

## Firefly Value Partners, LP

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This brochure provides information about the qualifications and business practices of Firefly Value Partners, LP and Firefly RE Management Company, LP (collectively, “**Firefly**” also referred to herein as “**us**” and “**we**”). If you have any questions about the contents of this brochure, please contact Firefly’s Chief Compliance Officer (“**CCO**”), Daniel Jemal, at (212) 672-9600 or by email at [info@fireflyvalue.com](mailto:info@fireflyvalue.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.

Registration of an investment adviser does not imply that Firefly or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2: Material Changes**

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Since its last annual updating amendment on March 22, 2018, Firefly has added an affiliated entity to act as a “relying adviser” to one of its pooled investment vehicles, as further described in Item 4.

**Item 3: Table of Contents**

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#### Item 4: Advisory Business

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Firefly Value Partners, LP, a Delaware limited partnership with a principal office in New York, New York, has been in business since May 2006, and has managed the Funds (as defined below) since July 2, 2007. Firefly RE Management Company, LP was formed in 2019 to be the adviser to the SPV (as defined below) and is deemed to be registered under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) pursuant to the registration of Firefly Value Partners, LP, in accordance with SEC guidance regarding “relying advisers.” Firefly Value Partners, LP provides investment management services to the following privately pooled investment funds:

- FVP Master Fund, L.P. (the “**Master Fund**”), which is a Cayman Islands exempted limited partnership that invests primarily in North American equities and other securities;
- FVP US-Q, LP (the “**Domestic Fund**”), which is a Delaware limited partnership that invests directly in and through the Master Fund;
- FVP Overseas Fund, Ltd. (the “**Offshore Fund**”), a Cayman Islands exempted company that invests directly in and through the Master Fund.

Firefly RE Management Company, LP provides investment management services to the following privately pooled investment fund:

- FMSPV, LP (the “**SPV**”), a Delaware limited partnership formed for the purpose of acquiring certain assets in the Marcellus and Utica shale basins.

FVP GP, LLC (the “**General Partner**”) a Delaware limited liability company, is the general partner of the Domestic Fund and the Master Fund. FMSPV GP, LLC (the “**SPV General Partner**”), a Delaware limited liability company, is the general partner of the SPV.

The Master Fund, Domestic Fund and the Offshore Fund are collectively referred to as the “**Hedge Funds**.” The Hedge Funds and the SPV are collectively referred to as the “**Funds**.” The Funds are the clients of Firefly under the Advisers Act. Interests in the Funds are offered on a private placement basis to investors (the “**Investors**”) who are “qualified purchasers” (or “knowledgeable employees”) as defined under the Investment Company Act of 1940 (the “**Investment Company Act**”) in reliance on private placement exemptions available to “accredited investors” as defined in the Securities Act of 1933 (the “**Securities Act**”). Interests in the Offshore Fund are generally offered to Investors who are “qualified purchasers” and “accredited investors” but are not “U.S. Persons” as defined in Regulation S of the Securities Act. Interests in the Offshore Fund are also offered to Investors who are “qualified purchasers” and “accredited investors” but are exempt from taxation in the United States.

Firefly provides advice to the Hedge Funds based on specific investment objectives and strategies. Firefly builds a portfolio for the Hedge Funds around a return engine comprised of four mutually reinforcing elements: (i) deep fundamental primary research and business analysis; (ii) a rigorous, proprietary investment process that ensures that we are applying our deep research to the right universe of ideas; (iii) a portfolio concentrated in the best investment candidates that emerge from our research; (iv) a three- to five-year investment time horizon that allows us to make investments that others, with a shorter time horizon, will not. The Hedge Funds invest primarily in North American equities, but may, except as described in the Hedge Funds' offering documents, invest in a wide array of securities and other instruments, both public and private, as Firefly determines is appropriate for the Hedge

Funds. Firefly does not tailor advisory services to the individual needs of Investors in the Hedge Funds.

Firefly provides advice to the SPV based on specific investment objectives and strategies related to the acquisition of private mineral rights and related interests in the Marcellus and Utica shale basins. Firefly identifies and executes portfolio investments (“**Portfolio Investments**”) for the SPV either through direct purchases of real property or through the purchase of securities of one or more underlying funds, which are established to make investments in similar private mineral rights and related interests. Deep property-specific research, and other specific and proprietary due diligence allows Firefly to select parcels that best meet its long-term investment goals with respect to Portfolio Investments. Firefly does not tailor advisory services to the individual needs of Investors in the SPV. The SPV is a private equity fund that has a fixed term of ten years, subject to two one-year extensions at the discretion of the SPV General Partner.

Ryan Heslop and Ariel Warszawski (the “**Portfolio Managers**”) are the Limited Partners and principal owners of Firefly Value Partners, LP and Firefly RE Management Company, LP. The Portfolio Managers are also managing members of Firefly Management Company GP, LLC and Firefly RE Management Company GP, LLC. Firefly Management Company GP, LLC is a Delaware limited liability company, which is the general partner of Firefly Value Partners, LP and controls Firefly Value Partners, LP. Firefly RE Management Company GP, LLC is a Delaware limited liability company, which is the general partner of Firefly RE Management Company, LP. The general partners of Firefly have the ultimate responsibility for the management, operations and the investment decisions made by Firefly.

As of December 31, 2018, Firefly managed \$952,149,109 in regulatory assets under management all on a discretionary basis.

## Item 5: Fees and Compensation

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### **The Hedge Funds:**

Pursuant to the offering documents and advisory agreements, the Hedge Funds are generally charged a fee consisting of: (i) a management fee based upon the net asset value of the Hedge Funds on a quarterly basis, and (ii) a performance allocation which is calculated based upon a percentage of the net capital appreciation of the Hedge Funds at the end of each fiscal year.

### **Management**

Firefly's current management fee schedule for the Hedge Funds is generally as follows:

The Domestic Fund	2%
The Offshore Fund	2%
The Master Fund	2%

Firefly will receive a management fee, payable quarterly in advance, equal to 0.5% (approximately 2% annually) of each Investor's share of the Hedge Funds' net asset value ("**Management Fee**"). Firefly, in its sole discretion, may waive, reduce or rebate the Management Fee with respect to one or more Investors for any period of time, or agree to apply a different Management Fee for an Investor (all such arrangements in the form of a rebate or otherwise as determined by the General Partner).

All fees described in this Item 5 are deducted from the Investors' accounts by instructing the Hedge Funds' custodian. The Hedge Funds shall pay for their organizational and initial offering expenses as well as for their operating expenses, including but not limited to: (i) all operating expenses of the Hedge Funds, tax preparation fees, governmental fees and taxes, director fees and expenses, administrator and registrar and transfer agent fees, communications with Investors, and ongoing legal, accounting (including, without limitation, portfolio accounting software), auditing, bookkeeping, consulting and other professional fees and expenses; (ii) all research (e.g., due diligence on issuers, data services), trading and investment related costs and expenses (e.g., outsourced trading fees and expenses, brokerage commissions, margin interest, expenses related to short sales, custodial fees, clearing and settlement charges); and (iii) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims, assertion of rights or pursuit of remedies, by or against the Hedge Funds (including, without limitation, professional and other advisory and consulting expenses and travel expenses, and whether not pursuant to bankruptcy or other legal proceedings, or participation in informal committees of creditors or other security holders of an issuer). The Hedge Funds may incur brokerage and other transaction costs. For further details on the Firm's brokerage practices refer to Item 12 of this brochure.

Firefly and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

### **Early Withdrawal or Redemption**

Investments in the Domestic Fund and the Offshore Fund are subject to lock-up periods and early withdrawal or redemption fees, as disclosed in the offering documents. The following is a summary of the early withdrawal or redemption fees applicable by series or type of interest of each respective Hedge Fund.

*Domestic Fund:*

Series A Interests: An Investor holding Series A Interests that elects to make a withdrawal from a capital account (or a portion of a capital account) attributable to such Series A Interests (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early withdrawal fee equal to 4% of the amount withdrawn, and (ii) after the expiration of the 12 month period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 2% of the amount withdrawn.

Series B Interests: An Investor holding Series B Interests that elects to make a withdrawal from a capital account (or portion of a capital account) attributable to such Series B Interests (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early withdrawal fee equal to 4% of the amount withdrawn, (ii) after the expiration of the 12 month period after the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 2% of the amount withdrawn, and (iii) after the expiration of the 24 month period after the end of the applicable lock-up period, but within 36 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 1% of the amount withdrawn.

Series C Interests: An Investor holding Series C Interests that elects to make a withdrawal from a capital account (or portion of a capital account) attributable to such Series C Interests (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early withdrawal fee equal to 6% of the amount withdrawn, and (ii) after the expiration of the 12 month period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 4% of the amount withdrawn.

Series D Interests: An Investor holding Series D Interests that elects to make a withdrawal from a capital account (or portion of a capital account) attributable to such Series D Interests (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early withdrawal fee equal to 6% of the amount withdrawn, (ii) after the expiration of the 12 months period after the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 4% of the amount withdrawn, and (iii) after the expiration of the 24 month period after the end of the applicable lock-up period, but within 36 months after the end of such lock-up period, shall be subject to an early withdrawal fee equal to 2% of the amount withdrawn.

*Offshore Fund:*

Group I Shares: An Investor holding Group I Shares that elects to redeem such shares (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early redemption fee equal to 4% of the net asset value of the shares redeemed, and (ii) after the expiration of the 12 month period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 2% of the net asset value of the shares redeemed.

Group II Shares: An Investor holding Group II Shares that elects to redeem such shares (i) after the expiration of the applicable lock-up period with respect to such shares, but within 12 months of the end of such lock-up period shall be subject to an early redemption fee equal to 4% of the net asset value of the shares redeemed, (ii) after the expiration of the 12 month

period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 2% of the net asset value of the shares redeemed, and (iii) after the expiration of the 24 month period after the end of the applicable lock-up period, but within 36 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 1% of the net asset value of the shares redeemed.

Group III Shares: An Investor holding Group III Shares that elects to redeem such shares (i) after the expiration of the applicable lock-up period, but within 12 months of the end of such lock-up period, shall be subject to an early redemption fee equal to 6% of the net asset value of the shares redeemed, and (ii) after the expiration of the 12 month period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 4% of the net asset value of the shares redeemed.

Group IV Shares: An Investor holding Group IV Shares that elects to redeem such shares (i) after the expiration of the applicable lock-up period with respect to such shares, but within 12 months of the end of such lock-up period shall be subject to an early redemption fee equal to 6% of the net asset value of the shares redeemed, (ii) after the expiration of the 12 months period after the end of the applicable lock-up period, but within 24 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 4% of the net asset value of the shares redeemed, and (iii) after the expiration of the 24 month period after the end of the applicable lock-up period, but within 36 months after the end of such lock-up period, shall be subject to an early redemption fee equal to 2% of the net asset value of the shares redeemed.

The Series A Interests and Series C Interests of the Domestic Fund and Group I Shares and Group III Shares of the Offshore Fund are subject to one year lock-up periods (the “**Three Year Class**”). The Series B Interests and Series D Interests of the Domestic Fund and Group II Shares and Group IV Shares of the Offshore Fund are subject to two year lock-up periods (the “**Five Year Class**”). The Series A Interests and Series B Interests of the Domestic Fund and Group I Shares and Group II Shares of the Offshore Fund have quarterly liquidity for Investor redemptions. The Series C Interests and Series D Interests of the Domestic Fund and Group III Shares and Group IV Shares of the Offshore Fund have annual liquidity for Investor redemptions.

### **Incentive**

Firefly’s current performance allocation schedule for the Hedge Funds is generally as follows:

Three Year Class: 17.0% of the annual net profits, net of management fee, subject to a standard high water mark.

Five Year Class: 15.0% of the annual net profits, net of management fee, subject to a standard high water mark.

Net profits are calculated net of management fees, but before the performance-based fee allocation.

The performance allocation is subject to what is commonly known as a “high water mark” procedure. That is, if a series of interests has a net loss in any fiscal year, such loss will be recorded and carried forward as to such series to future fiscal years (the amount of such loss is referred to as a “**Loss Carryforward**”). Whenever there is a Loss Carryforward for a series of interests with respect to a fiscal year, the General Partner will not receive the



performance-based fee allocation with respect to such series for the current fiscal year or future fiscal years until the Loss Carryforward amount for such Investor has been recovered (i.e., when the Loss Carryforward amount has been exceeded by the cumulative profits allocable to such series for the fiscal years following the Loss Carryforward). Once the Loss Carryforward has been recovered with respect to a series, the performance-based fee allocation will be drawn on the excess profits (over the Loss Carryforward) with respect to such series, rather than on all profits. The “high water mark” procedure prevents the General Partner from receiving the performance allocation for profits that simply restore previous losses, and is intended to ensure that the performance-based fee allocation is attributed to the long-term performance of an investment in the Hedge Funds.

The General Partner has the discretion to reduce or eliminate the performance-based fee allocation with respect to any Investor.

### **The SPV:**

Pursuant to the offering documents and advisory agreements, the SPV is generally charged fees consisting of: (i) a management fee based upon the net asset value of the SPV on a quarterly basis, and (ii) a carried interest which is realized upon the distributions made by certain Portfolio Investments and/or the disposition of certain Portfolio Investments, subject to the return of capital contributions and a preferred return to Investors. Additionally, the SPV and the SPV General Partner may share in a portion of the underlying fund’s carried interest.

### **Management**

Firefly’s current management fee schedule for the SPV is generally as follows:

During the investment period: 2%

After the investment period: 2%

Through the end of the investment period (which terminated as of July 1, 2017), the management fee will equal 2% per annum of each Investor’s capital commitment. Thereafter, the management fee will equal 2% per annum of invested capital (excluding invested capital associated with Portfolio Investments that have either been disposed of or permanently written down to zero). The management fee is payable quarterly in advance and may be paid out of current cash flow or disposition proceeds from the SPV or from drawdowns of unfunded capital commitments. No management fees shall be payable to Firefly following the expiration of the term of the SPV. The SPV General Partner may, in its sole discretion, reduce the management fee for some or all Investors. Additionally, the SPV General Partner intends to waive the management fee for Investors that are, among other things, principals, employees or affiliates of the SPV General Partner and/or Firefly.

The SPV will bear all legal and other expenses incurred in connection with its formation and the offering of interests therein. Similarly, the SPV will bear all costs and expenses incurred (i) in the formation of the SPV General Partner and any operating companies necessitated by the Portfolio Investment opportunities and (ii) in maintaining the operations of the SPV and its Portfolio Investments, including, but not limited to, due diligence expenses associated with the Portfolio Investments (including travel costs); legal and accounting expenses; fees for outside services; the cost of annual audits; custodial fees; insurance and litigation expenses; taxes, fees and other governmental charges; and all fees and expenses associated with the SPV’s investment in one or more underlying funds, including, but not limited to, the management fees and/or performance allocations charged by such underlying funds.

Firefly and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

**Carried Interest**

The SPV General Partner will be paid a carried interest (which is a performance-based allocation or fee) of 15% of distributions of disposition proceeds and current income in respect of Portfolio Investments that are not an underlying fund, subject to the return of capital contributions and a preferred return to Investors. Distributions in respect of each Portfolio Investment that is an underlying fund will be distributed to Investors pro rata in accordance with their relative capital contributions with respect to such Portfolio Investment.

The SPV General Partner may, in its sole discretion, waive or reduce the carried interest (i) for Investors that are, among other things, principals, employees or affiliates of the SPV General Partner and/or Firefly and (ii) as it relates to a particular Portfolio Investment.

The SPV may make distributions to the SPV General Partner in an amount sufficient to permit the payment of tax obligations of the SPV General Partner and its direct or indirect owners (including, but not limited to, the Portfolio Managers) in respect of allocations of income related to the carried interest to the extent not previously taken into account for such purpose or otherwise distributed to the SPV General Partner.

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

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Performance allocations are charged in compliance with Rule 205-3 of the Advisers Act. Investors in the Hedge Funds are generally charged an annual performance allocation which is calculated based upon a percentage of the net capital appreciation of the Investors' interests in the Hedge Funds at the end of each fiscal year, as described in Item 5, above. Investors in the SPV are generally charged a carried interest (payable to the SPV General Partner) after the return of capital contributions and a preferred return, which is distributed from current income and disposition proceeds of Portfolio Investments that are not an underlying fund.

Performance-based fee arrangements may create an incentive for Firefly to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Firefly avoids any such incentive or conflict of interest with respect to the Hedge Funds by trading through a master-feeder structure. The Master Fund holds the portfolio of the Domestic Fund and the Offshore Fund, and thus, the Investors. Therefore, all Investors hold the same investment opportunities and are allocated such opportunities pro rata. Risks associated with the master-feeder structure are described in more detail in Item 8, below. Similarly, all Investors of the SPV are allocated Portfolio Investments pro rata with respect to their capital contributions and each Investor is charged the same carried interests and management fee, except for principals, employees and affiliates of Firefly or the SPV General Partner, as disclosed in Item 5, above. Firefly has procedures designed and implemented to ensure that all Investors are treated fairly and equally, and to prevent any conflict from influencing the allocation of investment opportunities among clients.

No other hourly, flat or asset-based fees are charged to the Funds, except the management fees as discussed in Item 5.

**Item 7: Types of Clients**

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Investors in the Funds consist primarily of institutional Investors, high net worth individuals, trusts, estates, charitable organizations, foundations and endowments.

The minimum initial investment for the Hedge Funds is U.S. \$1,000,000, subject to the discretion of Firefly or the General Partner to accept lesser amounts. The minimum initial investment for the SPV is U.S. \$100,000, subject to the discretion of the SPV General Partner to accept lesser amounts.

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

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***Methods of Analysis & Investment Strategy***The Hedge Funds:

FVP Master Fund, L.P., which the Domestic Fund and the Offshore Fund invest in and through, is a long/short equity hedge fund built around a return engine comprised of four mutually reinforcing elements:

1. Deep fundamental primary research and business analysis.
2. A rigorous, proprietary investment process that ensures that we apply our deep research to the right universe of ideas.
3. A portfolio concentrated in the best investment candidates that emerge from our research.
4. A three-to five-year investment time horizon that allows us to make investments that others, with a shorter time horizon, will not.

Our investment approach, on both sides of the ledger, is uniquely designed to exploit both economic “reversion to the mean” and the behavioral biases prevalent among investors.

**Reversion to the Mean:** In most businesses, capacity expansion/retirement and business entry/exit are mechanisms that center returns on capital around a global mean over time. However, these same forces as well as exogenous events (e.g. oil shocks, geopolitical risks, natural disasters, etc.) can cause dislocations pushing either supply or demand off trend, which can cause companies’ and industries’ results to deviate markedly from their mid-cycle mean. The forces that bring back some form of economic “equilibrium” take time. In our view, this lag provides an opportunity for an investor willing to identify the transitory state of affairs and focus on a company’s long-term mid-cycle earnings power.

**Behavioral Biases:** Researchers have shown that, contrary to traditional economic theory, human beings do not always make sound financial decisions when faced with the stress and uncertainty that accompanies investing. Phenomena such as loss aversion and anchoring, as well as various decision heuristics (e.g. “vividness” and “recency”) can cause seemingly irrational movements in stock prices. Businesses and sectors with clearly identifiable risks or worsening fundamentals tend to be punished while businesses in “hot markets” are given credit for perpetual smooth sailing. As business results deviate from their longer-term economic potential, behavioral biases can create unusually profitable investment opportunities.

We research potential investments diligently and focus on trying to understand the key economic drivers of the underlying businesses. The primary research begins with reading securities filings and earnings transcripts, and studying up to twenty years of the businesses’ (and its competitors’) financial performance. A key step in our primary research is to identify and contact relevant company and industry sources (including, among others, customers, competitors, consultants, former employees, company management, etc.) necessary to help us answer the key questions we identify.

Our investment process helps us identify these potential pockets of unusual profits. Only through diligent research can we steel ourselves against the inevitable pull of these biases and hold onto these investments in the midst of their difficulties. Over time we believe that our strategy will succeed, as the realization of true business economics, driven by reversion to the mean and the accompanying market reactions, fuel the potential for substantial excess returns. Ultimately, we attempt to understand whether a business’s earnings power can revert to a historical mean, and what that mean should be.

We also maintain a short portfolio, which is important for two reasons: (i) we expect the short portfolio to generate valuable incremental returns, and (ii) when the overall market declines substantially, the Hedge Funds' short portfolio may help preserve the Hedge Funds' capital base. The research process for both short and long investments is the same, however, short positions must meet different criteria. Each short security in the Hedge Funds' portfolio should (i) have current reported results and/or investor expectations that significantly overstate the longer-term economic potential of the underlying business; and (ii) exceed a significant return hurdle to compensate the Hedge Funds for the variety of risks inherent in shorting stocks.

By having Investors that truly have a 3- to 5-year time horizon, we are able to make investments that shorter term Investors will not. By taking this long view, we are able to hold investments with significant return potential as longer-term business prospects are realized despite not knowing the exact timing of this regression to the mean. Over a 3- to 5-year window, this strategy has the potential to produce superior results. Conversely, in the pursuit of attractive long term returns, we do not manage towards specific volatility targets.

We may modify the investment objectives and strategies of the Hedge Funds at any time.

The SPV:

The SPV is established to make Portfolio Investments which consist primarily of private mineral rights and related interests in the Marcellus and Utica shale basins. The Portfolio Investments may be executed through direct purchases of real property or through the purchase of securities of one or more underlying funds, among other methods.

Mineral interests (alternatively, mineral rights) are a relatively unique feature of real property ownership in the United States. The owner of mineral interests has the right to exploit, mine, or produce the minerals lying below the surface of the corresponding property. Ownership of mineral interests is separate and distinct from surface ownership for a given parcel of land. Although a parcel's surface and mineral interests are often connected and owned by the same person, they can also be severed and owned by different parties. The surface owner has the right to farm, rent, or build on the land however he or she sees fit, but the mineral interest holder owns a distinct property estate underlying the surface (typically the area from the surface to the core of the earth) and has the right to extract minerals from that area.

The productive potential of a hydrocarbon-rich shale formation depends on a mix of geological factors that determine the amount of oil, natural gas, and NGLs in place—and how easily these resources can be extracted. The principal factors are total organic content, shale depth, shale thickness, and rock porosity. Although the Marcellus and Utica shale formations extend across much of Pennsylvania, Ohio, West Virginia, and New York, there are three particular areas where these geological features combine to allow for the highly economic extraction of large quantities of natural gas.

The southwestern core of the Marcellus encompasses southwestern Pennsylvania and portions of the panhandle of West Virginia. Importantly, all three areas have very uniform shale formations that enable high drilling success rates and accurate forecasting of prospective well production. This predictability helps drive the difference between the economics of shale drilling and that of drilling in conventional resource plays.

Besides closely following the financials and remarks of operators in the area, Firefly can use state production data, mapping software, and other direct research to analyze the production of every well in its targeted geographies. Firefly research confirms what operators have

found—well productivity is highly uniform locally, and future results can be reasonably estimated by looking at nearby producing wells.

Firefly is confident that extractable resources exist under virtually all of the acreage in the three core areas targeted by the SPV. The quick payback of invested capital and outstanding well-level economics in these areas will drive operators to drill their leaseholds quickly. Besides investing in the equities of public operators, there is another (potentially more compelling) way to invest in these shale basins: purchasing mineral interests.

Property-specific due diligence is conducted using a variety of public sources and local scuttlebutt. In a prospective purchase, Firefly will receive the parcel identification (i.e., a number that is generated for taxation purposes) of the potential seller. Using public county-level sources, Firefly will confirm the lease status of the owner's land and the status of surrounding parcels. Firefly will then look at production results in the surrounding region to determine the potential size of a well on the land. Using state, county, and public company filings, Firefly will review operator drilling plans, issued drilling permits, and unit designations to estimate the probability of a specific parcel being included in future drilling plans—and the potential timing of actual well production. Once Firefly has determined the volume, probability, and timing of future production, Firefly will determine a price that provides the SPV with a return commensurate with the risk of purchasing the parcel. For example, if drilling had commenced, but the wells were not yet producing, Firefly would view the parcel as significantly less risky than a parcel containing land that is miles from the closest drilled site.

The final piece of diligence is a title review. Over the last 150-plus years, some mineral properties have changed hands many times, been leased by numerous drilling outfits, and passed down through generations via wills of varying clarity. To confirm that the seller is the rightful owner of the property and that the lease being conveyed with the property is valid, the buyer is given some time—usually ninety (90) days—to conduct diligence. Firefly will begin its diligence by having a local land service company pull historical property records and lease information from local county courthouses. This process is known as “abstracting”; in each jurisdiction, all conveyances of property are considered binding under law after they have been recorded in the local county courthouse. Using the abstract and supporting documents provided by the local land services company, Firefly will establish a chain of ownership to the current seller. If issues discovered during title review cannot be remedied, Firefly can choose not to fund the property acquisition, thanks to protections in the purchase agreement. Alternatively, Firefly can make a business judgment to reduce the purchase price to a point that compensates the SPV for the additional risk identified in the chain of title.

### ***Risk of Loss Factors***

The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with an investment in the Funds. We have included only the risks that we believe to be material, significant or unusual and relate to the investment strategies or methods of analysis described above. Prospective Investors are urged to consult their professional advisers and review the legal documents for each particular Fund before deciding to make an investment in a Fund.

### **The Hedge Funds:**

#### ***Master-Feeder Structure; Concentration of Investors.***

The "master-feeder" fund structure presents certain risks to Investors in the Hedge Funds. For example, a smaller feeder fund investing in the Master Fund may be materially affected by

the actions of a larger feeder fund investing in the Master Fund. If a larger feeder fund makes a withdrawal from the Master Fund, the remaining feeder funds may experience higher pro rata operating expenses, thereby producing lower returns. The Master Fund may become less diverse due to a withdrawal by a larger feeder fund, resulting in increased portfolio risk. The Master Fund is a separate entity and creditors of the Master Fund may enforce claims against all of the assets of the Master Fund. It is not possible to isolate the assets attributable to each of the Hedge Funds and any other funds or entities investing in the Master Fund. Further, a significant portion of a feeder fund may come from one or a few large Investors and any significant withdrawals thereof could have a material adverse effect on the other Investors in the Master Fund. Firefly may from time-to-time manage the Master Fund to maximize tax benefits to Investors, creating certain conflicts of interest relating to the tax considerations applicable to the feeder funds.

#### *Concentration of Investments*

The Hedge Funds may have concentrated portfolios which Firefly believes will provide the best opportunity for attractive returns. The concentration of the Hedge Funds' portfolios in a small number of issuers or industries subjects the Hedge Funds to a greater degree of risk with respect to the failure of one or a few issuers or with respect to economic downturns in relation to such industries.

#### *Investment Expenses*

The investment expenses (e.g., expenses related to the investment and custody of the Hedge Funds' assets, such as brokerage commissions, custodial fees and other trading and investment charges and fees) as well as other fees (as described in Item 5, above) may, in the aggregate, constitute a high percentage compared to other investment entities. The Hedge Funds will bear these costs.

#### *Short-Sales*

Firefly may effect short sales. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Hedge Funds' portfolios. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

#### *Leverage*

The Hedge Funds may trade on margin, engage in other forms of borrowing to finance their operations and use other forms of financial leverage. The level of interest rates and the rates at which the Hedge Funds can borrow will affect the operating results of those Hedge Funds. Fluctuations in the market value of the portfolio of a heavily leveraged investment vehicle can have a disproportionately large effect in relation to the capital of that vehicle. Any event which may adversely affect the value of positions held by an investment vehicle could significantly affect the net asset value. Firefly may also borrow funds from time to time for liquidity purposes or otherwise as it deems appropriate.

#### *Potential Conflicts of Interest*

Although Firefly and its respective principals, employees and affiliates currently devote a substantial part of their time to the affairs of the Hedge Funds, they are not obligated to do so. Firefly and its respective principals, employees and affiliates generally may not make trades



and investments for their own accounts. In these accounts, the Firefly principals, employees and affiliates generally may only sell positions they previously owned or cover positions they held short with the permission of the CCO. Investors will not be entitled to inspect those trading records of Firefly that are not related to the Hedge Funds.

#### *Lack of Liquidity*

Portfolio assets may, at any given time, include securities and other financial instruments or obligations that are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

#### *Reliance on Management and Key Personnel*

Investors have no right or power to take part in the management of Firefly. Accordingly, no Investor should invest in the Hedge Funds unless such Investor is willing to entrust all aspects of management to Firefly. The investment performance of the Hedge Funds depends largely on the skill of key personnel of Firefly, including, in particular, the Portfolio Managers. If key personnel were to leave, Firefly might not be able to find equally desirable replacements and the performance of the Hedge Funds could, as a result, be adversely affected.

#### The SPV:

##### *Investments Generally*

All investments risk the loss of capital. No guarantee or representation is made that the SPV's investment program involves, without limitation, risks associated with limited diversification and concentration, investments in speculative assets and the use of speculative investment strategies and techniques, interest rates, credit deterioration or default risks, systems risks and other risks inherent in the SPV's activities. The SPV's investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular markets where the SPV may invest its assets. Although the SPV intends to utilize appropriate risk management strategies, such strategies cannot fully insulate the SPV from the risks inherent in its planned activities. Moreover, in certain situations the SPV may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant factors.

##### *Nature of SPV Investments*

An investment in the SPV requires a long-term commitment with no certainty of the magnitude or timing of returns, if any, during the term of the SPV. While Firefly intends the SPV to make investments that have anticipated returns commensurate with the risks undertaken, there can be no assurance that the targeted returns will be attained or cash flow projections will be met. The Portfolio Investments may be highly illiquid. Accordingly, there can be no assurance that the SPV will be able to realize value on its Portfolio Investments in a timely manner. Losses on unsuccessful Portfolio Investments may be realized before any gains on successful Portfolio Investments are realized. Poor performance by a few of the Portfolio Investments could severely affect the total returns to the Investors. Therefore, neither the SPV General Partner, Firefly, nor their respective affiliates can guarantee any level of return to the Investors or the repayment of capital from the SPV.

*Availability of Investments*

The identification of investments suitable for the SPV is difficult and involves significant uncertainty. There can be no guarantee that Firefly will identify such investment opportunities or that committed capital will be fully invested. Even if such investments are identified, there can be no assurance that they will not decline in value considerably while held by the SPV including, without limitation, as a result of weakness in the credit, commodity or other markets, or other circumstances.

*Lack of Diversification*

The SPV's investment strategy is focused on investing in a narrow category of assets. The aggregate return on the investments may be adversely affected by the unfavorable performance of a particular investment category and will be at a greater risk to overall changes in the economy, commodity prices and interest rates than if the SPV were less concentrated in a particular investment category.

*Investments Longer than Expected Term and Distribution of Illiquid Investments*

The SPV may make investments which may not be advantageously disposed of prior to the date scheduled for dissolution of the SPV. Although Firefly expects that Portfolio Investments will be able to be disposed of prior to dissolution, the SPV may have to sell, distribute, or otherwise dispose of Portfolio Investments at a disadvantageous time for a price which is less than the price that could have been obtained if they were held for a longer period of time. If all of the Portfolio Investments have not been disposed of or otherwise liquidated as of the end of the SPV's terms, the SPV General Partner may, in its discretion, not liquidate the SPV or may liquidate the SPV by distributing such Portfolio Investments (in addition to any other SPV assets such as the securities of underlying funds) to the Investors to the extent possible. If Portfolio Investments are distributed in-kind, there can be no assurance that any Investor would be able to dispose of the same or that the value of such Portfolio Investments determined by the SPV General Partner for purposes of the determination of distributions (including the calculation of the carried interest) will ultimately be realized.

*Expedited Transactions*

Investment analyses and decisions by Firefly may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to Firefly at the time of an investment decision may be limited. Therefore, no assurance can be given that Firefly will have knowledge of all relevant circumstances that may adversely affect an investment. This lack of knowledge may expose investors to risk of loss.

*Unspecified Investments*

Investors must rely on the SPV General Partner and Firefly to make all Portfolio Investment decisions and will not have the opportunity to independently evaluate any Portfolio Investments.

*Follow-on Investments*

The SPV may be called upon to provide additional funding in connection with its Portfolio Investments, particularly when such investments are made through one or more underlying funds. There can be no assurance that the SPV will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision by the SPV not to make follow-on investments or its inability to make them may have a substantial negative impact on a Portfolio

Investment in need of such an investment and may diminish the SPV's ability to influence the Portfolio Investment's future development. Furthermore, no assurance can be made that any follow-on investment made will be profitable to the SPV.

*Lack of Control of Underlying Funds*

The SPV General Partner and/or Firefly will not have operating control of the underlying funds in which the SPV may invest, as the management of such underlying funds is responsible to operate the same on a day-to-day basis. This lack of control of the underlying funds may expose Investors to a range of risks relating to the management of the underlying funds. Although the due diligence process of Firefly will attempt to address this issue, there can be no guarantee that this lack of control will not adversely impact the performance of the SPV. There can be no assurance that the management team of an underlying fund at any particular time will be able to operate the underlying fund in accordance with the expectations or suggestions of Firefly, or that the SPV will be able to recover its investment in such underlying fund.

**Item 9: Disciplinary Information**

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Firefly has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction. Likewise, no persons involved in the management of Firefly have been subject to any such action. Therefore, there have been no legal or disciplinary events that are material to our advisory business or the integrity of our management.

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

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Neither Firefly 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;
- 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 the foregoing entities;
- have any relationships or arrangements that are material to Firefly's advisory business; and
- select other investment advisers for the Funds or Investors.

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

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***Participation or Interest in Client Transactions***

We serve as the investment adviser to the Funds. Employees, affiliates of the employees, and relatives of the employees may make investments in the Funds. We generally do not receive any compensation from such investments from employees.

We and our employees have a financial interest in the Funds through an incentive allocation or a direct investment interest in the Funds. As such, we could be considered to have recommended to Investors that they buy or sell securities or investments in which the Firm or a related person has some financial interest.

***Code of Ethics & Personal Trading***

Pursuant to Rule 204A-1 of the Advisers Act, we have adopted a code of ethics (the “**Code of Ethics**”) that is designed to foster compliance with applicable federal statutes and regulatory requirements, minimize circumstances that may lead to or give the appearance of conflicts of interest with the Funds or Investors, insider trading or unethical business conduct, as well as to promote a culture of compliance and ethics. The Code of Ethics establishes various procedures with respect to investment transactions in accounts in which our employees or related persons have a beneficial interest or accounts over which an employee has investment discretion.

In general, employees are not permitted to invest in equity securities, debt securities, options on equities, futures or other derivatives, swaps or commodities, except to liquidate investments from accounts which existed prior to such person's employment at Firefly. Employees must obtain written pre-approval from the CCO to make such liquidation trades. Employees must also obtain pre-approval from the CCO before engaging or participating in any outside business activities or private placements.

All of our employees must either direct their brokers to send or provide themselves duplicate brokerage statements to the CCO. These records are used to monitor compliance with the foregoing policies.

The foregoing policies apply to any personal transactions involving equity securities, debt securities, options on equities, futures or other derivatives, swaps or commodities, but do not apply to transactions involving government securities or open-end mutual funds, exchange traded funds (ETFs) or any other instruments which afford the employee no discretion over individual securities transactions.

**Item 12: Brokerage Practices**

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As a fiduciary to our Investors and Funds, our Investors' and Funds' interests must always be placed first. Our trading practices and procedures prohibit unfair trading practices and seek to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the Investors' or Funds' favor. We have adopted the following policies and practices to meet Firefly's fiduciary responsibilities and to ensure our trading practices are fair to all and that no Investor or Fund is advantaged or disadvantaged over any other.

**Aggregation**

The aggregation or blocking of portfolio transactions may allow Firefly to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to the Hedge Funds. Because Firefly trades through the Master Fund on behalf of the Hedge Funds, all trades are aggregated by circumstance. However, should Firefly change its structure, its policy is to aggregate portfolio transactions where possible and when advantageous to the Hedge Funds. In these instances, Hedge Funds participating in any aggregated transactions will receive an average share price and transaction costs will be shared equally and on a pro rata basis.

**Allocation**

Our policy prohibits any allocation of trades in a manner that our proprietary accounts, affiliated accounts, or any particular Fund or Investor receives more favorable treatment than other Funds or Investors.

All trades are made via the Master Fund, which is invested in directly by the Domestic Fund and Offshore Fund, and thus the Investors. Therefore, trade allocation is not an issue for Firefly.

With respect to allocation between the Hedge Funds and the SPV, none of the Hedge Funds are invested in the SPV. The SPV was offered specifically only to then-existing Investors of the Hedge Funds. The SPV does not invest in public securities and does not actively trade securities in competition with the Hedge Funds.

**Best Execution**

We have a fiduciary duty to seek best execution for portfolio transactions. As a matter of policy and practice, we seek to obtain best execution for portfolio transactions, i.e., seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances.

**Principal Trading**

Our policy and practice is to not engage in any principal transactions.

**Soft Dollars**

We may use "soft dollars" generated by Clients' trading activities to purchase research services or products that would otherwise have been an expense of Firefly. We currently do not generate, accrue or use "soft dollars" with any broker-dealers, but if we do in the future, we intend to keep any such arrangements within the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

**Item 13: Review of Accounts**

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***Review of Accounts***

The Funds managed by the Firm are reviewed on a daily basis by the portfolio managers to assure conformity with investment objectives and guidelines.

***Reporting***

As soon as practicable after the end of each year, Firefly will distribute an audited financial report for each Fund with respect to the previous fiscal year. The financial statements will be delivered to all Investors within 120 days of year-end, or as otherwise required with respect to the SPV only. In addition, each Hedge Fund will generally distribute net asset value updates and performance reports on a monthly basis. The SPV will distribute quarterly reports of net asset value and other relevant performance updates to its Investors.



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

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Firefly does not currently utilize any third party marketers or solicitors for Investor referrals.

Firefly does not provide advice to parties other than the Investors in the Funds. Firefly provides no additional services to the Investors, the Funds, nor any third parties.

**Item 15: Custody**

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We do not provide custodial services to the Funds or Investors. However, we and our affiliates may be deemed to have custody of the assets of the Funds. We will not use a qualified custodian to send quarterly account statements directly to Investors, but we do provide reports described in Item 13. Fund and Investor assets are held with broker-dealers or banks that are deemed “qualified custodians.”

Investors in the Funds will receive audited financial statements for the particular Fund(s) in which they are invested within 120 days of the fiscal year end, or as otherwise required with respect to the SPV only. Upon completion of the Funds’ annual audit, we will distribute the audited financials along with copies of our Privacy Notice and Form ADV Part 2, if required.

**Item 6: Investment Discretion**

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Firefly possesses discretionary portfolio management authority over the Funds with respect to asset allocations and direct investments as per the offering documents in place for each Fund.

**Item 17: Voting Client Securities**

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Firefly will ensure that proxies or corporate action matters regarding the Funds are voted in the best interest of the Funds. The Investors in the Funds may not direct voting of proxies.

Upon request, we will provide an Investor with a copy of our proxy voting policies and procedures and/or information regarding particular proxy votes cast by the Funds.

**Item 18: Financial Information**

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Firefly is not required to provide a balance sheet in response to this Item and is not subject to any financial condition that is reasonably likely to impair our ability to meet our financial obligations to our Funds or Investors.

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

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Not applicable.