

FIRM BROCHURE
(Part 2A of Form ADV)

May 9, 2018

Gracian Capital LLC

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Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Gracian Capital LLC. If you have any questions about the contents of this Brochure, please contact us at (858) 832-1977 and/or theidecker@graciancapital.com. 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.

Gracian Capital LLC is a registered investment adviser with the SEC and was previously registered with California’s Department of Corporations (“DOC”); however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Gracian Capital LLC and its investment adviser representatives also is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 1: COVER PAGE

Please refer to previous page.

ITEM 2: MATERIAL CHANGES

This Brochure dated May 9, 2018 is an other-than-annual amendment filing prepared in accordance with the SEC's regulations and requirements. Gracian Capital LLC ("Gracian") has identified no material changes to the Brochure.

Because of the amount of details provided within the Brochure, Gracian encourages each Client (as defined herein) to read this document carefully and to call us with any questions you may have.

Pursuant to SEC regulations, Gracian will ensure that Clients receive a summary of any material changes to this Brochure within 120 days of the close of Gracian's fiscal year end, along with a copy of this Brochure. Additionally, as Gracian experiences material changes in the future, we will send you a summary of our "Material Changes" under separate cover. For more information about the firm, please contact Thomas L. Heidecker, Chief Compliance Officer at 858-832-1977 or theidecker@graciancapital.com.

Additional information about Gracian and its investment adviser representatives is available on the SEC's website at www.adviserinfo.sec.gov.

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ITEM 4: ADVISORY BUSINESS

A. Description of Firm

Gracian Capital LLC (“Gracian”) is a San Diego, California-based investment management firm founded in 2011. Gracian is an investment adviser to private funds and offers investment management services to institutions, endowments, foundations, charitable organizations, corporations, and other types of business entities. Investment management services are offered on a fully discretionary or a non-discretionary basis.

Gracian is registered as an investment adviser with the Securities and Exchange Commission (“SEC”). As a registered investment adviser, Gracian is subject to regulation under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and the rules promulgated thereunder. Gracian was previously registered with the California Department of Corporations (“DOC”). Gracian conducts business as further reflected in Part 1 of our Form ADV, a copy of which can be found at www.adviserinfo.sec.gov.

The principal owner of Gracian is Matthew R. Kliber, who is Gracian’s founder and serves as Gracian’s Managing Member.

B. Types of Advisory Services Offered

Gracian provides discretionary investment advisory services to the following pooled investment funds, which are privately offered to investors that are both “accredited investors,” as defined under Regulation D under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and “qualified purchasers” or “knowledgeable employees” within the meaning of the U.S. Investment Company Act of 1940, as amended, and the rules thereunder: (1) Gracian Short Alpha I LLC, a Delaware limited liability company, of which Gracian is the managing member; and (2) Gracian Short Alpha I Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands (collectively with Gracian Short Alpha I, LLC, the “Short Alpha Funds”), which invests substantially all of its assets in Gracian Short Alpha I LLC; (3) Gracian Best Ideas LLC, a Delaware “multi-series” limited liability company, of which Gracian is the managing member; and (4) Gracian Best Ideas SPC., Cayman Islands exempted company incorporated with limited liability and registered as a segregated portfolio company under the provisions of the Companies Law of the Cayman Islands (collectively with Gracian Best Ideas LLC, the “Best Ideas Funds”), which invests substantially all of its assets in Gracian Best Ideas LLC. Each of Gracian Short Alpha I LLC, Gracian Short Alpha I Ltd., Gracian Best Ideas LLC and Gracian Best Ideas SPC are referred to herein as a “Fund.”

In addition to advising the Funds, on a discretionary basis Gracian provides investment advisory services to separately managed accounts and subadvisory services to private funds (each such account and private fund, an “SMA” and, together with each Fund, the “Clients”). Also, on a non-discretionary basis Gracian provides investment consulting services to one investment adviser and sub-advisory services to another investment adviser. Gracian may, in the future, offer discretionary and/or non-discretionary investment advisory and/or consulting services to other private funds, separately managed accounts and/or other investment advisers.

Gracian does not tailor the advisory services provided to a Fund to the individual needs of investors in the Fund. Rather, prospective investors in a Fund are provided with that Fund's Confidential Private Placement Memorandum (the "Offering Memorandum") and other documentation that detail that Fund's investment objectives, strategies, risks, fees, conflicts of interest and other important information related to the Fund. It is important that each potential qualified investor fully read a Fund's offering materials prior to investing.

Gracian also provides its investment management services to SMAs with a minimum account size of \$30,000,000, although Gracian may accept a lower minimum account size in Gracian's discretion. Gracian typically manages SMAs generally using the same investment strategy that it uses for a Fund, as mutually determined by the SMA Client and Gracian. To the extent an SMA Client wishes to modify the strategy and Gracian so agrees, the modified strategy will be described in the investment management agreement between Gracian and that Client.

Gracian manages all Client assets on a fully discretionary basis. In exercising full discretionary authority Gracian selects, without first obtaining the Client's permission: (1) the securities to be bought and sold; (2) the amounts of securities to be transacted and whether it will be individually or blocked traded; and (3) the broker-dealer through which transactions will be executed.

The Short Alpha Funds

As previously noted, Gracian Short Alpha I Ltd. invests substantially all of its assets in Gracian Short Alpha I LLC (the "Short Alpha Master Fund"). The investment objective of the Short Alpha Master Fund is to achieve superior risk-adjusted returns by employing a short-selling investment strategy involving equity securities traded on U.S. securities markets. The Short Alpha Master Fund intends generally to hold 90% of its net assets in short positions, irrespective of Gracian's expectations as to overall future market direction. The Short Alpha Master Fund may borrow for investment or other purposes; however, it is anticipated that leverage will not exceed 10% of the Short Alpha Master Fund's gross portfolio exposure. The Short Alpha Master Fund will not trade futures contracts, options on futures contracts or non-security-based swaps. Gracian anticipates monitoring risk as part of its compliance program and risk control process.

As previously noted, Gracian Best Ideas SPC invests substantially all of its assets in Gracian Best Ideas LLC (the "Best Ideas Master Fund"). The investment objective of the Best Ideas Master Fund is to achieve attractive absolute returns by employing an active short-selling investment approach to invest in a single-company short position. The Best Ideas Master Fund may borrow for investment or other purposes; however, it is anticipated that leverage will not exceed 10% of the Best Ideas Master Fund's gross portfolio exposure. The Best Ideas Master Fund will not trade futures contracts, options on futures contracts or non-security-based swaps. Gracian anticipates monitoring risk as part of its compliance program and risk control process.

For those Fund investors that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), special considerations generally must be made for investments in private funds. ERISA and regulations issued by the Department of Labor ("DOL") indicate that, if a plan subject to ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"),

acquires an “equity interest” (such as the Interests) in a private investment fund or similar entity (such as a Fund), and if benefit plan investors in the aggregate hold 25% or more of the value of any class of equity interests in the fund, the fund’s assets will be treated as “plan assets” for purposes of the fiduciary responsibility standards and prohibited transaction restrictions of ERISA and the parallel prohibited transaction excise tax provisions of Section 4975 of the Code. In such case, each investing plan subject to ERISA or Section 4975 of the Code will be considered to hold an undivided interest in each of the fund’s underlying assets and, consequently, each investment the fund may make and each transaction in which the fund may engage will be treated as if the investment or transaction is made directly by or for each of the investing plans.

Gracian has the right, in its discretion, to permit or restrict investments in any Fund by benefit plan investors. As of the date of this Brochure, none of the Funds are “plan assets” and Gracian does not provide investment advice to any SMAs that are subject to ERISA.

C. Information Relating to All Gracian Services

While Gracian generally allows SMA Clients to impose reasonable restrictions on the types of securities and/or industries not to include in their portfolio at the time an investment management agreement is entered into, Gracian’s strategy is not a complete investment program and is not intended to be a complete investment program. Gracian’s strategy is intended to be used for only a portion of an SMA Client’s portfolio and should be entered into only after the Client completes its own analysis of Gracian’s strategy fit in the context of the Client’s entire investment portfolio.

Prior to engaging Gracian to provide investment advisory services, the prospective client will be required to enter into one or more written investment management agreements with Gracian setting forth the terms and conditions under which Gracian shall render its services.

The investment management agreement between Gracian and an SMA Client will continue in effect until terminated by either party pursuant to the terms of the investment management agreement. Gracian’s annual fee will be prorated through the date of termination as defined in the investment management agreement and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Neither Gracian nor a Client may assign an investment management agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of Gracian are not considered an assignment.

D. Wrap Fee Programs

Gracian does not participate in any wrap fee programs.

E. Assets Under Management

As of December 31, 2017, the following represents the amount of regulatory assets under management (calculated on a gross basis) by Gracian on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$349,813,138
Non-Discretionary	\$0.00
Total:	\$349,813,138

ITEM 5: FEES AND COMPENSATION

A. SMA Advisory Fees

Gracian charges advisory fees as a flat fee or based on a percentage of assets under management and performance-based fees dependent upon the size and type of account and qualifications of the SMA Client. The specific fees charged by Gracian for its advisory services will be set forth in each SMA Client's written agreement with Gracian. Although Gracian believes its advisory fees are competitive, clients should be aware that lower fees for comparable services may be available from other sources.

1. Management Fee Schedule for SMAs

Gracian generally charges a fee monthly based on the account's assets under management (AUM) as of the close of business on the last business day of the calendar month or an annual flat fee paid in equal quarterly installments. Asset management fees are negotiated on a case-by-case basis, but generally between 1.0% and 2.0% per annum, paid in arrears.

Clients generally do not pay fees in advance. However, if a particular Client and Gracian adopt a fee arrangement that calls for payment of fees in advance, upon termination of the advisory relationship Gracian will refund fees and/or charge that client only for the actual period of time that Gracian provided advisory services.

Gracian does not deduct fees from Clients' assets, but bills Clients for fees. Payment terms may be negotiated.

2. Performance-Based Fee Accounts

Gracian also charges SMA Clients an annual performance-based fee of 10% of the SMA Client account's realized and unrealized capital appreciation, with a high water mark, subject to a hurdle rate. That is, the SMA Client account must outperform the return of an objective index in order for Gracian to receive the incentive fee. The fee is negotiable on a case-by-case basis.

3. Other Fees and Expenses

Clients should understand that the advisory fees described above do not include certain charges imposed by third parties such as custodial fees, miscellaneous fees and expenses.

Clients may incur brokerage commissions and other execution costs charged by the custodian, prime broker and/or executing broker-dealer in connection with transactions for a Client's account.

Clients should further understand that all custodial fees and any other charges, fees and commissions incurred in connection with transactions for a Client's account will be paid out of the assets in the account and are exclusive of and in addition to the fees charged by Gracian. Gracian does not share in any of these fees. Although Gracian believes its advisory fees are competitive, Clients should be aware that lower fees for comparable services may be available from other sources. Accordingly, a Client should review the fees charged in which the Client's assets are invested, together with the fees charged by Gracian, to fully understand the total amount of fees to be paid by the Client and to thereby evaluate the advisory services being provided.

B. Private Fund Fees

1. Fund Management Fee

For its services in managing each Fund's investments, Gracian receives management fees in accordance with each Fund's Offering Memorandum and the investment management agreement between Gracian and each Fund. The management fee and other compensation to Gracian may vary from Fund to Fund and may vary among classes of shares within a Fund.

The standard annual management fee each Fund pays Gracian for services is 1%-2% of assets under management. The management fee is different for different tranches of the same Fund. The management fee is typically paid monthly in arrears. Please refer to a Fund's Offering Memorandum for additional information related to the management fee schedule for that Fund. At Gracian's sole discretion, the management fees may be reduced, waived or calculated differently for any investor, including employees or affiliates of Gracian, for any calendar month(s) or other period(s) that Gracian determines is appropriate. Upon termination, Gracian's annual fee will be prorated through the date of termination and any remaining balance shall be refunded, as appropriate, in a timely manner.

2. Fund Incentive Fee/Allocation

Each Fund also pays Gracian an incentive fee or allocation in accordance with the terms outlined in that Fund's Offering Memorandum. The annual incentive fee or allocation is typically 10%-20% of the Fund's (or a tranche's) realized and unrealized capital appreciation, with a high water mark, subject to a hurdle rate. That is, the Fund must outperform the return of an objective index in order for Gracian to receive the incentive fee/allocation. Please refer to each Fund's Offering Memorandum for additional information related to the incentive allocation schedule, including the effect of redemptions. At Gracian's sole discretion, the incentive fee or allocation may be reduced, waived or calculated differently for any investor, including employees or affiliates of Gracian, for any calendar month(s) or other period(s) that Gracian determines is appropriate.

Additional details regarding the specific fees charged to Fund investors are set forth in each Fund's Offering Memorandum and organizational documents. All prospective investors should carefully read the Offering Memorandum of a Fund prior to investing in such Fund.

3. Other Fees and Expenses

All fees related to organizational expenses for a Fund are borne by such Fund. On an ongoing basis, each Fund will bear its transaction (e.g., brokerage commissions), administrative, custody, legal (including blue sky compliance), third-party research, tax preparation, investor reporting, valuation agent and appraisal fees and expenses, insurance and accounting and audit expenses, and any expenses for services that are required, among other things, in accordance with the provisions specified in each Fund's Offering Memorandum. These expenses are borne by each Fund's investors based on their pro-rata interest in accordance with the provisions provided in each Fund's organizational documents. Additionally, investors in Gracian Short Alpha I Ltd. and Gracian Best Ideas SPC bear that Fund's *pro rata* share of the ongoing expenses of Gracian Short Alpha I LLC and Gracian Best Ideas LLC, respectively.

MFNs

Notwithstanding the fees set forth above, some SMA Clients may from time to time seek to negotiate most favored nation ("MFN") clauses in their investment management agreements with Gracian. These clauses may require Gracian to notify the SMA Client if Gracian subsequently enters into an investment management agreement with another similarly situated client that offers more favorable pricing or other contractual terms than those currently offered to the SMA Client. Individual investors in Funds may seek to negotiate similar MFN provisions as a condition of their initial investment. An MFN clause will typically require that Gracian notify the Fund investor or Client of the more favorable terms so that the Fund investor or Client can elect to either adopt or reject them or, usually when the MFN relates only to fees, may require that any more favorable fee terms be extended automatically to the Fund investor or Client. The applicability of an MFN clause will typically depend on the degree of similarity between accounts, such as the type of investor or client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy selected by each client. Gracian has sole discretion over whether or not to grant any MFN clause in all circumstances.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Performance fees are subject to negotiation with *qualified SMA Clients* (which generally refers to a client that, immediately after entering into an investment management agreement, has at least \$1,000,000 under the management with Gracian, or a client who has a net worth exceeding \$2,000,000 or is a "qualified purchaser"). All performance fee arrangements will be structured in accordance with Rule 205-3 under the Advisers Act and in conjunction with the provisions set forth in the Client's investment management agreement. In measuring Clients' or investors' assets for the calculation of performance-based fees (including an incentive fee or allocation for a Fund), Gracian includes realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for Gracian to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement.

As noted in Item 5, Gracian charges an annual incentive fee or allocation for each Fund or tranche thereof equal to between 10% to 20% of the Fund's (or the tranche's) realized and unrealized capital appreciation, with a high water mark, subject to a hurdle rate. If a Fund investor redeems all or part of its investment from a Fund prior to December 31, Gracian charges an incentive fee

or allocation on the portion of such Fund investor's investment redeemed, as of the redemption date. Such mid-year incentive fee or allocation is also subject to a high water mark and a pro rated hurdle rate based on the duration of such Fund investor's investment for the year.

Performance-based fee structures may create an incentive for Gracian to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee structure. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Additionally, the performance-based fee structure could also cause the portfolio managers responsible for a Fund and/or performance-based fee SMAs to devote a disproportionate amount of time to the management of such accounts, and compensation may be larger than it otherwise would have been because the fee will be based on account performance instead of a percentage of assets under management. Performance-based fee structures could create an incentive for Gracian to over-value certain assets held by a Fund or SMA. Consequently, Gracian has adopted valuation policies designed to promote fair, accurate and current valuations of securities and portfolios. Each Fund's administrator is responsible for calculation of that Fund's net asset value. The administrator bases its computations on the assets and liabilities reported to the administrator by that Fund, that Fund's prime broker and/or the Managing Member of that Fund.

In addition, the investment objectives of a Fund are similar to the investment recommendations made for SMAs. In certain circumstances, Gracian may seek to purchase or sell investments on behalf of a Fund that Gracian may seek to purchase or sell for some or all of its other Clients. In these circumstances, Gracian will allocate investment opportunities fairly among its Clients so that, over time, all Clients are treated equitably. It is Gracian's general policy to allocate purchase or sale opportunities *pro rata* based on account value to all appropriate Clients. However, Gracian recognizes that a *pro rata* allocation may not always be feasible or in the best interests of its clients and may consider not only the guiding allocation objective, but may also consider specific circumstances related to an account or an investment, including, among other considerations, cash availability and/or leverage targets in particular client accounts and investment guidelines and limitations imposed by the relevant governing documents for such accounts. Please refer to Item 12 for additional information relating to Gracian's trading practices.

Gracian has procedures designed and implemented to seek to ensure that all clients are treated fairly and equitably, and to prevent conflicts from influencing the allocation of investment opportunities among clients. Gracian's side-by-side management of SMAs and each Fund is governed by Gracian's internal policies and procedures. Gracian's disclosure of its investment management practices relating to each Fund as stated above and elsewhere within this Brochure is not intended to be a solicitation for or advertisement of a Fund. Instead, such disclosures have been made to provide potential Fund investors with important information about the risks implicit for these types of activities as they relate to both investors in a Fund and SMA Clients in general.

ITEM 7: TYPES OF CLIENTS

Gracian provides investment management services to the Funds and SMAs, which may include pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other institutional investors.

Gracian imposes a minimum investment of \$1,000,000 for investments in the Short Alpha Funds and \$10,000,000 for investments in the Best Ideas Funds, and a minimum portfolio size and minimum investment of \$30,000,000 to open an SMA. Gracian reserves the right to waive the minimum or accept or decline a potential Client or Fund investor for any reason in Gracian's sole discretion.

A Short Alpha Fund investor that redeems any part of the investment before the Short Alpha Fund investor has held the investment for at least one year will be subject to a redemption fee, payable to Gracian, in the amount of 3% of the net asset value of the redemption amount (before deduction of any management fees and performance fees described above). Gracian reserves the right to waive or shorten the lockup period for a Short Alpha Fund investor and waive the redemption fee in whole or in part. Following the one year period, known as the "Lockup Period," Short Alpha Fund investors have the right to redeem all or part of the investment with at least sixty-one (61) day notice to Gracian. Redemptions will be made following the sixty-one (61) day notice on the last calendar day of the month. Gracian reserves the right to waive the notice period in its discretion. Best Ideas Fund investors have the right to redeem all or part of the investment with at least ninety-one (91) day notice to Gracian. Redemptions will be made following the ninety-one (91) day notice on the last calendar day of the month. Gracian reserves the right to waive the notice period in its discretion.

Prior to engaging Gracian to provide any of the investment advisory services described in this Brochure, the Client or Fund investor will be required to enter into one or more written agreements with Gracian setting forth the terms and conditions under which Gracian shall render its services.

Additionally, on a non-discretionary basis Gracian provides consulting services to one investment adviser and sub-advisory services to another investment adviser.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

The Short Alpha Master Fund makes short-oriented investments in securities in and/or related to U.S. exchange-traded companies whose respective market capitalizations are \$1 billion or larger at the point a position is initiated. Investment decisions are implemented according to conviction, with many positions being built over time. The Short Alpha Master Fund intends generally to hold 90% of its net assets in short positions, irrespective of Gracian's expectations as to overall future market direction. The Short Alpha Master Fund expects to hold at a given time approximately 30 to 40 short positions, with turnover ranging between 150% and 200% on an annualized basis. Gracian may, in its discretion, increase or decrease the Short Alpha Master Fund's net exposure from time to time.

The Best Ideas Master Fund makes short-oriented investments in securities in and/or related to U.S. exchange-traded companies whose respective market capitalizations are \$1 billion or larger at the point a position is initiated. The Best Ideas Master Fund intends to invest a target of 100% gross exposure (expressed as a percentage of net assets) in one single-company short position, irrespective of the Manager's expectations as to overall future market direction. The Manager may,

in its discretion, increase or decrease the Best Ideas Master Fund's short exposure from time to time.

The Short Alpha and Best Ideas Master Funds seek to achieve their respective investment objectives primarily by identifying short candidates through the use of screening models and fundamental company analysis.

Research and Investment Selection – Shorts. Gracian seeks to identify companies that exhibit a high risk of earnings and stock price underperformance through a systematic three-step research and conditioning process: (1) proprietary screening process wherein Gracian evaluates abnormal working capital movements (in revenue-cycle accounts, inventory-related accounts, and cash flow) that may signal revenue and/or earnings risk (that may be the result of competitive landscape challenges and/or operational inefficiencies); (2) an analysis of potential internal control deficiencies (as used in Section 404 of the Sarbanes-Oxley Act of 2002) that may relate to the working capital deterioration noted; and (3) an assessment of (a) earnings management (via aggressive accounting practices), (b) guidance management (resistance to acknowledge earnings risk), and (c) company motive(s) to engage in such practices. Companies that Gracian deems are at the highest risk of failing to meet investors' earnings expectations are selected as short candidates and positions are initiated.

The Short Alpha and Best Ideas Master Funds may also invest in certain derivatives, including exchange-traded and over-the-counter derivatives, as well as in cash and cash equivalents. However, the Master Funds do not intend to trade futures contracts, options on futures contracts or non-security-based swaps. The Short Alpha Master Fund may purchase equity securities that are issued in an initial public offering (*i.e.*, "new issues"), whereas the Best Ideas Master Fund does not intend to invest in "new issues". The Master Funds may borrow for investment or other purposes; however, it is anticipated that leverage will not exceed 10% of the Master Funds' gross portfolio exposure.

B. Material Risks

Investing in securities involves a significant risk of loss. Gracian's investment decisions are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients (which, for these purposes, include Fund investors) should be aware that there may be a loss or depreciation to the value of the Client's account, which Clients should be prepared to bear. There can be no assurance that the Client's investment objectives will be obtained and no inference to the contrary should be made. Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk and consequently, the value of the Client's account may at anytime be worth more or less than the amount invested.

General Investment Risks. Prices of the securities and other instruments may be volatile. Market movements are difficult to predict and are influenced by, among other matters, government trade, fiscal, monetary and exchange rate and control programs and policies; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the inherent volatility of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices

directly. The effects of governmental intervention may be particularly significant at certain times in the financial instrument and currency markets, and such intervention (as well as other factors) may cause these markets and related investments to move rapidly.

In addition, a Client's success depends on Gracian's ability to implement the Client's investment strategies. Any factor that would make it more difficult to execute more timely trades, such as a significant lessening of liquidity in a particular market, may also be detrimental to profitability. No assurance can be given that the investment strategies to be used by Gracian with respect to a particular Client will be successful under all or any market conditions.

General Economic Conditions. The success of any trading activity may be affected by general economic conditions, which may affect the level and volatility of securities prices, interest rates and the extent and timing of investors' participation in the markets for currencies, securities and other instruments. Unexpected volatility or liquidity in the markets in which a Client holds positions could impair Gracian's ability to carry out its investment strategy on behalf of such Client or cause the Client to incur losses.

Short Selling. Gracian will engage in short selling as part of its general investment strategy for Clients. Short selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows a Client potentially to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. A Client's obligations under its short sales will be marked-to-market daily and collateralized by the Client's assets held at its broker, including its cash balance and its long securities positions. Because short sales must be marked-to-market daily, there may be times when the broker compels the Client to post additional margin, and if this margin is not posted, the affected short sales must be settled prematurely, and a substantial loss may occur.

Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby increasing the loss. Short-selling exposes a Client to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

The SEC has in the past adopted, and may again adopt, bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for Gracian to execute certain investment strategies on behalf of its Clients and may have a material adverse effect on Gracian ability to generate returns for its Clients. In addition, engaging in short selling may increase the risk of Gracian or a Client becoming subject to government investigation.

Potential Impact of a Limited Number of Investments. Gracian may invest on behalf of its Clients in a limited number of securities and other instruments. Accordingly, a Client's account could become concentrated in relatively fewer securities at any given time. As a result of the foregoing, the aggregate return of a Client could be derived from a relatively undiversified, limited number

of securities. If a large portion of the assets of the Client is held in cash or cash-like instruments, performance might also be affected.

Equity Securities. The market price of securities owned by a Client may go up or down, sometimes rapidly or unpredictably. A risk of investing is that the equity securities in the long portion of a Client's portfolio will decline in value due to factors affecting equity securities markets generally or particular industries or issuers represented in those markets. The values of equity securities held in the long portion of a Client's portfolio may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. In addition, securities that Gracian believes are fundamentally undervalued or incorrectly valued held in the long portion of a Client's portfolio may not ultimately be valued in the capital markets at prices and/or within the time frame Gracian anticipates. As a result, a Client may lose all or substantially all of its investment in any particular instance.

Leverage. Gracian may cause a Client to borrow for investment or other purposes; however, it is anticipated that leverage will not exceed 10% of a Client's gross portfolio exposure. A Client will incur expenses whenever it borrows (such as fees, commissions, interest and taxes), which will reduce the return to the Client. Gracian may seek to enhance Client returns through the use of leverage, which can be described as exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. Additionally, leverage may involve borrowing to buy securities on margin or make other investments. Leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by Gracian for a Client, which may subject the Client to substantial risk of loss. In the event of a sudden, precipitous drop in value of a Client's assets occasioned by a sudden market decline, it might not be able to liquidate assets quickly enough to meet its margin or borrowing obligations. Also, because acquiring and maintaining positions on margin allows Gracian to control positions worth significantly more than its Client's investment in those positions, the amount that a Client stands to lose in the event of adverse price movements is higher in relation to the amount of its investment. In addition, since margin interest will be one of a Client's expenses and margin interest rates tend to fluctuate with interest rates generally, it is at risk that interest rates generally, and hence margin interest rates, will increase, thereby increasing its expenses.

Derivative Investments. Derivatives are financial contracts whose value depends on, or is derived from, an underlying product, such as the value of a securities index or individual security. The risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to the Client; (2) before purchasing the derivative, Gracian will not have the opportunity to observe its performance under all market conditions; (3) another party to the derivative may fail to comply with the terms of the derivative contract; (4) the derivative may be difficult to purchase or sell; and (5) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

Derivatives markets can be highly volatile. The profitability of investments in the derivatives markets depends on the ability of Gracian to analyze correctly these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of a Client may be pledged as collateral in derivatives transactions. Thus, if the Client defaults on such an obligation, the counterparty to such transaction may be entitled to such collateral, which could be a substantial portion of the assets of that Client.

Prior to entering into an agreement with Gracian, a Client should carefully consider: (1) committing to management only those assets that the Client believes will not be needed for current purposes and that can be invested on a long-term basis, (2) that volatility from investing in the stock market can occur, and (3) that over time the Client's assets may fluctuate and at any time be worth more or less than the amount invested.

For the Fund, investors should carefully review the risk factors section in the relevant offering documents for complete information.

ITEM 9: DISCIPLINARY INFORMATION

Registered investment advisers such as Gracian are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of Gracian or the integrity of its management. Gracian does not have any such legal or disciplinary events and thus has no information to disclose with respect to this Item.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Gracian serves as the managing member or manager to private funds that are organized as Delaware limited liability companies and private funds that are organized as a Cayman Island exempted companies, for the purpose of investing in publicly traded securities. Gracian recognizes that its management of both the Funds and other Client accounts may give rise to potential material conflicts of interest between Gracian's Funds and SMA Client accounts. Gracian has adopted policies and procedures to mitigate these conflicts, including the obligation to act in the best interest of all Clients for which Gracian provides investment management services. For information on Gracian's side-by-side management of the Funds and SMAs, please refer to Item 6, above.

Neither Gracian nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Additionally, neither Gracian nor any member of its management are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities. Gracian does not recommend or select other investment advisers for direct or indirect compensation.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

A. Code of Ethics Summary

As a registered investment adviser, Gracian owes fiduciary duties to its Clients. Therefore, Gracian has adopted a Code of Ethics ("Code of Ethics"). The Code of Ethics establishes standards of conduct for Gracian's supervised persons and includes general requirements that such 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 contains written policies reasonably designed to prevent the unlawful use of material non-public information by Gracian or any of its employees.

Through Gracian's Personal Trading Policy, all employees are considered "Access Persons." Access Persons are subject to certain restrictions as to what securities transactions they can execute in their personal accounts. Access Persons are prohibited from initiating trades that would be opposite to (1) the holdings of the Fund or to (2) those on which Gracian is performing research or contemplating performing research as possible investment positions of the Fund ((1) and (2) being "Restricted Securities"). For example, if the Fund holds a short position in a certain security or is contemplating such a position, an Access Person could not initiate a long position or add to an existing long position in the same security. The Access Person, would not, however, be required to sell an existing long position simply because the Fund established a short position. The list of Restricted Securities is updated weekly and securities are removed from the list the day after the Fund removes the security from the portfolio or at such time when a decision is made that the Fund will not pursue an investment in said security and research is terminated or not initiated. Preapproval is required for any trades involving a Restricted Security to ensure that Access Persons are not transacting in a Restricted Security on the same day as the Fund. Additionally, preapproval is required for any short position being effected by an Access Person regardless of if the security is a Restricted Security.

The Code of Ethics also requires that Gracian's personnel report their personal securities holdings and transactions. The Code of Ethics also requires supervised persons to report any violations of the Code of Ethics promptly to Gracian's Chief Compliance Officer ("CCO"). Each supervised person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code during that year. Gracian will provide a copy of its Code of Ethics to any Client or prospective Client upon request.

B. Participation or Interest in Client Transactions

It is Gracian's policy not to enter into any principal transactions or agency cross transactions on behalf of Client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory Client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction.

ITEM 12: BROKERAGE PRACTICES

The Short Alpha Master Fund has a prime brokerage arrangement with each of Morgan Stanley, and Bank of America Merrill Lynch. The Best Ideas Master Fund has a prime brokerage arrangement with Morgan Stanley. Under these arrangements, the prime brokers, among other things: (i) arrange for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) make and receives payments for securities; (iii) maintain custody of cash and securities; (iv) tender securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provide detailed portfolio and related reports. Gracian may cause the Short Alpha Master Fund and the Best Ideas Master Fund to pay for such custodial and related services.

A. Best Execution

Gracian has a fiduciary obligation to seek to ensure that it achieves best trade execution on behalf of each Client for which it provides discretionary investment advice. The duty of best execution is the duty of an investment adviser (where the investment adviser has the responsibility to select broker-dealers to execute client trades) to seek to execute customer trades on the most favorable terms reasonably available under the circumstances. Generally, this duty applies to publicly traded securities (although not necessarily exchange-traded) purchased through broker-dealers.

In arranging for the execution of portfolio transactions subject to this duty, Gracian uses its best judgment to choose the broker or dealer most capable of providing the services necessary to obtain the most favorable execution. The full range and quality of services available are considered in making these determinations. In those instances where it is reasonably determined that more than one broker or dealer can offer the services needed to obtain most favorable execution, consideration may be given to those dealers or brokers that supply investment research, economic, market and statistical information and brokerage services (which may include certain computer software, reports and research seminars) to Gracian. Gracian may deem certain of these services useful in the performance of its obligations to its Clients. Not all of these services may be useful for every Client.

1. Research and Other Soft Dollar Benefits

Gracian may select a broker-dealer in recognition of the value of various services or products, beyond transaction execution, that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.” The amount of compensation paid to such broker-dealer (which may include disclosed markups and markdowns on riskless principal transactions with market-makers if Gracian were to conduct such transactions) may be higher than what another, equally capable broker-dealer might charge.

Gracian’s will comply with the provisions of Section 28(e) of the Exchange Act when entering into soft dollar arrangements. Section 28(e) recognizes the potential conflict of interest involved in this activity, but generally allows investment advisers to use client commissions to pay for certain research and brokerage products and services under certain circumstances without breaching their fiduciary duties to clients. For these purposes, “research” means services or products used to provide lawful and appropriate assistance to Gracian in making investment decisions for its Clients. “Brokerage” services and products are those used to effect securities transactions for Gracian’s Clients or to assist in effecting those transactions.

Brokerage services obtained with soft dollars may include, for example, quotation and communication equipment and services, other order management systems that provide trading software or provide connectivity to such software, trade analysis software, on-line pricing services, communication services relating to execution, clearing and settlement and message services used to transmit orders.

Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; and discussions with research personnel, along with hardware, software, data bases and other technical and telecommunication services and equipment utilized in the investment management process. Research received by Gracian under such soft dollar arrangements may include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

There may be cases when Gracian may receive both non-research (*e.g.*, administrative or accounting services, etc.) and research benefits from the services provided by broker-dealers. If and when this happens, Gracian will make a good faith allocation between the non-research and research portion of the services received, and will pay “hard dollars” (*i.e.*, Gracian will pay out of its own funds) for the non-research portion. In making a good faith allocation between research services and non-research services, a conflict of interest may exist by reason of Gracian’s allocation of the costs of such services and benefits between those that primarily benefit Gracian and those that primarily benefit Clients. Gracian strives to always put the Client’s interests first.

2. Brokerage for Client Referrals

Gracian does not receive client referrals or solicitation fees for the referral of clients.

3. Directed Brokerage

Gracian does not permit clients to select the brokers through whom transactions are executed. For all Client accounts, Gracian selects all executing brokers.

B. Trade Aggregation and Allocation

Aggregating securities to be traded into one or more trade orders may give rise to actual or potential conflicts of interest among the accounts for which the security purchase or sale is appropriate, especially if the block trade order is partially filled. In order to address these conflicts, Gracian has adopted the following policies and procedures regarding its allocation of investment opportunities and aggregation of trades in order to provide an objective and equitable method so that all Clients are treated fairly.

If Gracian places trades for multiple Clients, then it is Gracian's policy to:

- Allocate investment opportunities among all Clients in a fair and equitable manner based on each Client's investment guidelines and restrictions as set forth in the respective private placement memorandums and/or documents;
- Aggregate trades when such aggregations are believed consistent with the duty to seek best execution, to negotiate more favorable commission rates, or to allocate equitably among Clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently;
- Generally allocate purchase or sale opportunities across all appropriate Clients *pro rata* based on account value, except in certain circumstances;
- Recognize that a *pro rata* allocation may not always be feasible or in the best interests of its Clients and may consider not only the guiding allocation objective, but may also consider specific circumstances related to an account or an investment, including, among other considerations, cash availability and/or leverage targets in particular Client accounts and investment guidelines and limitations imposed by the relevant governing documents for such accounts;
- Allocate partial executions in the order of the rotation and then to individual accounts on a random basis;
- Strive to ensure that no single Client participating in the block trade would be favored over any other participating Client; and

- Use the average weighted executed share price for that security for that day for each Client participating in the block trade.

The CCO must approve any exceptions to the allocation policy.

ITEM 13: REVIEW OF ACCOUNTS

A. Periodic Reviews

While Client accounts are monitored on an ongoing basis, Gracian undertakes reviews of Client accounts on a quarterly basis. Accounts are reviewed for consistency with the investment strategy and other parameters set forth for the account and to determine if any adjustments need to be made.

B. Other Reviews and Triggering Factors

In addition to the periodic reviews described above, reviews may be triggered by changes in a Client's tax, corporate or financial status. Other events that may trigger a review of an account are material changes in market conditions as well as macroeconomic and company-specific events.

C. Regular Reports

With respect to SMAs, written brokerage statements are generated no less than quarterly and are sent directly from the SMA Client's custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction unless receipt of confirmations have been waived. Clients are urged to compare the statements received from Gracian to those received from the account custodian and notify Gracian with any questions.

It is generally expected that each investor in Gracian Short Alpha I Ltd. and Gracian Best Ideas SPC will receive audited annual financial statements, generally within 120 days after the end of each Fiscal Year. Shareholders will also receive monthly performance reports.

It is generally expected that each investor in Gracian Short Alpha I LLC and Gracian Best Ideas LLC will receive (1) audited annual financial statements, generally within 120 days after the end of each fiscal year, (2) a Schedule K-1 (IRS Form 1065) or a substitute therefor and (3) monthly performance reports.

Gracian may agree with particular Fund investors to provide reports and access to financial or portfolio-related information that is more detailed than the reports and information provided to Fund investors generally, and/or to provide financial and portfolio-related information more rapidly and/or more frequently than is provided to Fund investors generally. Gracian enters into such agreements solely within its discretion.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Gracian has entered into a written agreement with an unaffiliated organization to refer clients to Gracian. The compensation paid to the organization is based upon Gracian's engagement of new clients and the retention of those clients and is calculated as a percentage of the fees paid to Gracian by such clients. Any such fee shall be paid solely from Gracian's investment management fees, and shall not result in any additional charge to the client.

Each prospective client who is referred to Gracian under such arrangement will receive a copy of Gracian's firm brochure and a separate written disclosure document disclosing the nature of the relationship between the third-party solicitor and Gracian and the amount of compensation that will be paid by Gracian to the third party. The solicitor is required to obtain the client's signature acknowledging receipt of Gracian's disclosure brochure and the solicitor's written disclosure statement.

ITEM 15: CUSTODY

Assets of an SMA will be maintained with an independent qualified custodian, such as a prime broker. Gracian may only execute its investment strategy with respect to such account after the Client has authorized such discretion over the account with the appropriate financial institution, acting as custodian.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by Gracian. Gracian's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Gracian is deemed to have custody of the assets of each Fund under Rule 206(4)-2 under the Advisers Act (the "Custody Rule").

Accordingly, each Fund's cash and securities will be held with a qualified custodian in a separate account for the Fund under the Fund's name. Each Fund's financial statements will be prepared in accordance with generally accepted accounting principles and audited annually by an independent public accountant that is registered with, and subject to regular inspection as of the commencement of the professional engagement period, and as of each calendar year-end, by, the Public Company Accounting Oversight Board in accordance with its rules, and distributed to the equity owners of the relevant Fund within 120 days of the end of the Fund's fiscal year.

According to the Custody Rule, an adviser will not be deemed to have custody solely because it inadvertently receives client funds or securities, so long as the adviser returns the funds or securities to the sender promptly, but in any case within three business days of receipt. If funds or securities are inadvertently received by Gracian, they are returned to the sender immediately or as soon as practical.

ITEM 16: INVESTMENT DISCRETION

A. Discretionary Authority; Limitations

Services for SMAs are performed by Gracian on a discretionary basis. In exercising its discretionary authority, Gracian has the ability to determine the type and amount of securities to be transacted and whether an SMA Client's purchase or sale should be combined (aggregated) with those of other Clients and traded as a "block." Such discretion is to be exercised in a manner consistent with each Client's stated investment objectives, risk tolerance, and time horizon. In addition, Gracian's authority to trade securities may be limited in certain circumstances by applicable legal and regulatory requirements. As set forth in the investment management agreement between Gracian and an SMA Client, a Client is permitted to impose reasonable limitations on Gracian's discretionary authority, including restrictions on investing in certain securities or types of securities.

On a case-by-case basis, Gracian performs investment management consulting services on a non-discretionary basis. The non-discretionary advice is to be exercised in a manner consistent with such client's stated investment objectives.

B. Limited Power of Attorney

SMA Clients authorize Gracian to exercise full discretionary authority with respect to all investment transactions involving the Client's account. Pursuant to such agreement, Gracian is designated as the Client's attorney-in-fact with discretionary authority to effect investment transactions in the Client's account which authorizes Gracian to give instructions to third parties in furtherance of such authority. As the managing member or manager of each Fund, and pursuant to the organizational documents of each Fund, Gracian has the power to effect transactions on behalf of each Fund.

ITEM 17: VOTING CLIENT SECURITIES

Gracian's investment strategy is to sell securities short, and, as a result, will not typically have voting rights with respect to such securities. In the event that Gracian exercises voting authority with respect to Client securities, Gracian will, with respect to those Clients, make and retain the following (either on its own, or through a third party):

- Copies of all policies and procedures required by Rule 206(4)-6 (Proxy Voting) under the Advisers Act.
- A copy of each proxy statement that Gracian receives regarding Client securities.
- A record of each vote cast by Gracian on behalf of a Client.
- A copy of any document created by Gracian that was material to making a decision how to vote proxies on behalf of a Fund or that memorializes the basis for that decision.

Gracian makes independent voting decisions and casts the votes in a timely and prudent fashion. In voting shares on economic issues, voting decisions are made independently of directions given

or threats of loss of business expressed or implied by an opponent or proponent of an economic issue.

Gracian may amend its proxy policies and procedures from time to time without prior notice to its Clients. If you would like a copy of Gracian's Proxy Voting Policies and Procedures, please contact our CCO.

ITEM 18: FINANCIAL INFORMATION

Gracian does not require or solicit prepayment of more than \$500 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Gracian does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to Clients, and has not been the subject of a bankruptcy proceeding.