

**Item 1      Cover Page**

March 29, 2019

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This brochure provides information about the qualifications and business practices of Solas Capital Management, LLC. If you have any questions regarding the contents of this brochure, please contact us at (203) 625-1305 or via email, to Estee Levy at [elevy@solascapital.com](mailto:elevy@solascapital.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. Solas Capital Management, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information with which you may determine to hire or retain an adviser.

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

## **Item 2      Material Changes**

There have been no material changes since the Adviser's last annual filing, which was submitted on March 31, 2018.

A summary of any material changes to this and subsequent brochures will be made available to you within 120 days of the close of our business' fiscal year. We may also provide you with additional updates or other disclosure information at other times during the year in the event of any material changes to our business.

You may request the most recent version of this brochure by contacting Estee Levy at (203) 625-1305 or via email to [elevy@solascapital.com](mailto:elevy@solascapital.com). You may also obtain a copy by going to the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### Item 4      Advisory Business

Solas Capital Management, LLC (the “Adviser”, “Solas” or “we”) is a Delaware limited liability company and has its principal place of business in Darien, Connecticut. The Adviser has been in the investment advisory business since 2004. The Adviser currently provides investment advisory services to a private investment fund which is offered exclusively to sophisticated investors, a private investment fund that is offered to a particular investor and its affiliates and a pooled investment vehicle operated by a third party. The private investment funds and pooled investment vehicle are sometimes referred to together as “Clients.” The Adviser may provide investment advisory services to other funds, pooled investment vehicles and to separately managed accounts in the future.

Frederick Tucker Golden (the “Portfolio Manager”) indirectly owns and controls the Adviser and the General Partner and has overall responsibility for investment decisions regarding the Clients’ portfolios.

The private investment funds we manage are Solas Capital Partners, LP and Solas Capital Partners II, LP, each a Delaware limited partnership (each a “Fund” and together, the “Funds”). Solas Capital, LLC (the “General Partner”), an affiliate of the Adviser, serves as each Fund’s general partner. The interests in the Funds are offered on a private placement basis, pursuant to Section 3(c)(1) of the Investment Company Act of 1940, as amended, (the “Investment Company Act”) to persons who generally are “accredited investors” as defined under the Securities Act of 1933, as amended, and “qualified clients” as defined under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and subject to certain other conditions, which are set forth in the applicable Fund’s Offering Documents (defined below).

Solas has discretion with respect to investment decisions made for the Funds, and also with respect to the selection of brokers, dealers and other counterparties for such transactions, and the amount of commissions or other compensation to be paid by the Funds. Solas provides investment advisory services to the Funds tailored towards the particular investment objectives, restrictions, and strategies described in the applicable Fund’s Offering Documents. Please refer to Item 8 of this brochure for a more detailed description of the Adviser’s investment strategies, as well as a description of the types of securities and other investments purchased by the Funds under the management of the Adviser. Investment advice is provided directly to the Funds, not individually to its underlying investors.

**All discussions of a Fund in this brochure, including but not limited to its investments, the strategies used in managing the Fund, the fees and other costs associated with an investment in the Fund, and conflicts of interest faced by the Adviser and its affiliates in connection with management of the Fund are qualified in their entirety by reference to the Fund’s confidential offering memorandum, limited partnership agreement and other governing documents (referred to collectively as “Offering Documents”).**

In addition to the Funds, Solas provides investment advisory services to a pooled investment vehicle operated by a third party (the “Pool”). These services are provided on a discretionary basis, as set forth in a written investment advisory agreement. Solas invests the Pool’s assets in accordance with the same investment objectives and strategies and similar restrictions applicable to the Funds. As well, the Pool is subject to similar terms and conditions that are applicable to the Funds.

Separately managed account clients may impose, in the written investment advisory agreements, reasonable restrictions, objectives, and/or guidelines on investing in certain securities or types of securities.

As of December 31, 2018, Solas had discretionary Regulatory Assets Under Management of approximately \$287,508,455 which is all attributable to the Funds and Pool. Solas does not manage any assets on a non-discretionary basis.

## **Item 5      Fees and Compensation**

The fees and expenses associated with an investment in the Funds or Pool vary, depending on the client, and are described in detail in the client's Offering Documents or investment advisory agreement, as applicable. We may, in our discretion, manage assets for other clients or accounts with higher or lower fees, different fee structures, and different expense payment arrangements, than the Funds or Pool.

The fees we charge for managing pooled investment vehicles are negotiable and are described in the client's investment advisory agreement with us. We have some restriction in offering a more favorable fee structure to any other client than that of the Pool.

### **The Funds**

Solas generally charges a 2% annual management fee and earns a 20% performance allocation.

Each Fund generally pays the Adviser a management fee calculated and payable quarterly in advance, at an annual rate of 2% (i.e., 0.5% per quarter) of the Fund's net asset value. The management fee is paid promptly after the first day of each calendar quarter based on the value of the net assets of the Fund as of the first day of such quarter. If additional contributions are made to the Fund during the quarter, the fee will be prorated and charged to the capital account of each such investor at the time of such contribution. In the event that Solas only advises a Fund for a portion of any quarter, the management fee for any such quarter shall be prorated.

The General Partner is generally entitled to an incentive allocation equal to 20% of the annual net capital appreciation of each investor's capital account in a Fund. The incentive allocation to the General Partner is typically made at the end of the calendar year after deduction of the management fee and subject to a high water mark provision. If an investor withdraws (in whole or in part) at any time other than at the end of a fiscal year, a performance allocation will be taken, if earned, with respect to such withdrawal. The specific terms governing the structure and calculation of the incentive allocation and high water mark are described in detail in the Offering Documents.

Solas has waived, reduced or modified the management fees and performance allocation for certain investors and, in its sole discretion, may waive, reduce or modify the management fees and performance allocation in the future for investors that are members, principals, employees or affiliates of Solas or relatives of such persons and for certain large or strategic investors. In certain cases, Solas may be required to obtain consent from its seed partner (the "Strategic Investor") to waive, reduce or modify such fees. Among other rights, the Strategic Investor receives preferential fee terms than those described above and offered to other current and potential investors in the Fund. Please refer to Items 10 and 14 for more detail about the Strategic Investor.

The Portfolio Manager has the majority of his liquid net worth invested in the Funds. The Portfolio Manager may withdraw all or any part of his investment in the Funds monthly. Notwithstanding the foregoing, the General Partner will not make a withdrawal if the withdrawal would reduce its overall

investment in the Funds below the lesser of \$100,000 or 1% of the total net assets of the Funds. The Adviser's personnel are not charged a management fee or performance-based fee by the Fund.

Each Fund is responsible for all direct expenses related to its operations and activities, including all expenses associated with its investment portfolio such as brokerage commissions and other transaction costs, if any. Item 12 of this brochure discusses how we select brokers and determine the reasonableness of their compensation. Each Fund pays its expenses directly or reimburses the Adviser as instructed for expenses paid on its behalf.

The Adviser is responsible for and pays for all office overhead expenses of the Funds. Office overhead expenses include overhead expenses of an ordinarily recurring nature such as rent, supplies, secretarial expenses, stationery, charges for furniture and fixtures, employee insurance, payroll taxes, compensation of employees and research expenses and other reasonable overhead expenses of the Funds as determined by Solas in its sole discretion. Operating expenses of a Fund will be borne by the Fund including, among others, legal, auditing, accounting (including out-sourced accounting) and other professional expenses, administration expenses, investment expenses such as commissions, interest on margin accounts and other indebtedness, custodial fees and other expenses related to the purchase, sale or transmittal of the Fund assets. Fund investors should refer to the applicable Offering Documents for additional disclosures addressing Fund expenses.

### **Pool**

Solas is bound by confidential provisions in a written investment advisory agreement we have with the Pool. Our compensation for services provided to the Pool is negotiable, and generally includes a management fee based on a percentage of the assets in the account and a performance-based fee paid at the end of each performance period or December 31. For services rendered to the Pool, we are entitled to management fees, payable quarterly in advance, at a fixed rate of the modified net asset value as of the last trading day of each quarter as determined in the investment advisory agreement. The specific manner in which fees are charged for additional intra-quarter funding by the client or intra-quarter withdrawal by the client is established in our written investment advisory agreement with the client. The performance-based fee is equal to a percentage of the appreciation of the modified net asset value in excess of a high water mark. Asset values are determined in accordance with the terms of our contract with the client. Any requirements relating to the withdrawal of assets from the Pool or the termination of our services are governed by the terms of such contract. The terms are negotiated and specified in detail in the client's investment advisory agreement. The investment advisory agreement describes what expenses are the responsibilities of the client. These expenses typically include brokerage commissions and other transaction costs. Please refer to Item 12 of this brochure for information about how we select brokers and determine the reasonableness of their compensation.

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

As of the date of this brochure, all our Clients pay performance-based compensation. These arrangements may give us an incentive to engage in more speculative investment strategies in an effort to maximize a client's gross profits and receive greater compensation. Such arrangements also may create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities.

Solas has adopted and implemented written compliance policies and procedures that it believes are reasonably designed to ensure that all Clients are treated fairly over time, and to prevent this conflict from influencing the allocation of investment opportunities among its Clients. For example, our order aggregation and allocation policies and procedures are designed with an objective of managing client accounts on a *pari passu* basis. Further, as a fiduciary, Solas recognizes its duties to act in good faith and with fairness in all its dealings with Clients.

Solas is involved with the valuation of securities held by the Funds, which in turn may affect the calculation of the management fee and the performance-based compensation it receives. This creates an incentive for Solas to increase the value of the assets during the valuation process. Solas believes it addresses this conflict by (1) using an independent third-party administrator to price the portfolio in accordance with each Fund's valuation policies as outlined in the applicable Offering Documents and (2) ensuring that each Fund is audited at least annually.

## **Item 7      Types of Clients**

Solas provides investment advisory services to private investment funds, based on the investment objectives and strategies described in the applicable Fund's Offering Documents. In addition, the Adviser provides investment advisory services to a pooled investment vehicle managed by a third party in accordance with similar investment objectives, strategies and restrictions, and is subject to similar terms and conditions, applicable to the investment of the assets of the Funds.

Investors in a Fund are required to complete and submit a subscription agreement binding them to the terms of the applicable Offering Documents. The Funds may admit both sophisticated U.S. taxable and non-U.S. investors as well as U.S. tax-exempt investors that are generally both "accredited investors," as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, and "qualified clients" (or "knowledgeable employees"), as defined in the Advisers Act and the Investment Company Act and the rules thereunder. Typically, the minimum initial investment in a Fund is \$500,000. Solas may waive this minimum in its discretion.

For clients other than the Fund, we generally impose a \$5,000,000 minimum dollar value of assets in order to open or maintain an account. The minimum requirement may be waived at our discretion. Clients generally are expected to be "accredited investors" and "qualified purchasers" as those terms are defined in Rule 501 under the Securities Act of 1933 and Section 2(a)(51) of the Investment Company Act, respectively. Clients (other than the Funds) are required to sign an investment advisory agreement that sets forth the terms under which we will provide our services.

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

We advise our Clients with respect to all investments permitted, based on the investment objectives, policies and strategies described in the Offering Documents or investment management agreement as applicable. We typically invest a large majority of our client's assets in equity and equity-related securities that may be affected by business, financial market or legal uncertainties.

Our investment approach focuses on fundamental value with respect to specific securities, both in long and short strategies, that intends both to achieve absolute investment returns and preserve capital, irrespective of market conditions. Therefore, our objective is to avoid significant net exposure to the market as a whole, and to various aspects of the market, and instead we exert our efforts toward

identifying specific investment situations which represent the best opportunities for optimal risk-adjusted returns.

We use primary research and fundamental bottom-up analysis in an attempt to develop a deep, fundamental view of companies and to identify opportunities across investment instruments. In this context, we seek to identify those companies which will out-perform as well as those that will under-perform in any given industry sector and across a wide range of global markets. Our value-oriented strategy is consistent in approach and does not depend on market environment. We typically maintain low net exposure and do not vary exposure or attempt to predict market movements in the broad market.

We attempt to determine a security's fundamental value based on due diligence and analysis of factors including: (i) the quality and motivation of senior management; (ii) the stability of a business under various economic environments; (iii) the competitive position of a company within its industry; (iv) the channels used by the company in sourcing the materials and resources which comprise its products and in distributing these products; (v) the composition of a company's customer base; (vi) the profitability and anticipated growth of a business; and (vii) general industry dynamics which may affect a company's future prospects.

We believe that capital markets are generally efficient over the long term and that trading values tend to approach fundamental values over time. However, we also believe that short-term inefficiencies exist, and accordingly may evaluate economic, political and financial market conditions in seeking to identify attractive investment opportunities. In particular, we aim to capitalize on situations in which factors other than fundamental value unduly influence a security's trading price and seek to purchase securities that trade materially below their fundamental value and sell short those securities that trade materially above their fundamental value.

We believe that market valuation of publicly-traded securities can temporarily be influenced by a variety of factors unrelated to the current state or future prospects of the underlying businesses. We may identify a perceived mispricing which may diverge from fundamental value for a myriad of reasons, of which the following we identify are most common: (i) economically irrational motivations or constraints of large market participants; (ii) excessive influence of incorrect or biased analysis published by sell-side investment firms; (iii) lack of any research published by sell-side investment firms; (iv) overly optimistic or pessimistic market psychology immediately following the release of new information; (v) circulations of false rumors; (vi) divergence of generally accepted accounting principles ("GAAP") and economic reality resulting in incorrect analysis and conclusions drawn by large market participants; or (vii) complicated accounting or capital structures resulting in avoidance by large market participants. We may rely on such phenomena to detect short-term discrepancies between trading and fundamental values, which we believe may result in attractive investment opportunities.

We may capitalize on the insights from relationships cultivated with senior managers, executives and directors of public and private enterprises, managers of public and private equity and debt investment funds, industry consultants, investment bankers, research analysts, brokers, and agents. Consequently, we seek to identify quickly the motivations of buyers and sellers and determine the causes of discrepancies between trading and fundamental values. Accordingly, we aim to capitalize on such discrepancies which we believe to be temporary, while seeking to avoid situations which appear statistically attractive from a valuation perspective but whose reported financials misrepresent economic reality.



## **Material Risks Relating to Investment Strategies**

Investing in securities involves risk of loss that Clients and Fund investors should be prepared to bear. There can be no assurance that a client's objective will be achieved or that the investment strategies we employ will be successful. Investors and clients must be prepared to lose all or substantially all of their investment. The past performance of a Client is not indicative of its future performance. Following is a description of the potentially material risks involved in our investment strategies.

### *Fundamental Analysis*

Fundamental analysis – which is based on the theory that market mispricing exist because market prices do not incorporate all financial and other relevant data – is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. Investments made based upon fundamental analysis are subject to significant losses when market sentiment leads to investment instruments' market prices being materially discounted from the expected prices indicated by fundamental analysis or when technical factors, such as momentum encouraged by trend following, dominates the market.

### *Market Volatility*

The prices of the investment instruments can be volatile during certain, perhaps prolonged, periods. Market volatility creates the risk that positions held by clients may be highly unprofitable on an interim basis, even if they might become profitable later. Under certain market conditions, Solas potentially may be forced to liquidate positions and to realize significant losses.

### *Market Risks*

The profitability of a client's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. Although we may attempt to mitigate market risk through the use of long and short positions or other methods, there is always some, and occasionally a significant, degree of market risk.

### *Lack of Diversification*

We may often be invested primarily in the equity securities of a small number of issuers and take highly concentrated positions in the U.S. market. Accordingly, our Clients' portfolios may be subject to more rapid change in value than would be the case if we were required to maintain a wider diversification among industries, geographic areas, types of securities and issuers. At certain times we may hold a few relatively large (in relation to Clients' capital) positions in securities, with the result that a loss in any position could have a material adverse impact on the Client's portfolio.

### *Hedging Risks*

We may use a variety of investment instruments for hedging, the choice of which may turn out in retrospect to have failed to mitigate the risks as intended due to market factors or other factors. We will not, in general, attempt to hedge all market or other risks inherent in our Clients' portfolios, and will hedge certain risks, only partially.

### *Counterparty and Credit Risk*

There is a risk that prime brokers, counterparties, clearing houses, or exchanges with which we deal, may default on their obligations to our Clients. Any default by any such parties could result in material losses to our Clients.

### *Leverage*

We currently do not intend to use leverage but may do so in our discretion in order to maximize a client's portfolio returns. Leverage can result in a client controlling substantially more assets than the client has equity. Leverage increases the client's returns if the client earns a greater return on investments purchased with borrowed funds than the client's cost of borrowing such funds. However, the use of leverage exposes a client to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the client not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the client's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the client's assets, the client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

In an unsettled credit environment, we may find it difficult or impossible to obtain leverage for our Clients. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the client being forced to unwind positions quickly and at prices below what we deem to be fair value for such positions.

### *Global Market Exposure*

Investments on a global basis in both developed and emerging markets involve the following risks, among other risks: (i) currency exchange rate risks; (ii) the possible imposition of withholding, income, excise and other taxes; (iii) the absence of uniform accounting, auditing and financial reporting standards and practices, less rigorous disclosure requirements and little or potentially biased governmental supervision and regulation; (iv) economic, political and social instability, expropriation, exchange controls and restrictions on foreign investments and repatriation of capital.

### *Dependence on Key Individuals*

Client portfolios are dependent on the continued service and active investment efforts of the Portfolio Manager. Clients and Fund investors are urged to refer to the applicable Offering Documents or investment advisory agreement for additional disclosures addressing special withdrawal provisions in the event the Portfolio Manager is unable to participate in the management of client assets.

## **Risk Associated with Types of Securities that are Primarily Recommended**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a Fund or client account advised by the Adviser. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Adviser.

### *Small to Medium Capitalization Companies*

Investments in small-to medium-sized market capitalization companies are subject to risks not generally applicable to investments in larger companies. While we believe that these investments often provide significant potential for appreciation, such stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of large capitalization. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be less liquid than investments in larger-capitalization stocks.

### *Special Situations*

Certain investment instruments may be in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the client of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which we may invest, there is a potential risk of loss by the client of its entire investment in such companies.

### *Short Selling*

A short sale of an instrument entails the theoretical risk of an unlimited increase in the market price of that instrument, which can, in turn, result in significant losses to a client. Purchasing instruments to close out a short position in such instrument can itself cause the price of the instrument to rise further, increasing losses. Furthermore, a client may prematurely be forced to close out a short position in a security if a lender of such security demands the return of the security sold short.

### *Options*

We may buy or sell (write) both call options and put options on either a covered or an uncovered basis. The value of options is materially affected by market volatility. If we were to incorrectly forecast near-term market volatility, our Clients may incur substantial losses on their options trading. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price, which risk is theoretically unlimited.

### *Derivatives*

We may utilize both exchange-traded and over-the-counter derivatives, including but not limited to futures, forwards, and swaps, as part of our investment strategy. These instruments can be highly volatile and expose our Clients to a high risk of loss. Transactions in over-the-counter contracts may involve

additional risk, as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value, incorrect collateral calls or delays in collateral recovery.

#### *Illiquid Investment Instruments*

Certain investment instruments may be, or may become, illiquid and may not have readily ascertainable fair market values. Valuation of such illiquid investment instruments will be made consistent with our agreements with our Clients. Such valuations will affect Clients' investment performance, as well as the calculation of our fees. In addition, Solas may only be able to liquidate these investment instruments, if at all, at disadvantageous prices.

#### *Interest Rate Risks*

The prices of investment instruments may be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding pricing of long and short positions to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed investment instruments as well as the cost of any leverage. To the extent that interest rate assumptions support the rationale for a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose our Clients to losses.

#### *Risk Management*

We actively take risk on behalf of our clients, directly exposing our clients to the risk of loss under a wide variety of market conditions. We have established risk management processes to identify, measure and monitor risks associated with the investment activities undertaken on our clients. The risk management processes are intended to assist us in our investment decision making process, and to identify risk exposures that we may choose to hedge or otherwise mitigate. However, the risk management processes may fail to identify or anticipate a wide variety of risks that may adversely affect our clients, potentially exposing clients to material unanticipated losses.

### **Item 9      Disciplinary Information**

Solas has not been involved in any legal or disciplinary events that would be material to existing or potential clients' or Fund investors' evaluation of the Adviser, its affiliates or its personnel, as well as the evaluation of our advisory business or the integrity of its investment management.

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

Solas is in the business of providing investment advisory services to private funds and pooled investment vehicles. Currently, Solas advises two private funds and a pooled investment vehicle managed by a third party on a *pari passu* basis. An affiliate of the Adviser by way of common ownership, Solas Capital, LLC, acts as the general partner to the Funds.

Solas has a strategic relationship with a seed partner, the Strategic Investor, who is an investor in one of the Funds. The Strategic Investor committed its initial investment to such Fund on January 1, 2010. We

operate independently of the management of the Strategic Investor. The Strategic Investor is not liable to third-parties for the actions of Solas or the Portfolio Manager. Furthermore, the Strategic Investor has no association with or responsibility for the management of our Clients' portfolios or for the advisory services we provide to our Clients.

The Strategic Investor receives, among other rights, terms and conditions defined in a separate written agreement, preferential fee terms than the fee terms described in Item 5 of this brochure and a Revenue Share defined and detailed in Item 14 of this brochure. In certain instances, we are limited by our agreement with the Strategic Investor to offer similar or more favorable rights, terms and conditions to other current and potential Fund investors or clients than those in place with the Strategic Investor. The written agreement between Solas and the Strategic Investor prohibits Solas from providing specific disclosures about these terms, rights and conditions.

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

We have adopted a Code of Ethics (the "Code") which includes personal investment policies in furtherance of our commitment to compliance with applicable laws and standards of business conduct. The Code requires employees to act in our Clients' best interests, abide by all applicable regulations, and avoid even the appearance of insider trading. We prohibit employees from using or attempting to use their position at Solas to obtain improper personal benefits for themselves or any other person. Employees are required to certify annually that they will follow the policies and procedures in Solas' Code of Ethics and policy on personal trading and related activities.

*All Clients, Fund investors and pre-qualified, approved potential investors in the Fund or separately managed account clients managed by Solas may request a copy of the Code of Ethics by contacting the Chief Compliance Officer at the address, email address or telephone number listed on the first page of this brochure.*

Our personal investment policies do not permit employees to invest for their personal accounts or on behalf of others, except in circumstances when such investing will not create a conflict of interest between the employee and Solas or the Clients. Any approved personal securities transactions by employees, certain family members, and other accounts in which supervised persons have a financial interest must be conducted in accordance with the requirements of our personal investment policy. Among other things, our policies require that certain personal securities transactions by employees be approved in advance by the Chief Compliance Officer. Employees must report certain personal securities holdings upon employment and periodically thereafter.

In addition, Solas may allow the Adviser's personnel to buy, sell or hold for their own account securities or other instruments similar or identical to those recommended by Solas for its Clients. In certain circumstances, these actions by the Adviser's personnel may contrast with those taken by Solas on behalf of its Clients. Various potential and actual conflicts may arise between the overall advisory, investment and other activities of Solas and the objectives of the Adviser's personnel. We have established policies and procedures to monitor and resolve conflicts and will endeavor to resolve conflicts in a manner we deem equitable to the extent possible under the prevailing facts and circumstances.

We also have adopted policies and procedures intended to prevent employees from being unduly influenced in their decisions by the receipt of gifts or other inducements from third parties, such as trading

counterparties, vendors or investors. Employees are required to report certain business gifts and are prohibited from accepting or giving certain types of business gifts. In addition, our policies set forth standards for business entertainment provided by third parties or provided by our employees to others.

Finally, among other required approvals, employees are required to obtain advance approval from the Chief Compliance Officer to serve as a director or trustee of unaffiliated for-profit and non-profit organizations.

## **Item 12      Brokerage Practices**

We have complete discretion to determine, subject to the clients' disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealer and other financial intermediaries to use in effecting transactions for the clients, and the commission rates to be paid for such transactions. A more detailed discussion of how we make use of this authority follows.

### *Brokerage and Soft Dollar Benefits*

We have not entered into formal soft dollar arrangements but may receive products or services from brokers that, to the best of our knowledge, are generally made available to all institutional clients doing business with these brokers. Brokerage and research services provided to the Adviser by the brokers may include, without limitation, proprietary or third-party research, special execution capabilities, clearance, settlement, net pricing, online pricing, block trading and block positioning capabilities, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, quotation services, the availability of stocks to borrow for short sales, custody, trade recordkeeping and similar services.

Brokerage is directed to brokers, subject to the Adviser meeting its obligations to seek best execution on Clients' securities transactions. In conjunction with our periodic best execution analyses, we review products and services received from broker-dealers to ensure we are in compliance with the safe harbor of Section 28(e); further, we make a good faith determination that the value of the brokerage and research services obtained is reasonable in relation to the amount of the commissions paid.

We may use the products and services to advise some or all our Clients. In addition, some products and services may not necessarily be used by a client even though its commission dollars provided for the products and services. Clients, therefore, may not, in a particular instance, be the direct or indirect beneficiary of the products or services provided.

When we use client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services. We may have a conflict and incentive to select or recommend a broker based on our interest in receiving research, investor referrals, or other products and services, as disclosed above, rather than on our clients' interest in receiving most favorable execution. We may receive incidental economic benefits from the brokers we use, including free attendance at conferences or seminars sponsored by such brokers. Although brokers are represented as not reflecting any such additional benefits, the commission rates charged by such brokers may be higher or lower than other brokers. We may have a potential conflict of interest between our duty to seek best execution for a client and our interest in receiving such economic benefits in the future.

The transactions executed by our Clients may be cleared through several financial institutions we select. We negotiate the terms with each financial institution individually. The Funds maintains prime broker accounts with Wells Fargo Securities, LLC ("WFS") and Solas Capital Partners, LP maintains a prime broker account with BTIG, LLC ("BTIG"), together (the "Prime Brokers"). The Funds maintain custody with its custodian, WFS and Solas Capital Partners, LP maintains a secondary custody account with Goldman, Sachs & Co. ("GS") (together the "Custodians"). The Prime Brokers and Custodians are compensated by custodial fees, commissions and other transaction-related fees, which are directly or indirectly borne by the Funds. BTIG and WFS make available, at no charge to the Adviser, other products or services that may or may not benefit our Clients' accounts. Some of these include items that assist the Adviser in managing or administering our Client accounts or the introduction of prospective investors or clients to the Adviser through BTIG's and WFS' Capital Introduction Services. These products and services may present an inherent conflict of interest since they may provide incentives for the Adviser to continue to utilize BTIG and WFS to service its private fund client.

For the Pool, we select the prime brokers/custodians from an approved list of brokers the client provides through which to clear and hold its investments. The client's assets are maintained at WFS, Morgan Stanley & Co. LLC and National Financial Services LLC. We will not cause or permit the assets of such client to be held by any person other than the selected custodian or to be commingled with the assets of any person other than the client.

#### *Allocation of Investment Opportunities*

We use reasonable efforts to allocate investment opportunities among the Clients in a manner which we deem fair and equitable over time. This means that such opportunities will be allocated among those clients for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations, investment objectives, time horizons, investment strategies, current portfolio holdings and weightings, tax issues, regulatory implications, working capital, and risk levels. Such considerations may, and are often expected to, result in allocations among our Clients on an equal or *pari passu* basis. We have no obligation to purchase, sell or exchange any security or financial instrument for one client which we may purchase, sell or exchange for another client if we believe in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for a particular client. We follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client.

With respect to allocations of limited investment opportunities, such as privately placed securities and initial public offerings of securities or new issues, we may consider additional factors to determine how to allocate those investment opportunities among eligible clients. These factors may result in allocations among the Clients on other than a *pari passu* basis. However, in every such instance, we will allocate shares fairly and equitably among client accounts according to a specific consistent basis so as not to advantage any one client over another over time.

### *Aggregation of Trade Orders*

We typically execute client transactions on an aggregated basis when we believe that to do so will allow us to obtain best execution and to negotiate more favorable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. Instances in which client orders will not be aggregated include, but are not limited to, the following:

- We are directed by a client to use certain broker/dealers (if applicable in the investment advisory agreement), in which case such orders shall be separately effected;
- The Portfolio Manager determines that the aggregation of any order is not appropriate because of market conditions;
- Situations where the Portfolio Manager must effect the transactions at different prices, making aggregation unfeasible; and
- A determination by the Portfolio Manager, in consultation with the Chief Compliance Officer not to aggregate orders because of tax, legal, or regulatory reasons.

When aggregating orders, all clients will be treated in a fair and equitable manner. We do not aggregate orders unless aggregation is consistent with our duty to obtain best execution and we deem this to be appropriate and in the best interests of the clients and consistent with applicable regulatory requirements. Clients participating in an aggregated order generally receive the average price of any transaction executed pursuant to an aggregated order. Aggregated orders, including partially filled orders and the transaction costs associated with aggregated and partially filled orders generally are allocated *pro rata* among all participating clients in accordance with the level of their participation in the order, determined as described in the above section Allocation of Investment Opportunities.

### *Trade Errors*

While Solas' goal is to execute trades seamlessly in the best interest of Clients, errors can occur for a variety of reasons, and the required corrective measures may differ depending upon the nature of the error. When an error is made on behalf of a Client, Solas will use its best efforts to correct the trade as soon as practicable after discovery to ensure that Clients do not incur a loss.

It is Solas' policy that a trade error that results in a gain to a Client will remain in the Client's account. Trade errors that result in a loss to a Client will be assessed to the Client's account except in the case of gross negligence or willful misconduct by a member or employee of Solas.

### *Cross Trade*

From time to time, Solas may seek to execute transactions between Client accounts (including rebalancing trades between Client accounts). Solas will only effect these transactions when believed to be in the best interests of Clients and at a price and under circumstances that Solas has determined by reference to independent market indicators, which are believed to constitute "best execution" for the accounts.



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

We monitor client investment portfolios on an ongoing basis. The Portfolio Manager performs intraday, daily, weekly, monthly, quarterly and periodic reviews of client portfolios and reviews of positions as he deems appropriate, or otherwise as he feels is needed. The Portfolio Manager and the Chief Financial Officer review each client investment portfolio in detail on at least an annual basis.

Each Fund engaged an independent third-party administrator (the “Administrator”) who records cash and security positions monthly. Under the direction of Solas’ Chief Financial Officer, cash and position reconciliations occur between the Fund’s prime broker(s) and the Fund’s Administrator. The Administrator also prepares a month end accounting package for each Fund which reflects the Fund’s specific holdings, profit and loss including realized and unrealized gains/losses, capital activity, investment related income and expenses and expense items as discussed in such Fund’s Offering Documents. In addition, on a monthly basis, a complete reconciliation of each Fund’s investors’ individual accounts is performed by Solas’ Chief Financial Officer between Solas’ records and those of the Administrator.

We provide Fund investors with written annual audited financial statements and all tax information relating to their investment in the applicable Fund necessary for U.S. federal income tax purposes. Additionally, Fund investors receive an unaudited quarterly account statement from the Administrator documenting the performance of the applicable Fund and the amounts of their investments.

Clients and investors in a Fund receive unaudited monthly performance updates. We may provide certain Clients and Fund investors with information on a more frequent and detailed basis. The Portfolio Manager may participate in portfolio reviews with Clients and the Funds’ investors. Other information may be provided as agreed upon with the Client.

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

Solas does not compensate any third parties for referring or introducing clients to the Adviser or investors to its private funds.

As discussed in Item 12 – Brokerage Practices, Solas may execute transactions with a broker or dealer that (i) provides Solas with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to one of the private funds advised by Solas, if otherwise consistent with seeking best execution and provided Solas is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors.

The Adviser, the General Partner and the Portfolio Manager have entered into an arrangement with a Strategic Investor (defined in Item 10 of this brochure), whereby the Strategic Investor has provided a considerable capital contribution to a Fund as of January 1, 2010. In consideration for such capital contribution, the Strategic Investor received a non-voting membership interest in the General Partner and in the Adviser that entitles it to a profit allocation (the “Incentive Fee Share”) from the performance-based fees Solas receives from its Clients as well as a portion of the management fees Solas receives from its Clients (together with the Incentive Fee Share, the “Revenue Share”). Please refer to Item 10 of this brochure for additional details about Solas’ arrangement with the Strategic Investor.

## **Item 15     Custody**

Fund assets are held in custody by unaffiliated broker/dealers or banks, but we are deemed to have custody of Fund assets under Rule 206(4)-2 of the Advisers Act. To comply with the Rule 206(4)-2, and to provide meaningful protection to Fund investors, each Fund is subject to an annual financial statement audit by an independent public accounting firm registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles and are distributed to Fund investors within 120 days of the Fund's fiscal year end. Fund investors are urged to carefully review these statements.

Client funds and securities of the Pool are held by one or more accounts established in the name of the client with qualified custodians as preapproved by the client and selected by the Adviser. We do not have authority to withdraw cash or cash equivalents from the accounts or issue any instructions with respect to wiring money out of the accounts or transferring securities in and out of the accounts. Account custodians send statements directly to the client on at least a quarterly basis. Clients should carefully review these statements and should compare these statements to any account information provided by the Adviser.

## **Item 16     Investment Discretion**

We have discretionary authority over the assets of each Client. We exercise discretion in managing the investments of each Fund, based on the Fund's investment objectives, policies and strategies disclosed in its Offering Documents. Our discretion in managing the Pool to make investment decisions or to select brokers, dealers, and other counterparties may be limited and is detailed in the investment advisory agreement with the client.

Overall, any limitations on our investment discretionary authority are included in the Offering Documents, investment advisory agreements, the agreement with the Strategic Investor, investor side letters (if applicable), and/or our internal compliance policies and procedures.

## **Item 17     Voting Client Securities**

We have adopted and implemented written Proxy Voting Policies and Procedures intended to satisfy the requirements of Rule 206(4)-6 of the Investment Advisers Act of 1940. All proxies that we receive will be treated in accordance with these policies and procedures. Following is a summary of the key provisions:

- When we vote proxies on behalf of a client, we generally will do so in the interest of maximizing value to the client (taking into consideration both the short-term and long-term implications of the proposal.)
- We may choose not to vote if doing so would be costly or impractical, or we otherwise deem it unnecessary or unwarranted for any other reason.
- We may utilize third party service providers to assist in implementing our proxy voting procedures.

Clients may direct voting in particular situations. For example, with respect to the Pool we advise, we vote the client's proxies taking into consideration the client's proxy voting policies and procedures, and in accordance with provisions agreed to in the client's investment advisory agreement.

Solas' Proxy Voting Policies and Procedures include procedures to identify and address conflicts or potential conflicts that could arise between Solas' own interests and those of its clients. Absent specific client instructions, if we identify a material conflict of interest, Solas will follow requirements in its Proxy Voting Policies and Procedures to ensure the proxy is voted in the best interests of the clients. As necessary, Solas may direct an independent third-party to vote proxies where a material conflict of interest has been identified.

Clients and Fund investors may request and obtain information about how we voted proxies for securities in their accounts, and/or obtain a copy of our written Proxy Voting Policies and Procedures, by contacting the Chief Compliance Officer at the email address or telephone number listed on the cover page of this document.

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

A registered investment adviser is required to provide clients with certain financial information or disclosures about its financial condition in certain instances. Solas is not aware of any financial condition reasonably likely to impair its ability to meet contractual and fiduciary commitments to its Clients and has not been the subject of a bankruptcy petition at any time.