

**Item 1. Cover Page**

**Form ADV Part 2A**

**Brochure of**

**Spitfire Capital LLC**

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March 12, 2019

This brochure provides information about the qualifications and business practices of Spitfire Capital LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (415) 878-1903 or email [patrick@spitfirecap.com](mailto:patrick@spitfirecap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

The Adviser is registered as an investment adviser with the SEC. Registration with the SEC does not imply a certain level of skill or training.

## **Item 2. Material Changes**

The Adviser has made changes to the Brochure since its last annual update on March 27, 2018. The following is a summary of the material changes:

Item 4 has been updated to reflect the Adviser's current regulatory assets under management.

### **Item 3. Table of Contents**

|  |    |
|--|----|
| Item 1. Cover Page .....   | 1  |
| Item 2. Material Changes .....   | 2  |
| Item 3. Table of Contents .....  | 3  |
| Item 4. Advisory Business.....   | 4  |
| Item 5. Fees & Compensation .....  | 5  |
| Item 6. Performance-Based Fees and Side-by-Side Management.....                                  | 8  |
| Item 7. Types of Clients .....   | 9  |
| Item 8. Methods of Analysis, Investment Strategies & Risk of Loss.....                           | 10 |
| Item 9. Disciplinary Information.....  | 15 |
| Item 10. Other Financial Industry Activities and Affiliations.....                               | 16 |
| Item 11. Code of Ethics, Participation or Interest in Client Transactions & Personal Trading.... | 17 |
| Item 12. Brokerage Practices.....  | 18 |
| Item 13. Review of Accounts .....  | 21 |
| Item 14. Client Referrals and Other Compensation .....   | 22 |
| Item 15. Custody .....   | 23 |
| Item 16. Investment Discretion .....   | 24 |
| Item 17. Voting Client Securities .....  | 25 |
| Item 18. Financial Information.....  | 26 |

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

- A. The Adviser, a Delaware limited liability company, commenced operations as an investment adviser in July 2007 and is based in Mill Valley, California. Mr. Julian A. L. Allen ("Mr. Allen") is the Founder, Managing Member and sole owner of the Adviser. The Adviser provides investment management services to pooled investment vehicles that are offered to investors on a confidential, private placement basis and to separate account clients.
- B. The Adviser serves as the exclusive investment adviser to three private investment funds (the "Funds"): The Spitfire Fund L.P., The Spitfire Qualified Fund L.P., each a Delaware limited partnership, and The Spitfire Qualified Fund Ltd., a Cayman Islands exempted company. Spitfire Fund GP LLC, an affiliate of the Adviser, serves as the general partner (the "General Partner") of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. The Adviser provides similar services to two separately managed account clients (each a "Separate Account", collectively the "Separate Accounts" and together with the Funds, the "Clients") and may in the future provide similar services to additional private investment funds or separate account clients.

The Adviser invests primarily in publicly traded U.S. equities on behalf of its Clients, but is authorized to enter into any type of investment transaction it deems appropriate, pursuant to the terms of the Funds' partnership agreements and investment management agreements, and the Separate Accounts' investment advisory agreements.

- C. The Adviser does not tailor its advisory services to the individual needs of investors in the Funds. Separate Account Clients may impose certain restrictions including on investing in certain securities or types of securities.
- D. The Adviser does not participate in wrap fee programs.
- E. As of February 28, 2019, the Adviser had \$135.5 million of regulatory assets under management. All such assets are managed by the Adviser on a discretionary basis.

## **Item 5. Fees & Compensation**

- A. The Adviser charges each investor in the Funds a quarterly management fee equal to 0.375% of the balance in the investor's capital account as of the first day of each calendar quarter. This equates to an annual management fee of 1.5%.

The General Partner of the Funds is allocated an annual performance fee (the "Special Allocation") equal to 20% of the annual net profits allocated to each investor in the Funds, including both realized and unrealized gains and losses, but only to the extent annual net profits exceed cumulative losses previously allocated to an investor for earlier periods that have not been recovered (the "High Water Mark"). The Special Allocation is made as of December 31 of each year and at any time there is a redemption or withdrawal by an investor in the Funds. Please see Item 6 for further discussion of performance fees.

Special Allocations will be made only by investors in the Funds who are "qualified clients" within the meaning of Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Special Allocation is structured to comply with Rule 205-3 of the Advisers Act.

The Separate Accounts are charged a monthly management fee of 0.125% of the gross value of the respective account as of the start of each calendar month. This equates to an annual management fee of 1.5%. As of December 31 of each year, the Adviser charges an annual performance fee of 10-20% of the net capital appreciation of each Separate Account for the year then ended, including realized and unrealized gains and losses, subject to each Separate Account's respective High Water Mark.

While the fees described above are the Adviser's standard fees, the Adviser has full authority to modify the fees for certain investors, including employees. The Adviser's employees do not currently pay fees on their investments in the Funds.

Investors should refer to the Funds' partnership agreements and investment management agreements, and the Separate Accounts' investment advisory agreements for a full description of the fees to be paid to the Adviser.

- B. The Adviser deducts management fees directly from the Funds' accounts in arrears on a quarterly basis at the end of each calendar quarter and invoices the Separate Accounts at the end of each calendar quarter for fees incurred during that quarter.

Special Allocations, if applicable, are automatically allocated from the capital account of each investor in the Funds to the General Partner's capital account on December 31 of each year. Separate Accounts are invoiced at the start of each calendar year for performance fees earned in the previous year.

Strata Fund Solutions LLC, an independent third party administrator (the “Administrator”), is responsible for the calculation of all management and performance fees. The Adviser may change the independent third party administrator at any time.

- C. In addition to paying management and performance fees, Clients pay all brokerage commissions and other trading and transaction costs. The Funds also incur: (a) the cost of an annual audit; (b) the cost of the Administrator’s services; (c) fees of the legal counsel used in connection with the organization and ongoing operations of the Funds; (d) annual filing fees; and (e) for The Spitfire Qualified Fund Ltd. only, Directors’ fees, Registered Office fees, Registrar & Transfer Agent fees and annual Regulatory and License fees. Separate account clients may elect whether or not to have their account audited and whether or not to retain the services of the Administrator or another independent third party administrator.

Clients do not typically pay separate custodial fees. They obtain custodial, clearing and related services through what is known as a “prime brokerage” arrangement. Under this arrangement, a brokerage firm (the “Prime Broker”), among other things: (i) arranges for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) makes and receives payments for securities purchased or sold; (iii) maintains custody of Client’s cash and securities; (iv) tenders securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provides detailed portfolio and accounting reports. The Prime Broker allows the Adviser to use other broker-dealers to execute transactions. This permits the Adviser to seek valuable research and to compare execution quality and commission rates from other broker-dealers, while maintaining only one custodial relationship. By using a Prime Broker, Clients avoid paying custodial fees that banks charge other institutional investors. The Prime Broker is compensated through trading commissions, interest on credit and debit balances, stock loan fees and ticket fees all of which are paid by Clients.

Wells Fargo Securities, LLC currently serves as the Prime Broker and primary Qualified Custodian to Clients. The Adviser may change Prime Broker, alter the terms of its prime brokerage arrangements with the Prime Broker or make alternative arrangements to receive the services currently provided by the Prime Broker, all in its absolute discretion.

The Prime Broker may provide additional services to the Adviser, or its related persons, distinct from the custodial, lending and related services provided to Clients. These services may include consulting services with respect to various aspects of the Adviser’s business which may be provided at lower than the market price for similar services or for no charge. They may include introducing the Adviser to prospective investors in the Funds and to other prospective advisory clients. To the extent that the Adviser receives services from the Prime Broker at lower than market prices, conflicts may exist between its interests and those of its Clients. The Adviser may have an incentive to cause Clients to accept less favorable pricing for prime

brokerage services (including interest and similar charges on margin borrowings and short positions) than might otherwise be available or to continue to use the Prime Broker when the Clients would not otherwise do so. The Adviser believes the commissions and fees paid to the Prime Broker are reasonable and competitive with the commissions and fees charged by other prime brokers of similar quality for services of comparable quality.

Please refer to Item 12 for additional discussion of the Adviser's brokerage arrangements.

- D. Clients do not typically pay fees in advance. If an advisory contract is terminated before the end of a billing period, the Adviser will refund any pre-paid but unearned advisory fees pro-rata based on the number of business days in the billing period.
- E. Neither the Adviser nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As discussed in Item 5, in addition to management fees, the General Partner receives a performance-based fee equal to a percentage of the net profit allocated to each investor in the Funds at the end of each calendar year, subject to each investor's High Water Mark. For the Separate Accounts, the Adviser charges an annual performance-based fee equal to a percentage of the net capital appreciation of each account for the year then ended, subject to each Separate Account's respective High Water Mark.

Since performance-based fees may vary among investors in the Funds and between Separate Accounts, the Adviser may have an incentive to allocate the most attractive investment opportunities to those Funds and Separate Accounts with the highest performance-based fees. The Adviser addresses this conflict of interest by allocating all investment opportunities to all Clients on a pro-rata basis regardless of each Client's fees, subject to each Client's respective investment parameters, liquidity requirements, eligibility for participating in new issues and other restrictions. Investors in the Funds participate in the Funds' investments on a pro-rata basis, subject only to restrictions on participating in new issues or special investments, regardless of differences, if any, in their respective fee arrangements.



## **Item 7. Types of Clients**

As previously noted in Item 4, the Adviser serves as the exclusive investment adviser to three private investment funds and two separately managed accounts. Investors in the Funds may include high net worth individuals, trusts, estates, family offices, charitable organizations, pension funds and profit sharing plans, endowments, foundations, funds of funds, institutions and other entities.

The Funds are privately-offered investment funds that are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”) because of an exemption under either Section 3(c)(1) or Section 3(c)(7) of that Act.

Each investor in The Spitfire Fund L.P. must qualify as (i) an “accredited investor,” as defined under the Securities Act of 1933, as amended (the “Securities Act”), and (ii) a “qualified client” as defined in Rule 205-3 of the Advisers Act.

Each investor in The Spitfire Qualified Fund L.P. and each US investor in The Spitfire Qualified Fund Ltd. must qualify as (i) an “accredited investor,” as defined under the Securities Act, and (ii) a “qualified purchaser”, as defined in Section 2(a)(51) of the Investment Company Act.

Separately managed accounts must be eligible to enter into a performance fee arrangement under applicable law.

All investors are required to make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment.

There is a minimum investment of \$1,000,000 for the Funds and \$10,000,000 for separate account clients. These minimums may be reduced at the Adviser’s discretion.

## Item 8. Methods of Analysis, Investment Strategies & Risk of Loss

The Adviser is a long term value-oriented investor that focuses primarily on investing in the equity securities of smaller capitalization public U.S. companies based on a fundamental analysis of a company's financial condition and its future prospects. In conducting its analysis, the Adviser uses annual reports and other company filings with the SEC, company press releases, analyst reports, company visits, meetings with company management, other primary due diligence, industry specific publications, general publications including newspapers, as well as financial publications and newsletters, among other information sources.

The investment strategy may utilize investment techniques including, but not limited to, buying on margin, short sales and options on securities which can, in certain circumstances, increase the adverse impact to which Clients may be subject.

Investing in securities involves the risk of loss that Clients and investors in the Funds should be prepared to bear.

An investment in the Funds or in a separate account involves a high degree of risk and an investor should be aware that it may lose all or part of its investment. The Adviser believes that its investment strategy and research techniques moderate this risk through careful selection of securities, the holding of cash and the use of short positions and other financial instruments. **HOWEVER, NO GUARANTEE OR REPRESENTATION IS MADE THAT THE INVESTMENT PROGRAM WILL BE SUCCESSFUL.**

The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds or in a separate account. Prospective investors should read the Funds' offering documents in their entirety and consult with their own professional advisers before deciding to invest in the Funds or in a separate account.

*Broad Discretion.* Although the Adviser will generally follow investment guidelines, including position limits and liquidity and diversification requirements, there are no or few restrictions on how it may invest Clients' assets.

*Limited Liquidity.* An investment in the Funds provides limited liquidity because interests in the Funds are not freely transferable and investors are subject to an initial lock-up and limited withdrawal rights thereafter.

*Limited Diversification.* Although the Adviser may from time to time follow guidelines on diversification, there are no limits on its investment discretion. At any given time, it is therefore possible that investments may be concentrated in a particular market or industry or in a limited number or type of securities. This limited diversification could expose investors to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.

*Illiquid Portfolio Securities.* The Adviser may invest in securities of private companies and privately issued securities of public companies which it may not be able to readily dispose of and, in some cases, may be contractually prohibited from disposing of for a specified period of time.

*Disclosure of Positions.* In an effort to protect the confidentiality of its positions, the Adviser does not intend to disclose the Funds' positions to investors on an ongoing basis, although it may permit such disclosure on a selective basis to certain investors and certain other parties if it determines that there are sufficient confidentiality agreements and procedures in place. Further, the Funds may not disclose their investment positions in their annual financial statements, if they determine that such confidential treatment is desirable. In certain situations, however, disclosure of Client positions, and changes in those positions, may be required under federal securities laws, including, for example, where the Adviser accumulates a significant position in a publicly-traded security. Institutional Investment Managers that exercise investment discretion over \$100mm or more in Section 13(f) securities are required to make a quarterly filing of Form 13F pursuant to Section 13(f) of the Securities Exchange Act of 1934 (the "Securities Exchange Act"). The Adviser made its first such filing on February 14, 2014 for Section 13(f) securities owned as of December 31, 2013. The disclosure of Clients' positions could affect the Adviser's ability to dispose of the positions or the prices at which the positions may be disposed.

*Investing In Small- And Medium-Sized Companies.* The Adviser typically invests in the securities of small and medium sized companies. Prices of small-capitalization and medium-capitalization securities tend to be more volatile than prices of large-capitalization securities. Such companies' securities are more likely to trade at prices that reflect incomplete or inaccurate information. During some periods, securities of smaller companies have under-performed the securities of larger companies. Moreover, the risk of bankruptcy or insolvency of many small companies (with the attendant losses to investors) is often higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization securities, an investment in such securities may be illiquid and require more time to sell such securities.

*Growth Stage Companies.* The Adviser may invest in securities of companies that are in the growth stage of their operational history. While investments in growth stage companies can offer the opportunity for significant capital gains, such investments may involve a high degree of business and financial risk that could result in substantial losses. The stock market has, at different times, experienced significant volatility that has particularly affected the securities of different industries, such as technology. As a result, Clients' accounts may experience substantial volatility if the Adviser invests in companies operating in a particularly volatile industry.

*Investments in Undervalued Securities.* The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that the Adviser will be able to successfully recognize or acquire such securities. While investments in undervalued securities offer opportunities for above-average capital appreciation, these

investments involve a high degree of financial risk and can result in substantial losses. Returns generated from such investments may not adequately compensate for the business and financial risks assumed.

The Adviser may make certain speculative investments in securities that it believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the Adviser may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of Clients' capital would be committed to the securities purchased, thus possibly preventing the Adviser from investing in other opportunities. In addition, the Adviser may finance such purchases with borrowed funds which will require the payment of interest on such borrowings during such waiting periods.

*Event Driven Investing.* Event driven investing requires the Adviser to make predictions about (i) the likelihood that an event will occur, and (ii) the impact such event will have on the value of a company's securities. Clients can incur losses if the event fails to occur or it does not have the predicted effect. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction or restructuring programs by a company may not be valued as highly by the market as the Adviser had anticipated, resulting in Client losses. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors. Because of the inherently speculative nature of event driven investing, results with respect to any such investments may be expected to fluctuate from period to period and will not necessarily be indicative of results that may be expected in future periods.

*Risks of Owning Significant Positions.* The Adviser may acquire positions exceeding 10% of the equity securities of a publicly traded company or may become a member of the board of directors of a portfolio company. In that event, Clients will become subject to Section 16 of the Securities Exchange Act and will be required to report all purchases and sales of such securities, and will be required to disgorge all profits realized by any sale or purchase within six months of another purchase or sale of such securities. To avoid the obligation to disgorge such profits, Clients will be required to hold positions for longer than circumstances may warrant, with the result that the Adviser may be unable to dispose of a position at a propitious time. This inability to dispose of a position on a timely basis may reduce profits and/or result in losses.

If the Adviser has a nominee serving on a company's board of directors, it will likely have access to information about the company that is both material and non-public. Until that information is disclosed to the public or is no longer material, the Adviser will be unable to acquire additional securities of the company or dispose of any portion of a Client's position. This situation could make the position illiquid for an indefinite period

of time and would likely impair the ability of the Adviser to otherwise invest Clients' capital or to meet a withdrawal request.

*Leverage and Financing Risk.* The Adviser may utilize leverage in order to achieve a higher rate of return. Accordingly, it will pledge Client securities to the lender in order to borrow additional funds for investment purposes. It may also leverage investment returns with options, commodity futures contracts, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which Clients may have outstanding at any time may be substantial in relation to their respective capital.

While leverage presents opportunities for increasing Clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the account is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to investments could result in substantial loss, which would be greater than if the account was not leveraged.

In addition, in the event of a sudden drop in the value of Client securities, the Adviser might not be able to liquidate securities quickly enough to satisfy margin requirements.

The financing used to leverage portfolios will be extended by broker dealers. While the Adviser will attempt to negotiate fair terms of these financing arrangements, its ability to do so is limited.

*Distressed Securities.* The Adviser may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. There is no assurance that the Adviser will evaluate correctly the value of the assets or securities held by Clients in any such companies or the prospects for a successful reorganization or similar action. Clients may lose their entire investment in any reorganization or liquidation proceeding relating to any such company, or may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such investments may not compensate Clients adequately for the risks assumed.

*Futures.* The Funds may trade in futures contracts (and options on futures). Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future contract can neither be taken nor liquidated unless traders are

willing to effect trades at or within the limit. This could prevent the Adviser from promptly liquidating unfavorable positions and subject Clients to substantial losses. In addition, the Adviser may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

*Options.* The Adviser may buy or sell call options and put options, and when it sells options it may do so on a “covered” or an “uncovered” basis. Options transactions may be part of a hedging tactic (i.e. offsetting the risk involved in another securities position) or a form of leverage, in which Clients have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

*Short Selling.* Short selling involves selling securities that are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities back to cover the short position. There can be no assurance that Clients will be able to maintain the ability to borrow securities sold short. In such cases, Clients can be “bought in” (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Loans of Portfolio Securities.* The Adviser may choose to lend securities held in Clients’ accounts in an attempt to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, Clients could experience delays in recovering the loaned securities. To the extent that the value of the securities lent has increased, Clients could experience a loss if such securities are not recovered.

*Cybersecurity Risks.* The computer systems, networks and devices used by the Adviser and its service providers to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized by the Adviser and its service providers, systems, networks and devices potentially can be breached. Such breaches may cause disruptions and impact business operations, potentially resulting in: financial losses to Clients; interference with the Adviser’s ability to calculate the value of an investment in a Client; impediments to trading; the inability of the Adviser to transact business; violations of applicable privacy and other laws; and the inadvertent release of confidential information.

### **Item 9. Disciplinary Information**

This Item is not applicable.

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

Spitfire Fund GP LLC, an affiliate of the Adviser, serves as the General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. Mr. Allen is the Managing Member and owner of the Adviser and the General Partner. Mr. Allen also serves as Director of The Spitfire Qualified Fund Ltd.



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

The Adviser has adopted a Code of Ethics (the “Code”) in compliance with Rule 204A-1 under the Advisers Act that establishes standards of conduct for its employees (“Supervised Persons”). The basic tenant of the Code is that the interest of Clients comes first. The Code includes general requirements that Supervised Persons comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal account trading, insider trading and conflicts of interest.

The Code generally prohibits employees of the Adviser from personally purchasing or selling securities, subject to certain exceptions, e.g. employees may purchase and sell shares issued by open-ended mutual funds, money market funds, exchange-traded funds and U.S. Treasury bonds. In addition, if any employee has any direct or indirect beneficial ownership in any non-exempted security as of the date she or he joined the Adviser, any sale of that security thereafter must be pre-cleared in writing by the Chief Compliance Officer.

Employees are required to disclose their personal holdings and transactions on a periodic basis, as well as certify on a periodic basis as to the completeness of the reported holdings and transactions. The Chief Compliance Officer monitors employees’ personal holdings and transactions on a regular basis.

The Code also covers the conduct of Outside Business Activities, Political Contributions and Gifts and Business Entertainment. The Adviser’s employees are required to comply with, and on a periodic basis certify their compliance with, the Code.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

In certain limited instances, the Adviser may purchase for Client accounts a security in which an employee already has an ownership position. An employee may also receive as a distribution a security that is held in Client accounts. This may create a conflict of interest between Clients and the Adviser’s employees. Given the Adviser’s general prohibition on the purchase or sale of securities by employees, such circumstances are rare. In the event a conflict of interest does arise, the Chief Compliance Officer will determine how to resolve the conflict consistent with the best interests of Clients.

## **Item 12. Brokerage Practices**

- A. The Adviser has complete discretion over the selection of broker-dealers for Client transactions and the commission rates or other transaction-related fees to be paid. However, it also has a duty to obtain “best execution” of securities transactions executed for Clients. What constitutes “best execution” and determining how to achieve it are inherently uncertain.

The Adviser considers a range of factors in evaluating broker-dealers for “best execution”. These include, but are not limited to, the competitiveness of commission rates and transaction costs; historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement capabilities of the broker-dealer generally and in connection with securities of the type and in the amounts to be bought or sold; the broker-dealer’s willingness to commit capital; the broker-dealer’s reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the security; and, as discussed more fully below, the nature, quantity and quality of research and other products or services provided by the broker-dealer. The Adviser is not required to select the broker-dealer that charges the lowest commission rate, even if that broker-dealer can provide execution quality comparable to other broker-dealers, and Clients should expect at times to pay more than the lowest commission rate available in order to obtain research and brokerage products or services other than trade execution.

The Adviser may select broker-dealers for Client transactions that provide various research and brokerage products and services beyond trade execution. These products and services are generally referred to as soft dollar benefits. The Adviser may also “mark-up” a broker-dealer’s commission rate in order to pay for research and brokerage products and services provided by third parties. When the Adviser uses Client commissions (or markups) to obtain research or brokerage products and services from a broker-dealer or third party, it receives a benefit because it does not have to pay for the products or services itself. In addition, the Adviser may have an incentive to select a broker-dealer based on its interest in receiving research or brokerage products and services rather than Clients’ interests in receiving the most favorable execution. Section 28(e) of the Securities Exchange Act recognizes this potential conflict of interest and protects investment managers from claims that the activity involves a breach of fiduciary duty to Clients, even if the brokerage commissions paid are higher than the lowest available, if certain conditions and requirements are met. For these purposes, “research” means services or products used to provide lawful and appropriate assistance to the adviser in making investment decisions for its Clients. “Brokerage” products and services are those used to effect securities transactions for Clients or to assist in effecting those transactions.

To be protected under Section 28(e), the Adviser must, among other things, determine that commissions paid are reasonable in light of the value of the research and

brokerage products and services acquired. Section 28(e)'s "safe harbor" also protects the use of a Client's soft dollars even when the Adviser uses research and brokerage products and services to benefit other Clients. Notwithstanding this protection, the Adviser could be considered to have a conflict of interest when it uses soft dollars for research and brokerage products and services because it might otherwise have to pay cash for those products and services and may therefore have an incentive to use broker-dealers who provide those products and services more than it otherwise would use such broker-dealers.

The types of "research" typically acquired include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services; and other services that may enhance the Adviser's investment decision making. "Brokerage" products and services (beyond typical execution services) include (but are not limited to): communications services related to the execution, clearing, and settlement of securities, e.g. trade execution systems for communicating trade orders electronically to broker-dealers.

In some cases, the commissions charged by a broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research or brokerage products or services might charge. Clients may therefore pay a brokerage commission in excess of that which another broker-dealer might charge for effecting the same transaction in recognition of the value of the research or brokerage products and services provided. In such cases however, the Adviser generally determines, considering all appropriate factors, that the commissions paid are reasonable in relation to the value of all the research and brokerage products and services provided by the broker-dealer. In making that determination, the Adviser may consider not only the particular transaction or transactions, and not only the value of research and brokerage products and services to a particular Client, but also the value of those services to the performance of the Adviser's overall investment responsibilities to all of its Clients.

In some cases, a Client's transaction may be executed by a broker-dealer in recognition of research and brokerage products and services that are not used in managing that Client's account. These research and brokerage products and services may help the Adviser manage portfolios other than the Client's.

The Adviser does not use soft dollars to acquire services and products that provide benefits that do not qualify as research or brokerage products and services under Section 28(e) nor to pay expenses that would otherwise be payable by the Adviser.

Within the last fiscal year, the Adviser used client commissions and markups to pay for research reports published by broker-dealers and other parties; systems that provide company financial data, industry data, economic and market data; a trade

execution system that allows for electronic execution of Client trades; access to broker-dealer industry conferences and access to broker-dealer research analysts.

The majority of transactions for Client accounts in the last fiscal year were executed with Wells Fargo Securities, LLC who acts as the Prime Broker and Qualified Custodian for Clients' accounts and who provides the Adviser with various soft dollar benefits. The Adviser believes the Prime Broker provided a number of valuable research and brokerage products and services to its Clients and that the commissions paid were reasonable and competitive in light of the value of the products and services provided.

- B. The Adviser generally aggregates orders for the purchase or sale of securities for its various Clients. When orders are aggregated, the Adviser will allocate the transactions (and the related transaction costs) on an average price basis among Clients. The Adviser believes that combining orders in this way will, over time, be advantageous to all Clients. However, the average price could be less advantageous to a Client than if the Client had been the only account effecting the transaction or had completed its transaction before the other participants. There may be circumstances in which the Adviser concludes that a Client's transactions may not or should not, under certain laws, regulations and internal policies, be combined with those of other Clients. This may cause that Client to obtain less advantageous execution than other Clients whose transactions are aggregated.

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

Mr. Allen performs various daily, weekly, monthly, quarterly and periodic reviews of each Client account. Particular attention is paid to the current earnings, future prospects, industry outlook and stock price of the individual securities held in each Client account. Factors such as the percentage of assets invested in each security, industry concentration and the amount of cash held in each account are also considered. The Funds undergo an annual audit and the Administrator independently confirms pricing, valuation and fee calculations on a monthly basis.

Investors in the Funds receive (i) monthly capital account statements directly from the Administrator; (ii) monthly performance reports from the Adviser; (iii) quarterly letters from the Adviser describing performance for the prior quarter and its investment outlook; and (iv) annual tax reports and audited financial statements.

Separate Account Clients receive (i) monthly financial statements and Prime Broker statements; (ii) monthly performance reports from the Adviser; and (iii) quarterly letters from the Adviser. They also have direct access to the Prime Broker's reporting portal.

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

- A. The Adviser does not receive any economic benefit, directly or indirectly from any third party for advice rendered to Clients.
- B. Currently, neither the Adviser nor its related persons directly or indirectly compensates any person for referrals of clients. If in the future the Adviser enters into such arrangements, this Brochure will be appropriately amended.

### **Item 15. Custody**

All Client assets are held in custody by Qualified Custodians unaffiliated to the Adviser. However, because the General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. is an affiliate of the Adviser, the Adviser is deemed to have custody of these two Funds' assets within the meaning of the Advisers Act. In addition, because Mr. Allen is a Director of The Spitfire Qualified Fund Ltd., the adviser is deemed to have custody of this Fund's assets. The Funds are audited annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed to each investor in the Funds within 120 days of each Fund's fiscal year end.

KPMG LLP currently serves as the Funds' auditor. Wells Fargo Securities, LLC and First Republic Bank currently serve as Qualified Custodians for The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. Bank of New York Mellon currently serves as a Qualified Custodian for any cash held by The Spitfire Qualified Fund Ltd.

## **Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to Clients. Separate Account Clients may impose restrictions on investing in certain securities or types of securities or other restrictions as agreed with the Adviser.

Prior to assuming discretion in managing a Client's assets, the Adviser enters into an investment management agreement or other agreement (e.g. limited partnership agreement) that sets forth the scope of the Adviser's discretion and typically includes a limited power of attorney. The Adviser generally has the authority to determine, among other things: (i) the securities to be purchased and sold for each Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines); (ii) the amount of securities to be purchased or sold for each Client account; and (iii) the broker-dealers to be used for the purchase or sale of Client securities and the commission rates to be paid. Because of differences in each Client's investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held.

The Adviser may consider the following factors, among others, in allocating securities among Client accounts: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's general policy to allocate investment opportunities to eligible Client accounts on a pro-rata basis (based on the value of the assets of each participating account relative to the value of the assets of all participating accounts), these factors may lead it to allocate securities to Client accounts in varying amounts. Even Client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g. equities) divided by the total assets of all accounts eligible to invest in the particular investment.

The Adviser may from time to time effect cross transactions between Client accounts. Cross transactions enable the Adviser to effect a trade between two Clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and avoiding commission costs for both Clients. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed Client accounts remain substantially similar.



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

The Adviser has the authority to vote Client securities and has adopted written proxy voting policies and procedures in accordance with Rule 206(4)-6 of the Advisers Act. In voting Client proxies, the Adviser is guided by general fiduciary principles and seeks to act in the best interest of Clients, and accordingly, of investors in the Funds. When the Adviser votes proxies, it does so in a manner that it believes will be consistent with efforts to maximize the value of Clients' positions. The Adviser seeks to consider all positive and negative consequences its vote could have on the value of the investment. At the Adviser's discretion, it may choose not to vote on a particular proxy.

If the Adviser encounters an identifiable conflict of interest with respect to a particular vote, Mr. Allen and the Chief Compliance Officer will determine how to vote the proxy consistent with the best interests of Clients and in a manner not affected by the conflict of interest.

Investors may not direct the Adviser as to how to vote in a particular solicitation.

Investors may obtain a copy of the Adviser's proxy voting policies and procedures and information about how a particular proxy was voted by contacting the Chief Compliance Officer at [patrick@spitfirecap.com](mailto:patrick@spitfirecap.com) or by calling (415) 878-1903.

### **Item 18. Financial Information**

The Adviser has discretionary authority over Clients' assets. At this time, the Adviser does not have any financial conditions that are reasonably likely to impair its ability to meet contractual commitments to Clients.