

Item 1: Cover Page

Shoals Capital Management, LP

Form ADV Part 2A

Firm Brochure

March 2019

This document (the “Brochure”) provides information about the qualifications and practices of Shoals Capital Management, LP (“Shoals” or the “Firm”), an investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”). Registration with the SEC does not imply that Shoals or its employees possess a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Please contact Shoals if you have any questions about the contents of this Brochure.

Additional information about Shoals is also available on the SEC’s website at www.adviserinfo.sec.gov.

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Item 2: Material Changes

This Brochure is a part of the annual update to the Firm’s most recent ADV Part 2A, which was an “Other Than Annual Amendment” filed in January 2019. There have been no material changes that require notification in this section of the Brochure.

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Item 4: Advisory Business

Shoals Capital Management LP, a Delaware limited partnership, is a private investment management firm focused on making investments in the financials sector of the capital markets. The Firm was founded by its principal owner, Jeffrey Hinkle, in 2016.

Shoals provides investment advisory services to clients (the “Clients”), which currently consist of three (3) private investment funds (Shoals Financials Opportunity Master Fund, LP, Shoals Financials Opportunity Fund, LP and Shoals Financials Opportunity Offshore Fund, Ltd., referred to collectively as the “Fund”). The Firm may in the future provide investment advisory services to other private investment funds, employee and co-investment vehicles, other alternative investment vehicles, and separately managed accounts.

Shoals is focused on the management of the Fund utilizing an event-driven investment approach associated with changes in banking and other financial institution and investment vehicle regulations. The team responsible for the management of the investments of the Fund has over 96 years of combined investment experience.

Shoals commenced operations in January 2017, and is based in Arlington, Virginia. As of December 31, 2018, the firm manages approximately \$346,400,000 in assets.

Item 5: Fees and Compensation

In general, as compensation for investment supervisory services rendered to the Fund, Shoals is paid a monthly management fee (“Management Fee”). In addition, Shoals Financials Opportunity GP, LLC, an affiliated entity that acts as general partner (the “General Partner”) to the Fund, receives an annual incentive allocation (“Incentive Allocation”) from Fund investors. The Fund also bears additional expenses and fees, including the costs of formation and ongoing operational and legal expenses, as set forth in the applicable Fund offering documents (“Fund Documents”). Investors should review the Fund Documents for details regarding fees, some of which are summarized below.

Management Fees

With respect to the Fund, the Management Fee annual rate varies from 0% to 1.5% of Fund gross assets and is paid monthly in arrears. The Fund Documents allow the Firm or the General Partner to waive or agree to reduce the Management Fee for one or more investors without waiving or reducing it for all investors.

Incentive Allocations

The General Partner is entitled to receive an annual Incentive Allocation at rates that vary from 0% to 20.0% of Fund net profits, calculated and paid annually following the Fund’s fiscal year-end. Such potential Incentive Allocation is subject to a high-water mark, as outlined in the Fund Documents. The Incentive Allocation payable for any period other than a full fiscal year, in conjunction with investor subscriptions and redemptions that take place throughout the year, may be proportionately adjusted to the extent provided for in the Fund Documents.

Payment of Management Fees and Investment Allocations

The Fund's administrator, through a written agreement outlining the services provided to the Fund, deducts the Management Fees monthly and the Incentive Allocation annually (and otherwise), all in arrears, from each Fund investor account as applicable. The administrator wires the proceeds of the Management Fee to the Firm and the proceeds of the Incentive Allocation to the General Partner, both net of Fee and Allocation sharing amounts due to any third-party marketing entities as outlined in Item 14.

Shoals does not act in any capacity as a broker-dealer, and accordingly, does not receive any compensation for acting as a broker-dealer. In addition, neither Shoals nor any of its employees accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of pooled investment vehicles. None of Shoals, the General Partner, or any of their employees receives any compensation from the Fund other than the Management Fee and the Incentive Allocation.

For more information on brokerage activity, see Item 12.

Item 6: Performance-based Fees and Side-By-Side Management

As described under "Fees and Compensation" above, the Firm currently only advises the Fund whereby the General Partner may receive an Incentive Allocation based upon the investment performance of the Fund. The Firm maintains policies designed to treat all investors fairly and equitably and to prohibit allocation of investments to any Client on the basis that the General Partner, an affiliate of the Firm, has the potential to earn a higher Incentive Allocation.

Item 7: Types of Clients

Shoals currently provides investment advisory services only to the Fund. The investors participating in the Fund may include high net worth individuals, banks, insurance companies, pension and profit-sharing plans, trusts, estates or charitable organizations, educational and research institutions, corporations or other business or investment entities, and, directly or indirectly, the Firm, the General Partner, and their employees and other affiliates.

Interests in the Fund are offered pursuant to applicable exemptions from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and the U.S. Investment Company Act of 1940, as amended (the "1940 Act"). Investors in the Fund are required to be "accredited investors" as defined in the Securities Act. Minimum investment amounts for investors may vary by type and may be waived by Shoals subject to regulations governing investments in the Fund.

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

The Firm seeks to manage the Fund in order to generate attractive absolute returns using an event-driven strategy focused on financials & real estate, specifically targeting opportunities brought about by structural changes in regulatory & capital market conditions.

The investment strategy focuses on long-term structural changes (both positive and negative) that will affect a sub-sector area of financials over the medium-term, and have low correlation to broader macro trends. The firm will look for opportunities that manifest themselves across the capital structure during periods of transition, monitoring and investing both long and short in an effort to maximize risk-adjusted returns for Fund investors. Identifying and capturing option value related to impending catalysts is an important factor in the success of the strategy.

There are five principal steps that define the strategy. First, fundamental research is employed to provide a comprehensive understanding of credit and regulatory cycles. Second, Shoals scrutinizes the nuances of anticipated regulatory changes to provide guidance on the benefits and detriments flowing to various sub-sectors of the financial industry. Third, within these subsectors, further analysis is undertaken to identify which markets and asset classes will experience the brunt of the changes. Fourth, an assessment of the corporate impact of change, both positive and negative, leads to a further focus on available investment opportunities. Finally, the portfolio management team identifies those securities expected to deliver the best risk-adjusted returns for the Fund.

The Firm undertakes an active and continuous approach to risk management throughout the investment process, utilizing both quantitative and qualitative tools and techniques to minimize portfolio volatility brought about by macroeconomic shocks, in particular those brought about by policy uncertainty. In addition to its ongoing monitoring of political and regulatory developments, Shoals maintains close contact with company management teams, implements cross-asset holdings to reduce correlation and sizes positions to maintain flexibility. Strict position limits are imposed across the Fund, along with automatic position reviews at pre-determined mark-to-market loss limits. Net portfolio exposures are maintained at a low level and an active hedging strategy using correlated indices further supports the Firm's active risk management process.

Risk of Loss

Past performance is not indicative of future results. Therefore, current and prospective investors should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, bonds, and pooled investment vehicles) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Investors and prospective investors should be prepared to bear investment loss including loss of original principal.

- Market Risk – Any market, whether it involves stocks, bonds, or other asset classes, goes up and down as a result of overall market conditions. When markets go down, this can result in a decrease in the value of the Fund's long investments. When markets go up, this can result in a decrease in the value of the Fund's short investments. A collapse of financial markets can lead to extreme losses and is referred to as systemic risk.
- Equity Market Risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of issuers of stocks change. If the Fund holds common stock, or common stock equivalents, of any given issuer, the Fund would generally be exposed to greater risk than if the Fund held preferred stocks and debt obligations of the issuer as common stock holders get paid last when a company fails.
- Fixed Income Market Risk – When investing in bonds, there is the risk that the bond issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- ETF and Mutual Fund Risk – When the Fund invests in an ETF or mutual fund, it will bear additional expenses based on its pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities held by the ETF or mutual fund, including equities, fixed income, commodities, and derivatives on such securities.

- Short Selling Risk – Short selling transactions expose the Fund to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Fund in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur wherein an investor might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.
- Liquidity Risk – High volatility and/or the lack of deep and active liquid markets for a security may prevent an investor from selling securities at all, or at an advantageous time or price, because there may be difficulty in finding a buyer. An investor may be forced to sell at a significant discount to perceived market value. Some investors (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage portfolios.
- Concentration Risk – Portfolios may from time to time be concentrated in a few securities, geographic region, or asset class. The value of a portfolio may vary considerably in response to changes in the market value of that individual security, region, or asset class.
- Foreign Investing and Emerging Markets Risk – Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values and adverse political, social, and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by other factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.
- Inflation, Currency, and Interest Rate Risks – Security prices and portfolio returns may vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor’s future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of U.S. dollar-denominated assets may be affected by the risk that currency devaluations affect investor purchasing power.
- Legislative and Tax Risk – Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment advisor or securities trading regulation; change in the U.S. government’s guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization, and/or tax reporting obligations. In certain circumstances, an investor may incur taxable income on investments without a cash distribution to pay the tax that becomes due.
- Counterparty Risk – Counterparty risk is the risk that the counterparty to a transaction will not fulfill its contractual obligations. Should this occur, investors could potentially incur significant losses.

- Advisory Risk – There is no guarantee that the judgment or investment decisions made by the Firm about particular securities or asset classes will necessarily produce the intended results. The Firm’s judgment may prove to be incorrect. In addition, it is possible that the Firm will fail to manage its business such that it can remain a going concern which would be disruptive to investors and could lead to a protracted delay in obtaining redemption proceeds.
- No Market for Limited Partnership Interests; Restrictions on Transfer - An investment in the Fund is suitable only for certain sophisticated investors that have no need for immediate liquidity in their investment and who understand that they may lose all or a significant portion of their invested capital. Investors must be willing to bear the economic risk of an investment in the Fund for an indefinite period of time. Interests in the Fund have not been registered under the Securities Act, the securities laws of any state of the U.S., or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. It is not contemplated that registration of the interests under the Securities Act or other securities laws will ever be effected. There is no public market for the interests and one is not expected to develop. An investor may not assign or encumber any interest in the Fund except with the prior written consent of the General Partner (which may be withheld in the General Partner’s sole discretion), and subject to various other limitations.
- Investors Will Not Participate in Management of the Funds - The Firm will have the exclusive responsibility for the Fund’s activities, including the management, day-to-day operations, and investment and disposition decisions for the Fund. Accordingly, an investor must rely upon the ability of the Firm in making, monitoring, and disposing of investments in a manner consistent with the Fund Documents. Investors will have almost no control over their investments in the Fund. Investors generally will not have the opportunity to approve investments or to independently evaluate the information that will be utilized by the Firm in the selection, management, or disposition of investments.
- Limited Access to Information - Investors’ rights to information regarding the Fund are specified, and strictly limited, in the Fund Documents. In particular, it is anticipated that the Firm will obtain certain types of material information associated with investments that will not be disclosed to investors because such disclosure is prohibited by contractual, legal, or other obligations. Decisions by the Firm to withhold information may have adverse consequences for investors in a variety of circumstances. Decisions to withhold information also may make it difficult for investors to monitor the Fund’s investment activities and its performance.
- Dependence on Key Personnel - The success of the Fund depends in substantial part upon the skill and expertise of the members of the Firm’s management team. However, there can be no assurance that these individuals will continue to be associated with the Firm throughout the life of the Fund. The loss of one or more members of the Firm’s management team or other key personnel could materially and adversely affect the Fund and the performance of its investments. The Firm may not be able to successfully recruit additional personnel, and any additional personnel that are recruited may not have the requisite skills, knowledge, or experience necessary or desirable to enhance the incumbent management.

- Lack of Operating History and Experience - The Fund consists of one or more newly-formed entities that only recently commenced operations and therefore have a limited operating history upon which prospective investors may evaluate its performance or upon which an investor can base its prediction of future success or failure. In addition, although the Firm's management team has significant experience in making investments in the financials and real estate sectors of the capital markets, the Firm is also recently formed with no substantial operating history. The Fund may be permitted to make investments in markets in which the Firm has no prior operating experience. Accordingly, the Fund may compete for assets with entities that may have greater experience and knowledge of such markets and may have better relationships with sellers, brokers, lenders, or others in such markets. Investments in new markets may require more management time, staff support, and expense in order to develop and maintain an appropriate knowledge base and relevant relationships.
- Co-Investment Opportunities - The Fund may co-invest in one or more investment opportunities ("Co-Investments") with one or more strategic investors, lenders, investors (or affiliates thereof) and/or other third parties ("Co-Investors") through joint ventures or other entities or through the acquisition of different real property rights and interests, in which Co-Investors in certain cases may have different or superior rights or interests to those of the Fund and its investors. The Fund may not have control or operating rights over certain of the Co-Investments and, therefore, may have a limited ability to protect its position therein or maximize the value thereof. In addition, the Fund's Co-Investments will be subject to typical risks in connection with third-party involvement, including the possibility that a third-party may have financial difficulties resulting in a negative impact on such Co-Investment, may have economic or business interests or goals that are inconsistent with those of the Fund, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. The Fund may also in certain circumstances be liable for the actions of Co-Investors. Investments made with third parties in joint ventures or other entities or in different real property rights and interests may involve carried interests or promotion or other fees payable to such Co-Investors, thereby reducing potential distributions to the Fund. In addition, such Co-Investments may be made on materially different terms and conditions than those applicable to the Fund, and such different terms may be disadvantageous to the Fund or to any investor in the Fund participating directly or indirectly therein.
- Cybersecurity Risk – The Fund, the Firm, the General Partner, and third-party service providers are all subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons, and security breaches and usage errors by their respective professionals. A cybersecurity breach could expose the Fund, the Firm, and the General Partner to substantial costs (including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity services, identity theft, unauthorized access to and use of proprietary information, litigation, the dissemination of confidential and proprietary information, and reputational damage), civil liability, and regulatory inquiry and/or action. While the Firm has established a business continuity plan and cybersecurity policy including risk management strategies, systems, and policies and procedures to seek to prevent cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, and policies and procedures including the possibility that certain risks have not been identified. In addition, since the Firm does not directly control the cybersecurity systems of third-party service providers, there can be no assurance that the cybersecurity practices of these providers will protect the Fund, the Firm, or the General Partner from any potential breaches.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund. Prospective investors should read the entire Form ADV, the Fund Documents, and all other accompanying materials provided by Shoals before deciding whether to invest. In addition, as the Firm's investment philosophy develops and changes over time, an investment in the Fund may be subject to additional and different risk factors. Shoals will promptly amend this Brochure if and when any information regarding its investment risks becomes materially inaccurate.

Item 9: Disciplinary Information

As a registered investment adviser, Shoals is required to disclose all material facts regarding any legal or disciplinary events that could be considered material to an investor's evaluation of Shoals in connection with making an investment in the Fund. This includes events associated with employees of Shoals.

At the current time, there are no reportable legal or disciplinary events regarding the Firm or its employees to disclose.

Item 10: Other Financial Industry Activities and Affiliations

The employees of Shoals are not currently involved in other businesses, financial or otherwise. Employees are permitted to serve on boards of charities and other not-for-profit organizations. In such capacities, employees are expected to not let their involvement interfere with the duties they have working for Shoals.

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

The Firm has adopted a written "Code of Ethics" that is applicable to all of its employees. The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, establishes guidelines for professional conduct and personal trading procedures, including certain reporting obligations and pre-clearance of any proposed purchase of any initial public or limited securities offering. Employees and their families and households may purchase investments for their own accounts subject to the terms of the Code of Ethics. Under the Code of Ethics, employees are required to file certain periodic investment account reports as required by Rule 204A-1 under the Advisers Act. The Code of Ethics helps the Firm detect and address potential conflicts of interest.

Employees may come into possession, from time to time, of material non-public or other confidential information ("MNPI") about public companies which might affect an investor's decision to buy, sell, or hold a security. Under applicable law, the Firm and its employees are prohibited from improperly disclosing or using MNPI for their personal benefit or for the benefit of any other person, regardless of whether such person is an investor in the Fund or otherwise a Client of the Firm.

If an employee comes into possession of MNPI, the Firm would be prohibited from communicating such information to any Fund investor or other Client. The Firm will have no responsibility or liability for failing to disclose MNPI to any Fund investor or other Client as a result of following the Firm's compliance policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Firm employees serving as directors of public companies and may restrict investing that can take place on behalf of the Fund or other Client, including making an investment that the Fund or Client might otherwise make.

The Code of Ethics details restrictions and reporting requirements regarding the giving or receiving of gifts and/or entertainment by employees to and/or from, among others, current or prospective investors, government officials, and union officials.

Employees who violate the Code of Ethics may be subject to disciplinary actions including termination of employment. Employees are required to annually acknowledge compliance with the Code of Ethics.

A copy of the Code of Ethics is available by submitting a request to Shoals' Chief Compliance Officer at info@shoalscapital.com.

Item 12: Brokerage Practices

Approved Broker List

Shoals maintains a list of brokers ("Approved Broker List") that has been approved for trading securities in Client accounts. Only brokers on the Approved Broker List will be considered for a trade.

Broker Selection

Brokers are selected based on the ability of the broker to provide best execution, as well as the following additional factors:

- The characteristics of the security to be traded,
- A brokerage firm's general experience and capacity to execute block transactions while minimizing total trading costs,
- One aspect to best execution is the willingness and ability of a firm to provide proprietary research or third-party research services deemed valuable to the investment process.

Other Relevant Factors

The Firm considers other circumstances such as size of the trade, timing of the execution, requirement of research, level of technology, and/or firm infrastructure in choosing brokers for the execution of trades.

Soft Dollars

The Firm does not engage in "soft dollar" activity (the receipt of research and other services in exchange for transaction commissions that are deemed to be higher than are generally available). In the event that Shoals chooses to utilize soft dollars in the future, and the Firm determines that soft dollar arrangements are in the best interest of its Clients, the Firm will implement the requisite policies and procedures prior to undertaking such activity which includes ensuring that the activity falls within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

Block Trading Procedures

As an adviser to a single Fund, the Firm does not currently utilize block trading procedures. In the event the Firm adds additional Clients, it may seek to execute block trades. If implemented, all block trading will be conducted in a way that seeks to minimize transaction and booking costs across all Clients as well as achieve fair treatment for all Clients when allocating individual executions.

Agency or Cross Transactions

An agency cross transaction occurs when an investment adviser (or affiliate of the adviser) effects a transaction or acts as a broker for both a client and a third party for compensation. The Firm does not generally expect to engage in agency cross transactions. However, in the event that any such transaction is contemplated, it may only be effected if permitted in advance by the CCO, appropriate written client consent is obtained, proper disclosures are provided, and appropriate client reporting and necessary records maintained prior to occurrence take place.

Principal Transactions

Shoals does not engage in “Principal Trading”, meaning that Shoals does not engage in the buying, selling, or holding of securities for its own benefit. Shoals only makes investments on behalf of Clients. Shoals does not buy securities from, or sell securities to, any Fund. Securities transactions entered into by Shoals on behalf of Clients are only entered into with registered brokers and dealers that make markets in the specific securities.

Trade Errors

A trade error occurs when a mistake is made in the execution of a trade. The mistake could be made by an employee of Shoals or an employee of the executing broker. Examples of trade errors include purchasing the wrong security, purchasing instead of selling, and purchasing more than or less than the intended amount. Shoals’ policy on trade errors seeks to promptly (1) identify the error, (2) correct the error as soon as practicable, (3) assess which party should bear the cost of the error if there is a loss (i.e., the Client, Shoals, or the broker) and (4) report and log the error. In the event the Client incurs a trade error solely as a result of gross negligence, willful misconduct, violations of applicable laws, or a material breach of a Fund’s offering documents, Shoals will be responsible for any losses (subject to insurance coverage for such incidents and any amounts recovered from the executing broker). Trade errors that result from other events will be borne by the Client. To the extent that any gains arise from trading errors and as such are received by the Client, then such gains will be retained by the Client.

When a trade execution error results in a material loss to a Client’s portfolio that is not made whole, Shoals will notify the Client.

An error will not be deemed to have occurred unless a Client’s account was financially impacted in a material manner. Shoals maintains a written record identifying all trade errors and the ultimate resolution of the errors in accordance with the books and records requirements of Rule 204 (2) of the Advisers Act.

Item 13: Review of Accounts

Account Reviews

The Firm’s investment team reviews portfolio strategy on a continual basis. Among the topics discussed is whether or not changes to the current strategy make sense. Changes to the portfolio strategy may affect Fund holdings. Changes may be deemed appropriate based on such factors as the economic environment, changes in individual securities or sectors, the overall outlook of financial markets, and other factors that may affect the Firm’s ability to achieve the Fund’s investment goals and objectives. The Firm will advise Fund investors in the event that it believes that material changes to the portfolio investment strategy should be made.

The Firm also reviews the portfolio for the purposes of determining potential portfolio rebalancing decisions and other investment changes that may be appropriate depending on the specific facts and circumstances. These activities are considered normal portfolio management activities and not changes in portfolio investment strategy.

Client Reporting

All Fund investors will receive the following reports (if produced) from the Firm or from the Fund's administrator:

- Bi-monthly performance estimates
- Monthly investor reports
- Quarterly investor reports
- Periodic investor letters or white papers
- Annual audited financial statements
- Monthly account NAV statements
- Applicable tax information

Item 14: Client Referrals and Other Compensation

The Firm and/or Fund may engage third-party solicitors for investor referrals, provided that each such solicitor has entered into a written agreement with the Firm and/or Fund pursuant to which the solicitor will provide each prospective investor with, among other things, a copy of the Firm's Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and the Firm and/or Fund, and any fees to be paid to the solicitor. Payments for investor solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

Item 15: Custody

Client assets are required to be held by a custodian unaffiliated with the Firm. Although the Firm does not maintain physical custody of Fund assets, under the Advisers Act the Firm is deemed to have custody of Fund assets because it serves as investment manager to the Fund and therefore has a deemed "power of attorney" whereby it can instruct the payment of fees from the Fund to itself and Investment Allocations to the affiliated General Partner. Therefore, the Firm must comply with certain "custody" requirements under the Advisers Act. To comply with these requirements, the Firm will:

- Ensure that the assets of its Clients are maintained in custodial accounts with a "qualified custodian";
- Provide notice to Clients about the qualified custodian. This notice is incorporated into the Fund Documents.

In order to further comply with custody requirements, the Firm requires (1) the appointment of an independent public accounting firm that is registered with the Public Company Accounting Oversight Board (PCAOB) to conduct an annual audit of Fund financial statements, (2) distribution of the audited financial statements within 120 days of the fiscal year-end to each Fund investor, and (3) upon liquidation of the Fund, the performance of a liquidation audit and distribution of the related financial statements to investors promptly upon completion of such audit. The Firm also distributes monthly performance reports to each Fund investor.

Item 16: Investment Discretion

The Firm provides investment advisory services to the Fund on a discretionary basis. Prior to assuming full discretion in managing the Fund's assets, the Firm entered into an investment management agreement with the Fund that sets forth the scope of the Firm's discretion.

Unless otherwise instructed, the Firm has the authority to determine (1) the securities to be purchased and sold for the Fund (subject to restrictions on its activities set forth in the investment management agreement and the Fund Documents), and (2) the amount of securities to be purchased or sold for the Fund.

Item 17: Voting Client Securities

The Firm has adopted policies and procedures (the "Proxy Policy") to address how the Firm will vote when provided proxies to do so by entities in which the Firm has invested on behalf of the Fund. The Proxy Policy seeks to ensure that the Firm votes proxies or similar corporate actions in the best interests of the Fund investors, taking into account such factors as it deems relevant in its sole discretion.

Proxy Policy

The Proxy Policy is designed to 1) identify any material conflicts of interest connected with a particular proxy vote, and 2) ensure that any vote where such conflicts are identified is not improperly influenced by the conflict. The Firm generally believes that its interests are aligned with those of Fund investors through the existence of principal beneficial ownership interests in the Fund. The Firm will generally not seek Fund investor approval or direction when voting proxies. In the event that a potential conflict of interest in voting proxies is identified, the Proxy Policy provides that the Firm may address the conflict by bringing it to the attention of the Compliance Committee, the Fund Directors, or by taking other action deemed appropriate including by seeking the approval of the Fund investors.

Record-Keeping Requirements

The CCO, or his designee, is responsible for maintaining files relating to proxies voted by the Firm. Records will be maintained and preserved as required by the Advisers Act.

Fund investors who would like a copy of the Firm's Proxy Policy or information regarding how the Firm voted proxies should contact the CCO. Such information will be provided free of charge.

Item 18: Financial Information

As described above, the Firm receives Management Fees on a monthly basis. The Firm is not aware of having any financial condition that is reasonably likely to impair its ability to meet contractual commitments to the Fund.

The Firm has not been subject to any bankruptcy petitions at any time.

Item 19: Requirements for State Registered Advisers

While the Firm is registered with the SEC and not with any U.S. state, it chooses to abide by certain obligations of state-registered advisers. Information on the biographies of key management personnel within the Firm is set forth in the ADV Part 2B for Shoals Capital Management, LP. To request a copy of the firm's ADV Part 2B, please contact the Firm at info@shoalscapital.com or by phone at (703) 763-0925.

As General Partner to the Fund, Shoals Financials Opportunity GP, LLC may earn performance-based compensation as outlined in Item 5 of this ADV Part 2A. This Incentive Allocation compensation may create an incentive for the Firm, which is an affiliate of the General Partner, to recommend an investment that may carry a high degree of risk, all else being equal, to investors in the Fund. Details about the structure and calculation of Incentive Allocation compensation is outlined in the Fund Documents.