

# WINDHORSE

## FORM ADV PART 2A: FIRM BROCHURE

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Windhorse Capital Management, LLC is an investment adviser that is registered with the United States Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Windhorse Capital Management, LLC. If you have questions about the contents of this brochure, please contact Tyler Ayer at (617) 850-9162. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Additional information about Windhorse Capital Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## ITEM 2 – MATERIAL CHANGES

Windhorse has no material changes to report since its last brochure dated March 31, 2018.

Effective December 31, 2017, Windhorse ceased providing investment management services to new clients and initiated the process of returning capital to investors. This wind-down process is ongoing as of this update.

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**ITEM 4 — ADVISORY BUSINESS**

Windhorse's principal place of business is in Cambridge, Massachusetts. The principal owners of Windhorse are David Salem, Richard Salem, and Tyler Ayer. As noted under "Material Changes," Windhorse is no longer accepting new clients and is in the process of winding down its remaining commingled funds.

Each portfolio managed by Windhorse on behalf of its Clients invests in a combination of marketable and private securities purchased directly and via external managers administering commingled funds or separate accounts. Windhorse's investment strategies and objectives are tailored to the specific needs of each Client.

As of December 31, 2018, Windhorse's regulatory assets under management were \$34,307,240.

**ITEM 5 — FEES AND COMPENSATION**

Windhorse ceased charging management fees to its commingled funds (in wind-down) effective 1/1/18.

In addition to our advisory fees Clients are subject to fund-specific investment expenses such as legal, brokerage, accounting, audit, organizational expenses, and fund administration. Further, because a portion of each Client's assets are invested in externally managed pooled investment vehicles, each Client also bears its pro rata share of the expenses of those underlying investment vehicles, including fees paid to external managers.

A more detailed description of fees and expenses are provided in each Partnership's audited financial statements as well as each Partnership's confidential offering materials.

**ITEM 6 — PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Windhorse does not receive a performance-based fee from any of its Clients.

**ITEM 7 — TYPES OF CLIENTS**

Windhorse currently provides investment services to clients via commingled partnerships.

The limited partners of each Partnership are qualified high net worth individuals, families, and institutions.

Limited partners in the Partnerships must provide Windhorse with a reasonable basis to believe that such limited partner qualifies as an "accredited investor" (as that term is defined in Regulation D under the Securities Act of 1933, as amended) and is a "qualified purchaser" (as that term is defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended).

**ITEM 8 — METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS****Methods of Analysis**

Windhorse makes investment decisions for each Client on the basis of value-oriented analysis. Value-oriented analysis emphasizes the patient accumulation of out-of-favor assets whose relatively low purchase prices facilitate the potential achievement of pre-specified return aims over potentially indefinite holding periods even if such assets remain generally unloved by other investors. Consistent with the belief that risk is a function of price, Windhorse eschews fixed asset class weightings in favor of a price-driven approach to portfolio construction aimed at maintaining desired forms and degrees of diversification while preserving each Client's potential to generate attractive real returns net of fees and expenses and, where appropriate, applicable taxes.

**Investment Strategies***The Client's Investments in External Managers*

In identifying and evaluating an investment in an underlying investment manager we engage in the following negative screens: (i) eliminate managers displaying certain disqualifying attributes; (2) eliminate managers displaying too many undesirable attributes; (3) eliminate managers with too few desirable attributes; (4) eliminate managers displaying too few important attributes; and (5) eliminate managers failing to display a well-defined investment philosophy.

Costs always play a role in the decision to invest capital with or remove capital from an external manager. Although some external managers provide their services under contractual arrangements entailing high degrees of liquidity, many do not and some require long-term lock-ups. The longer a manager's lock-up or mandatory holding period, the more conviction we must have respecting the capability of that manager to generate superior returns, provide cost-effective diversification or, ideally, both.

*Direct Buying or Selling of Individual Securities or Properties*

When determining whether and to what extent to invest a portion of a Client's capital in a given security, we identify and evaluate an investment based on an approach that utilizes negative screens similar to the methods that we use when considering an underlying investment manager (described above).

Generally, individual securities being considered for direct purchase by Windhorse must have the potential to play one or both of the following two essential roles relative to the potentially unlimited universe of competing alternatives, including current holdings: (1) enhance a Client's long-term returns and/or (2) enhance diversification. Given Windhorse's preference for equity or ownership-oriented positions, we expect to continue to spend relatively little time analyzing and trading directly in fixed income securities.

**Risk of Loss**

Investing in securities involves risk of loss that clients and investors should be prepared to bear. Because the investment strategy of the Clients' portfolios involves significant risk, the Clients and their underlying limited partners must be prepared to bear the loss of their investments.

A brief discussion of the principal risks inherent in the investment strategy of Client portfolios is set forth below. A more detailed discussion of risks applicable to each Client are included in the governing documents for each CIO Services client and are available to limited partners of each Partnership in the respective Partnership's confidential offering materials.

**General Investment Risks**

Funds, companies, or properties in which the Client portfolios are invested may be sensitive to downward swings in the overall economy or in specific industries, and factors specific to a fund, company, or property may have an adverse effect on the Clients' investment in such fund, company, or property. There may be few or no restrictions on the types of investments made on behalf of each Client. To the extent that a Client portfolio has invested a significant portion of its assets in a specific security, sector, or industry, or sells short the securities of a specific issuer, sector, or industry, the performance of such Client portfolio could be affected materially by the performance of such security, sector, or industry. Because Windhorse may be authorized to buy and sell an essentially unlimited universe of securities and properties on a respective Client's behalf, the individual and aggregate value of Client holdings and the value of interests in each Client are subject to a very broad range of economic and market forces, including, but not limited to, equity market fluctuations, interest rate changes, foreign exchange movements, capital controls, and regulatory and tax changes. Given the very broad range of investment hazards that each Client portfolio is expected to incur over time, prospective investors determined to avoid entirely any particular type of investment hazard or risk should refrain from investing in the applicable Partnership.

**Issuer-Specific Information Risks**

Each Client's investments rely to a material extent on the financial information made available by the management of the issuers of securities in which each Client invests. Windhorse does not have any ability independently to verify the financial information disseminated by the numerous issuers in which each Client may invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general.

**Illiquidity**

Each Client may invest in non-marketable or restricted securities or other illiquid instruments or properties, and may be unable to sell such holdings at satisfactory prices due to the absence of an established market for them and/or legal or contractual restrictions on their resale. The absence of a trading market can make it difficult to ascertain a market value for illiquid investments. Such investments and other assets and liabilities for which no market prices are readily available will generally be carried on the applicable Client's books at fair value, determined in accordance with the valuation provisions established by Windhorse and detailed in the applicable Client's governing documents as in effect from time to time. Such fair value may

not represent the dollar amount that each Client realizes on the holding's eventual disposition or that would, in fact, be realized upon an immediate disposition of the investment. Also, to the extent a Client's illiquid holdings comprise pooled investment vehicles, Windhorse expects to rely on the value reported by each such vehicle's manager or applicable agent. In the event of a Partnership's dissolution, there can be no assurance that it will be able to dispose of all of its investments prior to making its final liquidating distributions, thus compelling the applicable Client to make in-kind distributions.

**Leverage**

To the extent allowed by the Client's governing documents, Windhorse expects to use leverage on a non-routine and moderate basis. Also, as described above, external managers included in a Client portfolio (directly or by investing in commingled funds such managers steward) may employ borrowed money to enhance returns or for other purposes. Risk of loss and the magnitude of possible gains are both generally increased by the use of leverage. Adverse market fluctuations, in the case of margin borrowings, may require the untimely liquidation of one or more investment positions. Interest costs of borrowings are an expense of a leveraged portfolio and therefore both borrowing levels and fluctuations in interest rates may affect investment results. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost in the event of a decline in the market value of such securities. The amount of borrowings on behalf of a Client portfolio, either directly by Windhorse or by external managers, and the interest rates on those borrowings, may affect the performance of a Client portfolio.

**Derivatives**

Derivatives may be used in a Client portfolio to augment or reduce the portfolio's exposure to various asset classes, economic sectors, industries, corporate or governmental issuers or currencies. Buying or selling derivatives entails potentially material costs and risks, including but not limited to outright losses due to market movements, the possible accentuation of losses or reductions in gains of the applicable Client's underlying holdings, the possible default of such Client's derivatives counterparty(ies), and operational risks relating to margin requirements for particular instruments.

**External Managers**

For the Client portfolios that employ (or may employ) — directly or through pooled vehicles — multiple investment managers who make their trading decisions independently, it is possible that one or more such managers may at any time take positions which may be counter to positions taken by other such managers. It is also possible that managers invested in by the Client portfolios may on occasion be competing with each other with respect to the purchase of certain securities. Also, a particular manager may take positions for its other clients that may be opposite to positions taken by the manager on behalf of an underlying fund in which such Client invests. Moreover, although Windhorse seeks to employ only external managers whom it believes are of the highest integrity, it typically lacks real-time control over such managers' operations, particularly managers of pooled vehicles with duties to third parties other than the Clients. Consequently, there is no assurance that every manager employed by the applicable Client will conform its conduct to the highest ethical or business standards.

For the Clients whose assets are invested in external funds and separate accounts, the terms of the governing agreements may provide that their managers be compensated, in whole or in part, based on the appreciation in value (including unrealized appreciation) of the funds' assets over prespecified time intervals. Such performance fee arrangements may create an incentive for the managers working under them to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation arrangements. Each Client may be required to pay incentive fees to investment managers who make a profit for the applicable Client portfolio in a particular fiscal year even though the applicable Client portfolio may in the aggregate incur a net loss for such year.

### **Prime Broker Risks**

Special risks exist to the extent that a Partnership's assets are held by a prime broker rather than a custody bank. Due to the presence of short positions from time to time, some of each Client's assets may be held in one or more margin accounts which may provide less segregation of customer assets than would be the case with a more conventional custody arrangement. In the event that one or more prime brokers, employed by a Client, experience financial difficulties, such Client's assets held by them could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time while the prime broker's business is liquidated, resulting in potential losses to such Client. Furthermore, if a prime broker's pool of assets is determined to be insufficient to meet all claims, such Client could suffer a loss.

### **Related Party Transactions**

Each Client portfolio may, to the extent not prohibited by applicable law, make investments in, or otherwise enter into transactions with other investment funds or accounts managed or sponsored by Windhorse or its affiliates or partners (collectively, the Related Parties). Conflicts of interest may arise in a number of different situations involving transactions with Related Parties (any such transaction, a Related Party Transaction), including, without limitation, if (i) a Client invests in or co-invests with a Related Party or a Related Party invests in such Client; (ii) a Client purchases securities from or sells securities to any Related Party; (iii) a Client invests in an existing investment held by a Related Party; and (iv) a Client or a Related Party invests in different securities issued by the same company (e.g., debt and equity). Windhorse will use its reasonable judgment when resolving conflicts of interest that arise in connection with Related Party Transactions. The Client portfolios may co-invest initially in portfolio investments at substantially the same time as other portfolios managed by Windhorse or its Related Parties (including, without limitation, members, partners, principals, and employees). There can be no assurance that the Client portfolios would dispose of such an investment at substantially the same price or time as other portfolios managed by Windhorse or its Related Parties due to many factors that may or may not be foreseeable at the time of investment, including availability of capital for follow-on investment and other needs, differing basis in the investment, differing financing terms applicable to different investments, time horizons applicable to different of its affiliates, and their differing investment objectives and investment programs. Each Client portfolio may invest in companies in which other of its affiliates hold a preexisting investment or in which they subsequently invest. Any investment by a Client portfolio in a preexisting investment of other of its affiliates could be viewed, especially in hindsight, as a below-market purchase. In circumstances in which a Client portfolio makes or holds an investment in a company in which other of its affiliates have an investment, such Client expects to make business decisions relating to such investment independently of the analogous decisions made with respect to the investment by such other of its affiliates. Certain of Windhorse's affiliates may act as members of boards of directors and



may acquire confidential information and enter into confidentiality and/or “standstill” agreements when assessing investment opportunities and managing investments. While each Client seeks to avoid agreements that impose limits on them when the Clients or its affiliates have no confidential information, circumstances may arise when these activities prevent such Client from disposing of (or acquiring) securities of an issuer or taking or closing out a short position, potentially for an extended period.

### **Custodian and Counterparty Risks**

Each Client may be subject to the risk of the inability of its prime brokers, broker dealers and other counterparties to safeguard assets or to perform with respect to transactions, whether due to bankruptcy, insolvency or other causes. The bankruptcy or insolvency of such institutions may result in such Client losing all or a portion of its assets held with such institutions or the termination of any outstanding transactions. Each Client may engage in transactions with counterparties located in various jurisdictions outside the United States. Such counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to each Client’s assets are subject to substantial limitations and uncertainties. The insolvency of any non-U.S. counterparty may result in a loss to the applicable Client, which could be material. In an effort to mitigate these risks, Windhorse, on behalf of each Client, will attempt to limit transactions and entrust assets to counterparties, both within and outside the United States, which it believes are established, well capitalized, and creditworthy. However, even the capitalization of a long-established institution may deteriorate rapidly when it has substantial risk exposure to one or more asset classes that become distressed, its counterparties and customers lose confidence in its ability to perform its transactions and safeguard assets, or it encounters other severe difficulties. There can be no guarantee that each Client could unwind transactions and withdraw assets from a once creditworthy institution if the institution’s capital begins to deteriorate rapidly.

### **Structural Risks**

Each Client is also subject to a variety of additional risks related to its structure and operation, such as dependence on key individuals, limited diversification, risks of region-specific investing, general economic, political and capital market conditions, operating in a difficult and unpredictable credit environment, changing business and economic conditions that could adversely impact investment performance, changes in the quality, pricing and availability of suitable investments, risks related to highly volatile investments, increased governmental and regulatory intervention and restrictions that could adversely impact investments and risks inherent in investing in portfolio funds. These risks are more fully described in the governing documents for each Client relationship.

### **ITEM 9 — DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to each Client’s evaluation of Windhorse’s business or the integrity of its management. We do not have any such events to disclose.

**ITEM 10 — OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

In March 2014, the Principals of Windhorse (via forming an entity by the name of Flagstaff Equity Partners, LLC, formed for the purpose of investing in other business entities) entered into an investment agreement with Solovis, Inc., a start-up software company based in Dallas, TX.

We do not have any other business activities and we are not engaged in any other financial industry activities or affiliations.

**ITEM 11 — CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING****Code of Ethics and Personal Trading**

Windhorse has adopted a code of ethics (the Code) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act). Our Code is applicable to our partners and employees (collectively Access Persons). The purposes of the Code are to (i) educate Access Persons about the Adviser's expectations and the laws governing their conduct; (ii) remind Access Persons that they are in a position of trust and must act with complete propriety at all times; (iii) protect the Adviser's and its affiliates reputation; (iv) guard against violation of the federal securities laws; (v) protect each Client by deterring misconduct; and (vi) establish procedures for Access Persons to follow so that we can assess whether our Access Persons are complying with the Code. All Access Persons must certify that they have received, read and understand our Code, annually, or when it is amended.

With respect to personal trading, our Code requires Access Persons to obtain prior approval to engage in certain personal securities transactions. We also receive initial, quarterly, and annual holdings and transactions reporting from Access Persons in accordance with applicable SEC rules. The Adviser's Chief Compliance Officer (CCO) monitors compliance with the Code. We also have a separate policy on insider trading and require all Access Persons to annually certify that they have received, read and understand our written policy regarding insider trading.

Existing limited partners may request a copy of the Code by contacting CCO Tyler Ayer at [tayer@windhorsegroup.com](mailto:tayer@windhorsegroup.com).

**Participation or Interest in our Client Transactions**

The Principals maintain investments in each Partnership as a limited partner. These investments are made under identical fee arrangements (to the extent permitted by relevant regulations) and terms for liquidity as other limited partners of such Partnership. The Principals expect to utilize the Partnerships as the primary investment vehicles stewarding their taxable and non-taxable assets, respectively, for the indefinite future.

These investments may create a conflict of interest for the Principals because they can create an incentive to favor one Partnership over another, when allocating certain investment opportunities. We address this conflict through the standards of conduct provisions in our Code as well as through our procedures related to the allocation of investment opportunities and trade order aggregation as discussed below.

**ITEM 12 — BROKERAGE PRACTICES**

When we conduct direct securities trading, we evaluate brokers by weighing such factors as financial condition, level of trading expertise and capability, infrastructure, alternative trading options resulting from technology developments and market changes, and commission rates charged. In selecting a broker-dealer to execute a transaction (or series of transactions) and when determining the reasonableness of the broker-dealer's compensation, we do not have an obligation to seek the lowest available commission cost. We will periodically monitor and evaluate the cost and quality of broker executions and service, and direct orders on the basis of the results of such monitoring and evaluation. The external managers with whom we invest also may consider similar factors when selecting and executing transactions through broker-dealers. We do not require external managers to solicit competitive bids or obligate them to seek the lowest available commission cost.

We conduct best execution reviews on a regular basis, typically quarterly, to monitor the broker dealers used to execute client trades.

We do not presently receive research or other products or services from a broker-dealer or third party in connection with a Client's securities transactions (soft dollar benefits).

It is our policy to aggregate the purchase or sale of securities for each Client when it is not disadvantageous to a Client and where consistent with best execution. Such aggregation may enable Windhorse to obtain a more favorable price or a better commission rate (based on the volume of a particular transaction) for the applicable Client(s). Faithful adherence to our trade aggregation policies helps to ensure that no Client is disadvantaged as a result of trade aggregation.

**ITEM 13 — REVIEW OF ACCOUNTS**

Each Client's accounts (and underlying limited partner accounts) are generally reviewed at least quarterly, though significant events such as material changes in underlying investment/asset values, major market movements, macroeconomic events, legal or regulatory developments, a change in business structure, substantive personnel changes at external managers, and revised investment terms can trigger a review of an underlying investment. Each Client's accounts are monitored regularly by the Principals for performance, adherence to investment strategy, changes in personnel, current positioning, outlook, and risk management. Risk management review parameters include, but are not limited to, sector/industry/security concentration, liquidity, exposure to broad market movements, volatility, currency exposure, etc. The Principals bear ultimate responsibility for these periodic reviews and, in fact, all aspects of our operations.

Windhorse provides each CIO Services client with customized reports in a timeframe mutually agreed upon at the commencement of the relationship.

Windhorse provides each Partnership's limited partners with quarterly reports outlining our staff's current market outlook and other notable information approximately six to eight weeks after quarter-end. Windhorse's staff also notifies each of the Partnership's limited partners when their capital account statements are posted to Windhorse's password-protected website. Audited financial statements for each Partnership are provided on an annual basis.

**ITEM 14 — CLIENT REFERRALS AND OTHER COMPENSATION**

Neither Windhorse nor any Client compensates any person who is not a supervised person for client referrals.

**ITEM 15 — CUSTODY**

Windhorse may be deemed to have constructive custody of a Client's or Clients' assets. Windhorse may change prime brokers for each Client portfolio from time to time at its discretion and without advance notice to the affected Client(s).

Windhorse complies with the custody regulations under the Investment Advisers Act by delivering audited financial statements to limited partners in each Partnership, and conducting surprise audits, as necessary.

**ITEM 16 — INVESTMENT DISCRETION**

Windhorse exercises investment discretion over the assets of each Client portfolio. This authority is established via the governing documents of each Client relationship, which give Windhorse the authority to determine, without the consent of such Client (and in the case of the Partnerships, such Partnership's limited partners), any and all investment transactions (be they direct investments in securities or properties, or investments with external managers) to enter into on behalf of the Clients.

**ITEM 17 — VOTING CLIENT SECURITIES**

We have established procedures for exercising voting rights. The Principals implement the proxy voting procedures, and work in conjunction with other Windhorse staff to ensure that proxies are voted in a reasonable and timely fashion.

In accordance with Rule 206(4)-6 under the Investment Advisers Act, we have in place a proxy voting policy: (i) to ensure that proxies that we vote on behalf of our Clients are voted to further their best interests; (ii) to establish a mechanism to address any conflicts of interests between us and our Clients; and (iii) to provide recordkeeping requirements and the criteria for delivering such information. The Principals are responsible for making all proxy voting decisions in accordance with our voting policy. The Principals are responsible for the actual voting of all proxies in a timely manner, while our CCO is responsible for monitoring the effectiveness of our voting policy. Our general policy is to vote proxy proposals, amendments, consents or resolutions in a manner that reasonably furthers the best interests of our Clients and is consistent with our Client's investment objectives and strategy.

If we determine that we have a conflict of interest when voting a proxy, we will address matters involving conflicts of interest in the manner set forth in our voting policy.

Our Clients (and in the case of the Partnerships, the limited partners of such Partnership) may obtain a copy of our proxy voting policies and procedures and information about how we have voted our Clients' proxies by contacting CCO Tyler Ayer at [tayer@windhorsegroup.com](mailto:tayer@windhorsegroup.com). We will maintain a record of each written request for proxy voting information and our written response to such request.

**ITEM 18 — FINANCIAL INFORMATION**

Not applicable.