croton") and Croton Management LLC ("Croton Management"), each owned equally by Mr. Villafranco and David M. Aurichio, Portfolio Manager of VWM, serve as the general partner and investment manager, respectively, of Insignia. Insignia is a long short equity hedge fund and Messrs. Villafranco and Aurichio, through Insignia, have the authority to select, buy, and sell specific securities for Insignia. Mr. Aurichio has primary responsibility for these investment management activities.

Croton Management also provides investment advisory services to The Abernathy Group Growth Fund LP (the "Abernathy Fund"). The Abernathy Fund is generally managed on a pari passu basis with Insignia. The Abernathy Fund is a third party unaffiliated fund, however please see the disclosure below under transaction based for information related to Mr. Villafranco's status as registered representative related to the Abernathy Fund.

#### Cain 5, L.P. ("Cain")

Westvale Capital Partners, LLC ("Westvale") and Ridgeport Capital Management, LLC ("Ridgeport"), each wholly owned by Mr. Villafranco, serve as the general partner and investment manager, respectively, of Cain. Eagle Capital Management LLC ("Eagle"), an unaffiliated investment, has been retained as Cain's sole underlying investment manager.

## **Assets Under Management**

As of December 31, 2016, VWM managed \$139,000,000 in assets on a discretionary basis and \$133,000,000 in client assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

VWM receives advisory fees for the investment management services it provides to clients. The annual advisory fee is negotiable and ranges from 0.28% to 1.50% of a client's assets under management, which include any investments in cash management vehicles such as money market funds. VWM's advisory fees are payable quarterly, in arrears, based on the value of the clients account on the last day of the quarter. VWM may increase or decrease its fees upon 30 days' written notice to the client, provided that the client does not object in writing before the end of the 30-day period. VWM generally deducts its advisory fees from clients' assets, but clients may also request to be billed for advisory fees. VWM does not include its clients' investments in Related Funds for purposes of calculating VWM's advisory fees.

Upon termination, by either party at any time upon 60 days' prior written notice, transactions in progress will be completed in the normal course of business. Also upon termination, a client is liable for all advisory fees VWM earned but the client has not yet paid. Such advisory fees are calculated from the date of receipt of the written termination notice or other agreed upon date.

VWM will reduce the AUM of any account that invests in the funds above by the amount invested in said fund to minimize any potential double fee.

## **Additional Fees and Expenses**

In addition to VWM's fees, clients pay brokerage and other transaction costs (as described in Item 12). Clients also pay charges to financial institutions and other third parties such as custodial fees, mutual fund expenses, charges imposed directly by mutual funds and exchange traded funds, deferred sales charges, wire transfer and electronic fund fees, redemption penalties of mutual funds, margin expenses and other fees and taxes on brokerage accounts and securities transactions.

In addition, clients pay management fees and/or performance fees to third party investment managers and private funds (including Related Funds).

VWM's clients also may pay multiple fees that are not readily visible. For example, private funds (including Related Funds) charge fees which are deducted as an expense and affect the net capital appreciation of the private fund. Further, in a private fund that is a fund-of-funds, such as Central, the underlying private funds charge fees which are deducted as an expense and affect the net capital appreciation of such underlying private fund. As a result, investors in fund-of-funds will be subject to increased fees. The client should review the fees and expenses charged by third party investment managers and private funds as well as the fees charged by VWM to fully understand the total amount of fees paid.

Central invests in Insignia and Cain. Since Insignia and Cain pay management and performance fees to entities owned, in whole or in part, by Mr. Villafranco, VWM and Mr. Villafranco have an incentive to invest Central's assets in Insignia and Cain. Investors are advised that because Central invests in related funds, investors are in effect paying multiple level of fees to related parties of the Firm

## **Related Funds**

All fees and performance allocations payable/allocable to the investment manager and/or general partner of each Related Fund are fully disclosed in the offering materials that are delivered to potential investors. Below is a summary of such compensation.

### Central

Northpoint receives a management fee of 1% per annum (payable quarterly in advance) of each limited partner's capital account and Northpoint receives a performance allocation of 10% of the net capital appreciation allocable to each limited partner's capital account, subject to a preferred rate.

### Insignia

Croton Management receives a management fee of 1% per annum (payable quarterly in advance) of each limited partner's capital account and Croton receives a performance allocation of 20% of the net capital appreciation allocable to each limited partner's capital account, subject to a high water mark.

### Cain

Ridgeport receives a management fee of 1.25% per annum (payable quarterly in advance) of each limited partner's capital account and Westvale receives a performance allocation of 15% of the net capital appreciation allocable to each limited partner's capital account, subject to a high water mark.

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

VWM's clients do not pay performance fees, although the Related Funds and the Abernathy Fund charge such fees. VWM has policies and procedures that set forth its fiduciary duty to clients and require that VWM make full and fair disclosure of any potential conflicts of interest. Related entities and/or Mr. Villafranco can potentially receive greater investment advisory fees from an account paying a performance-based fee than from an account paying an asset-based fee. This represents a potential conflict of interest because an incentive exists to favor accounts that pay a performance-based fee or to allocate time, services or functions to accounts that pay a performance-based fee.

The Related Funds and the Abernathy Fund are managed for performance based fees and we manage accounts at the same time (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management may create conflicts of interest, which we have identified and described in the following paragraphs.

Performance-based fees may create an incentive to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, a senior officer of our firm periodically reviews accounts to ensure that investments are suitable and that the account is being managed according to established investment objectives and risk tolerance.

Performance based fees may also create an incentive to overvalue investments which lack a market quotation. In order to address such conflict, such investments are booked at "fair value", which do not have a readily ascertainable value.

Side-by-side management might provide an incentive to favor accounts which receive a performance-based fee. For example, there may be an incentive to allocate limited investment opportunities to accounts who are charged performance-based fees over clients who are charged asset based fees only. To address this conflict of interest, we have instituted policies and procedures that require our firm to allocate investment opportunities (if they are suitable) in an effort to avoid favoritism among our clients and those accounts managed by related persons, regardless of whether the client is charged performance fees.

## Item 7 Types of Clients

VWM provides investment management services to wealthy individuals, high net worth families, private foundations, trusts and investment vehicles for wealthy families such as family limited partnerships or family limited liability companies.

Clients must maintain an ongoing balance of \$250,000 in assets under management. VWM waives this minimum at its discretion. The Related Funds have investment minimums set forth in their offering documents, which are also waived at VWM's discretion.

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

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

**Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company and its industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.

**Risk:** The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

VWM invests client assets with third party investment managers and in investment products (i.e., private funds, mutual funds and ETFs) that use a variety of investment strategies, including, without limitation, short sales, futures, options and margin transactions. VWM evaluates investment managers and selects investment products on the basis of various criteria, including (where applicable):

- an analysis of the investment manager's performance during various time periods and market cycles
- the investment manager's reputation, experience and training
- the investment manager's articulation of, and adherence to, its investment philosophy
- the presence of risk management discipline
- on-site interviews of the management team
- the quality and stability of the investment manager's organization, including internal and external professional staff
- whether the investment manager has a substantial personal investment in the investment program

Once an investment decision is made, VWM will continue its oversight of the investment manager or investment product.



## Risks

Each type of security has its own unique set of risks that are not always easily identifiable. These risks affect the performance and the volatility of any investment. A client's investment portfolio is affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic recession, changes in laws and national and international political circumstances. Investments are also subject to currency, political and business risks.

Most mutual funds fall into one of three main categories - money market funds, bond funds and stock funds. Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss. Clients should read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks before investing.

Investing in private funds may be considered speculative, illiquid and may involve a significant degree of risk. It is only appropriate for qualified persons who can evaluate the risks associated with an investment in private funds and can bear the financial risks involved. Such an investment is suitable only for a limited portion of the risk segment of an investor's portfolio. Prospective investors should read carefully the private fund's offering documents in their entirety and consider the risk factors discussed therein when evaluating the merits and suitability of an investment in the private fund.

Below are common risks with respect to investing with third party investment managers and in investment products:

- VWM does not control the investment decisions of third party investment managers.
- Investing in multiple investment products could cause a client to hold opposite positions in an investment. This decreases or eliminates the possibility of positive returns from such investment.
- Certain investment products, such as private funds, are illiquid. In addition, these private funds may invest in illiquid securities (such as other private funds). This means that redemptions may not be permitted and could be delayed depending on the nature of the private fund.

Clients should also refer to the disclosure document of the third party investment managers for a full description of the services offered and risks.

Equity securities fluctuate in value due to factors that affect the securities markets generally, such as adverse changes in economic conditions, the general outlook for corporate earnings, interest rates and investor sentiment. Investments may also lose value based on factors affecting an entire industry or sector, such as increases in production costs, or factors directly related to a specific company, such as financial condition and management decisions.

Investing in securities involves risk of loss that clients should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

## Item 9 Disciplinary Information

Southwind and William Villafranco recently agreed to settle a matter brought by the U.S. Securities and Exchange Commission. We consented to the entry of an order which involved alleged violations of the books and records requirements, the custody rule, and inadequate written policies and procedures. The full order is available on the SEC website: <https://www.sec.gov/litigation/admin/2017/34-82397.pdf>

## Item 10 Other Financial Industry Activities and Affiliations

### Related Funds

VWM's principals and employees have a financial interest in the Related Funds directly, as investors, or indirectly, as owners of the general partner or investment manager of the funds. As a result of these interests, an incentive exists to favor the Related Funds. For example, an incentive exists to allocate limited investment opportunities to the Related Funds. In addition, an incentive exists to recommend that clients invest in the Related Funds because additional investments in the Related Funds will increase advisory fees due to the general partner or investment managers. VWM prohibits employees from allocating trades or investment opportunities that favor any particular client, group of clients or affiliated and proprietary accounts.

### Other Activities

Mr. Villafranco is the founder of The Footprints in the Sand Foundation (the "Footprints Foundation"), a non-profit organization that helps children and their families. Certain of the third party service providers engaged by VWM to provide services to clients or to Related Funds also contribute to the Footprints Foundation (e.g., board members, event sponsors, etc.). A conflict of interest exists in engaging, initially and on an ongoing basis, such third party service providers since it could appear that the third party service providers were chosen based on contributions to the Footprints Foundation rather than on the best interests of the clients, the Related Funds, or the Abernathy Fund. VWM monitors this potential conflict of interest to ensure that the recommendation of third party service providers is in the clients' best interests.

In addition, VWM rents office space in New York City from Deltec. Deltec also rents office space to other entities and VWM pays the same rate per square foot as other renters. VWM does not receive any more favorable terms than other renters.

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

### Description of Our Code of Ethics

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the *Brokerage Practices* section in this brochure for information on our block trading practices. .

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

VWM's principals and employees have a financial interest in the Related Funds directly, as investors, or indirectly, as owners of the general partner or investment manager of the Related Funds. Conflicts of interest with respect to such interests are disclosed under Item 10.

## **Item 12 Brokerage Practices**

VWM generally recommends that clients establish an account with the Schwab Advisor Services division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for your accounts. We also recommend the brokerage and custodial services of Fidelity Brokerage Services and First Republic, among others

The final decision to custody assets with Schwab is at your discretion, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA account holder. Our firm is independently owned and operated and not affiliated with Schwab. Schwab provides our with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab also makes available to our firm other products and services that benefit our firm but may not benefit its clients' accounts. These benefits may include national, regional or our specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of personnel of our firm by Schwab Advisor Services personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist our in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution, provide research, pricing information and other market data, facilitate payment of our fees from clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available to our firm other services intended to help us manage and further develop our business enterprise. These services may include professional compliance, legal and business consulting, publications and

conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to our firm by independent third parties. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. While, as a fiduciary, we endeavor to act in our clients' best interests, our requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

We believe that the broker-dealer custodians we recommend or require you to use provide quality execution services based on several factors, including, but not limited to, the ability to provide professional services, reputation, experience and financial stability.

Not all investment advisers require their clients to use the brokerage and clearing services of select firms. Schwab's commissions and transaction fees may be higher than what other broker-dealers charge and this practice could cost clients more money. Further, in using only select firms, VWM could be unable to achieve most favorable execution of client transactions.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trading**

For accounts maintained at Schwab, we may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

In the event orders are not block traded, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than if order were block traded.

### **Trade Errors**

From time-to-time we may make an error in submitting a trade order on your behalf. In these situations, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. Except as noted below, if a profit results from correcting the trade, you will keep the profit.

If a profit results from the correcting trade, the profit will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forego the gain (e.g., due to tax reasons).

If the profit does not remain in your account and Schwab is the custodian, Schwab donates gains of \$100 or more to charity. If a loss occurs greater than \$100, our firm will pay for the loss. Schwab may retain gains of \$100 or less, if they are not kept in your account, to offset administrative expenses. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

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

VWM informally reviews all client accounts on a monthly basis. This informal review involves the use of VWM's asset allocation model with respect to each client's account to ensure that the client's risk tolerance is adhered to and the appropriate level of diversification is attained. If an informal review of a client's account indicates that asset allocation should be modified, VWM will make the modification and maintain a record of the reasons therefore.

VWM also conducts detailed performance evaluations of its advisory clients' accounts on a quarterly basis, and at such other times at a client's request. These evaluations typically entail a review of: 1) an advisory client's goals and risk guidelines, 2) monthly market evaluations, 3) similar asset class return, and 4) market and peer group comparisons. VWM typically does not receive specific instructions from clients regarding the level of review.

All advisory clients receive written quarterly account statements which are customized to each advisory client's needs and preferences. VWM provides written monthly reports to advisory clients upon request. Written yearly summaries are provided in the fourth quarter report.

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

The hedge fund marketing services and client referral services that Southwind provides are described in greater detail under Item 10.

We directly compensate non-employee (outside) consultants, individuals, and/or entities ("solicitors") for separately managed account referrals. In order to receive a cash referral fee from our firm, the solicitor must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a solicitor, you should have received a copy of this Disclosure Brochure along with a solicitor's Disclosure Statement at the time of the referral. If you become a client, the person that referred you to our firm will receive a percentage of the advisory fee you pay our firm for as long as you are a client with our firm or until the solicitor's agreement is terminated. You will not pay additional fees because of this referral arrangement. Referral fees paid to the solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, the person making the referral has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

Solicitors that refer business to more than one investment adviser may have a financial incentive to recommend advisers with more favorable compensation arrangements. We request that our solicitors disclose to you whether multiple referral relationships exist and that comparable services may be available from other advisers for lower fees and/or where the Solicitor's compensation is less favorable.

## Item 15 Custody

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. If firm also sends client statements: We will also provide reports to you reflecting the amount of advisory fee deducted from your account (confirm?).

You should compare our reports with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

Mr. Villafranco serves as trustee on a client account and in his capacity as trustee has access to the client's assets. Mr. Villafranco and/or related entities, who serve as General Partner or similar capacity to the related Funds, have access to client assets which are invested in the Related Funds. As a result of these relationships, custody for such assets is imputed to our firm. The accounts over which Mr. Villafranco serves as trustee are subject to an annual surprise examination and the Related Funds are subject to an annual audit which is delivered to all Fund investors within 120 days of fiscal year end.

## Item 16 Investment Discretion

It is VWM's practice to enter into a written agreement with each client. This agreement describes the terms and conditions of the engagement, the scope of the services to be provided, discretionary authority, compensation, and various representations and warranties and other terms of the relationship. Clients also sign a custodial agreement with Schwab, or another custodian. Clients may, but generally do not, limit VWM's authority, such as by directing VWM not to invest in securities of particular issuers.

## Item 17 Voting Client Securities

VWM will not vote proxies on behalf of your advisory accounts. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies

### Class Action Lawsuits

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.



## **Item 18 Financial Information**

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you.

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

We are a federally registered investment adviser; therefore, we are not required to respond to this item.