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## **PART 2A OF FORM ADV: FIRM BROCHURE**

### **Capital Returns Management, LLC**

March 2019

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Capital Returns Management, LLC  
641 Lexington Avenue, 18<sup>th</sup> Floor  
New York, NY 10022  
Phone: (212) 813-3324

*Form ADV, Part 2A (the “Brochure”) provides information about the qualifications and business practices of Capital Returns Management, LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (212) 813-3324 or jay@capreturns.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 with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

*This Brochure does not constitute an offer or a solicitation of an offer to buy shares or interests in any investment fund that the Adviser manages. An offer of those funds can only be made to qualified investors by way of the approved offering materials for those funds and only in jurisdictions in which that offer will comply with applicable rules and regulations.*

## **Item 2 - Material Changes**

On July 28, 2010, the SEC published “Amendments to Form ADV” that adopted amendments pertaining to this Brochure which the Adviser must provide to clients as required by SEC rules.

This is the Adviser’s first annual update since its previous annual update filing on March 26, 2018. A summary of the material changes made to this Brochure since the date of the last filing is set forth below:

- The Adviser had a change in Assets Under Management, reflected in Item 4.

Pursuant to applicable regulations, the Adviser will deliver to each of its clients a summary of any material changes to this and subsequent Brochures within 120 days of the close of each fiscal year. The Adviser may also provide additional disclosures or other information about material changes as necessary.

From time to time, without charge, the Adviser will also provide clients with a new Brochure as necessary to reflect material changes or new information.

Currently, our Brochure may be requested by contacting the Adviser’s Chief Compliance Officer at (212) 813-3324.

Additional information about the Adviser is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

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## **Item 4 - Advisory Business**

### **A. Description of Advisory Firm**

The Adviser is an investment advisory firm organized as a limited liability company under the laws of the State of Delaware. The Adviser was established in May 2003 by Ronald D. Bobman. The managing member of the Adviser is Capital Returns Management Holdings, LP, which is principally owned by Mr. Bobman.

The Adviser provides investment advisory services on a discretionary basis to private funds (each a “Fund”, and together, the “Funds”) and to a segregated portfolio through a sub-advisory relationship (the “Segregated Fund”, and together with the Funds, the “Clients”) for sophisticated and qualified investors (each an “Investor”, and together, the “Investors”).

The Adviser’s investment objective and strategy for the Clients is to generate capital appreciation through short-term and long-term investments primarily in the global insurance industry. The Adviser seeks to achieve that objective primarily through taking long and short positions in publicly-traded equity securities. Please see Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) for more information.

### **B. Types of Advisory Services Offered**

The Adviser’s investment advisory services to its Clients primarily consist of a) the management, operation and control of the investment and trading activity of its Clients and b) monitoring activity to ensure that the Adviser is managing each Client’s portfolio in accordance with its stated investment objectives. The Adviser, on behalf of its Clients, sources investment opportunities through a screening and identification process, conducts financial and fundamental analysis on prospective investments, assesses the prospective investment effect on the overall portfolio risk profile, monitors portfolio performance, evaluates the impact of new information on existing positions, reviews new information and determines possible catalysts for revaluation of investments.

### **C. Services Tailored to Individual Needs of Clients**

While the Adviser principally implements the strategy noted above on behalf of the Funds, the Adviser may, from time to time, make opportunistic use of different strategies and may invest in companies regardless of its industry, security type or the size of its capitalization. The Adviser also principally implements the investment strategy noted above on behalf of the Segregated Fund, however, that investment strategy is implemented pursuant to a specific investment agreement and guidelines agreed upon by the Adviser and the Segregated Fund. All advisory services the Adviser provides to a Client will be tailored to the specific investment objective, strategy, policies and guidelines set forth in the Client’s offering materials and governing documentation.

**All discussion of the Funds in this Brochure, including but not limited to their investments, the strategies used in managing the Funds, and conflicts of interest faced by the Adviser in connection with the management of the Funds are qualified in their entirety by reference to each Fund’s respective offering documents.**

**D. Wrap Fee Programs**

The Adviser does not participate in wrap fee programs.

**E. Client Assets Under Management**

As of December 31, 2018, the Adviser has approximately \$147,335,515 under discretionary management. This number represents the Adviser's assets under management and differs from the methodology used on the Form ADV Part 1 which requires the calculation of the Adviser's regulatory assets under management. The Adviser does not currently manage any non-discretionary assets.

## **Item 5 - Fees and Compensation**

### **A. Fees and Compensation**

Below is a discussion of how the Adviser is compensated in connection with providing advisory services to its Clients. The Adviser may enter into different fee arrangements on a Client by Client basis and each Client's offering document and/or investment management agreement ("IMA"), as applicable, sets forth the specific fee structure (including how and when fees are calculated, charged and paid). Investors in the Segregated Fund may pay additional fees or expenses for custodial or other services that those Investors pay out of their own accounts.

*Management Fees.* Adviser asset-based compensation takes the form of a quarterly management fee calculated at an annual rate of 1.50% of the value of each Investor's investment capital. With respect to the Funds, the management fee is paid quarterly in advance, based on the value of each Fund Investor's capital account/shares, as applicable. The management fee will be adjusted for contributions and withdrawals/redemptions made during the quarter. Additional terms related to the management fee applicable to the Segregated Fund are described in its IMA with the Adviser.

*Performance-based allocation and fees.* With respect to the Funds, the Adviser's performance-based compensation takes the form of an annual performance-based allocation or fee equal to 20% of the net profits achieved by the Fund Investor's investment. The performance-based allocation or fee is subject to a "high watermark" that requires the Adviser to recoup cumulative losses from prior calculation periods before performance-based allocation are made and fees are due. Performance-based allocations or fees are generally calculated and paid annually and at the time of redemption, with respect to the amount redeemed. Additional terms related to the performance-based fee applicable to the Segregated Fund are described in its IMA with the Adviser.

In addition, Fund Investors are subject to an additional fee in the event a Fund Investor withdraws/redeems any portion of a contribution prior to the one-year anniversary of that contribution. The additional fee is approximately equal to the management fee that would have been payable with respect to the withdrawal/redemption amount for the time period until the one-year anniversary of the applicable contribution.

The management and performance-based allocations or fees may be waived or reduced at the discretion of the Adviser. Adviser employees currently do not pay management or performance-based fees.

The Adviser may compensate placement agents from the management and/or performance-based allocations or fees the Adviser receives in exchange for the placement agents' assistance with the solicitation of Investors for investment in the Funds.

### **B. How Fees are Charged**

In addition to the information above related to the calculation and timing of management and performance-based allocations or fee payments, allocations or fees charged to the Funds are deducted directly by a third-party administrator who is responsible for calculating the allocations or fees. The Adviser receives a financial package on a monthly basis from the Segregated Fund, which details the management fee and performance-based fee due to the

Adviser. The Adviser reviews and approves the calculations received from both the administrator, with respect to the Funds, and the Segregated Fund.

### **C. Expenses**

In addition to the fees described above, other investment and operating expenses to which Clients may be subject generally include, but are not limited to: brokerage commissions, mark-ups, markdowns, spreads and other transactional costs; interest expense; custody costs and expenses; stock loan fees; organizational, communication, data services, printing, mailing and filing costs and expenses; government fees; taxes (if any); custodial, administration, legal, accounting, audit and tax preparation fees and expenses; third-party advisor fees and expenses; research expenses; due diligence costs and expenses; third-party fees and expenses incurred in connection with the evaluation of prospective transactions; and extraordinary expenses (if any). The internal expenses of the Adviser's operations are not charged to Clients.

Each Fund that invests in a master fund will bear the administrative and other expenses of all other Funds invested in that master fund on a pro rata basis in proportion to each feeder Fund's capital investment in the master fund.

A portion of the commissions generated on a Client's brokerage transactions may generate "soft dollar" credits that the Adviser is authorized to pay for research and research-related services and products. Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. In certain cases, such arrangements, although related to the Adviser's administration and investment management of the Clients, may fall outside of the safe harbor for fiduciaries' use of "soft dollar" services. In each case, the Adviser's use of the "soft dollar" credits will be equitable and consistent with the Clients' objectives, offering documents and IMA, as applicable.

Please refer to Item 12, Brokerage Practices, for more information.

### **D. Refunds for Fees Charged in Advance**

If the Adviser does not act as investment adviser for the relevant Client for an entire calendar quarter, the Adviser will prorate the management fee to reflect the portion of that quarter for which it acted as investment adviser, and it will return any excess management fee, provided that the Adviser managed the Client, or the Investor was invested in the applicable Fund, for at least one year.

### **E. Compensation for Sales of Securities**

Neither the Adviser nor any of its supervised persons accept compensation for the sale of securities or other investment products.

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

As stated in Item 5 above, Investors pay the Adviser performance-based compensation in the form of a performance allocation or fee. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Performance-based compensation, in general, may create an incentive for the adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of performance-based compensation. Such fee arrangements may also create an incentive for the Adviser to favor higher fee paying Clients in the allocation of investment opportunities. In addition, because the performance-based compensation is generally based on realized and unrealized gains and losses, the Adviser could earn a performance allocation or fee on gains that Investors never ultimately realize.

To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment and redemption opportunities. In determining how an investment and redemption opportunity is allocated, the Adviser may take into account certain considerations, including but not limited to: a) the size, nature and type of investment or sale opportunity, b) the investment guidelines and restrictions of the Client, c) the cash position of the Client, d) liquidity needs/other constraints of the Client and e) any regulatory restrictions. The Adviser does not consider fees that a Client is subject to when making allocation and redemption decisions.



**Item 7 - Types of Clients**

The Adviser provides investment advisory services to private funds comprised of “qualified purchasers” under the Investment Company Act of 1940 (the “1940 Act”) and “accredited investors” as defined in Regulation D under the Securities Act of 1933, as amended. The Clients are exempt from registration as investment companies in reliance on Section 3(c)7 of the 1940 Act.

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

### **A. Method of Analysis and Investment Strategies for Formulating Investment Advice**

#### *Investment Objective*

The Adviser's investment objective is to generate consistent capital appreciation by identifying publicly-traded securities of companies that are considered over and undervalued by the Adviser. In assessing value, the Adviser uses internal and external market research, fundamental analysis, and a comprehensive review of publicly-available information.

The Adviser aims to achieve the investment objective on behalf of its Clients primarily by taking long and short positions in publicly-traded equity securities of companies of varying sizes in the global insurance industry. The Adviser intends to use both a short-term and long-term approach to identifying securities whose intrinsic values differ materially from their market value. The Adviser may also invest in private securities as well as securities that do not trade on any exchange, including but not limited to, securities of microcap issuers. The Adviser believes these companies often offer mispricing in their value relative to their position within its market and industry creating substantial opportunities for the Clients to profitably capitalize.

The Adviser generally applies a rigorous and disciplined framework before taking any long or short positions. Initially, the Adviser surveys public markets as well as industry trends for securities which it determines to be mispriced based on various valuation and performance metrics. Financial and fundamental analysis on the individual companies uncovers where, and the degree to which, the expectation gaps exist. The closing of these expectation gaps presents opportunities for investment returns. The Adviser believes that its experience assists it in correctly identifying and valuing these gaps. Further, the Adviser may build the position in an issuer in increments, thereby minimizing exposure and adverse price movements in the short term. Lastly, the Adviser believes that its experience in the insurance industry has provided the necessary skills to evaluate the industry, constituent companies and portfolio companies, with the objective of realizing significant, positive returns.

In addition to conducting company-specific due diligence, the Adviser analyzes a company's position within its market and industry. A company's operating and financial strengths and weaknesses are compared to its industry competitors. In addition, industry trends including competition, ratings, pricing, capital availability, new product innovation, litigation and regulation are considered when evaluating a company's market position and prospective threats or opportunities.

#### *Leverage*

In accordance with the relevant offering document or IMA, the Adviser may acquire positions with a gross market exposure significantly greater than the amount of capital committed to the Funds and the Segregated Fund. In order to do so, the relevant Client regularly borrows funds from brokers, banks and other lenders to finance its investment operations. Consequently, the Client's ability to maintain its positions is dependent upon having sufficient assets to meet margin calls and the liquidity demands of investments and Investors, as well as on the continued availability of dealer credit. Dealers have discretionary authority over the amount of credit which they extend, and they can – and have regularly during periods of market disruptions – tighten their credit availability and requirements at any time.

## **B. Material Risks Associated and Conflicts of Interest**

Below is a summary of certain material risks applicable to the Adviser's advisory services. The summary is qualified in its entirety by the risk factors set forth in each Client's offering documents or similar account opening documents. The investment strategies that the Adviser implements on behalf of its Clients involve substantial risk, are highly speculative and are not intended as a complete investment program. The strategies are designed only for sophisticated persons who are able to bear the economic risk of the loss of their entire investment in a Client and who have a limited need for liquidity in their investment. The past performance of the Adviser is not indicative of future results and risk of loss should be considered.

### *The Risk of Loss*

The Clients' investments involve the risk of loss. Investors must be prepared to lose all or substantially all of their investment. The Adviser and its affiliates are in no respects responsible for the performance of the Clients, except to the extent of their obligation to act in good faith and without fraud, gross negligence, or reckless or intentional misconduct in respect of their duties to the Funds.

### *Market Disruptions*

From time to time, the global financial markets have undergone pervasive and fundamental disruptions which have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions.

### *Market Risks in General*

The success of the Clients' investment program may be substantially and adversely affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, cyber theft and terrorism, and national and international political circumstances. None of these conditions are within the control of the Adviser and no assurances can be given that the Adviser will anticipate these developments. These factors may affect the volatility and liquidity of investments held by the Clients. Unexpected volatility or illiquidity could impair the Clients' profitability or result in losses.

### *Lack of Liquidity*

The markets in which the Clients trade will from time to time experience periods of illiquidity. Illiquid markets can make it economically unfeasible for the Clients to recognize profits on open positions or to close out open positions which the market is moving against.

### *No Restrictions on Investments or Investment Strategy*

Subject to specific investment guidelines agreed to by a Client and the Adviser, there are no formal restrictions on the investments that may be made, or strategies that may be pursued, by the Adviser on behalf of the Clients. Additionally, the Adviser's trading strategy may evolve and change over time (subject to the Adviser's obligation to notify Investors of changes which the Adviser believes could reasonably be considered to be material).

### *Trade Execution Risk*

Certain of the trading techniques used by the Adviser require the rapid and efficient execution of transactions. Inefficient execution can eliminate the small pricing differentials which the Adviser may attempt to exploit which could thereby affect the performance of the Client. The potentially adverse impact of inefficient trade executions is increased in the event Clients have a high turnover rate. Such high turnover rate would result in increases in brokerage and other transaction cost which could be material.

### *Master-Feeder Fund Structure*

Each fund that is a feeder fund contributes all of its assets to a master fund. The master-feeder fund structure, in particular the existence of multiple large investors in the same portfolio, presents certain unique risks to each Investor. Remaining Investors in the portfolio may be materially affected by the actions of a larger investor investing in the master fund. For example, if a larger Fund Investor redeems from a Fund, the remaining Fund Investors may experience higher pro rata operating expenses, thereby producing lower returns. Similarly, a master fund may become less diverse due to a redemption by a larger Investor, resulting in increased portfolio risk such as, but not limited to, illiquidity. Further, a master-feeder structure entails two layers of operating costs.

### *Counterparties and Brokers*

The financial institutions and counterparties, including banks and brokerage firms, with which the Clients utilize and the Adviser invests, may encounter financial difficulties and default on their respective obligations to the Clients. With respect to investments in bank debt or participations in bank debt, a default by a counterparty could include the failure to perform its obligations under the terms of an investment, or, in the case of a participation, the failure by a counterparty to perform its obligations under a loan agreement or indenture, even if the obligor on the underlying loan performs its own obligations.

### *Financing Arrangements; Availability of Credit*

The Adviser on behalf of the Clients may utilize leverage, and, to the extent utilized, the Clients will depend on the availability of credit in order to finance their portfolios. There can be no assurance that the Clients will be able to maintain adequate financing arrangements under current market circumstances. As a general matter, the dealers that provide financing to the Clients can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by dealers in such financing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Adviser to liquidate all or part of its portfolio at disadvantageous prices.

### *Management of Multiple Clients*

The Adviser will endeavor to act in a manner that it considers fair, reasonable and equitable in allocating investment opportunities to the Clients, but the applicable governing documents do not

otherwise impose any specific obligations or requirements concerning the Adviser's allocation of time, effort or investment opportunities to the Clients or any restrictions on the nature or timing of investments for the account of the Funds, the account of the Segregated Fund, any managed accounts or the Adviser's own account. Under Client governing documents, Mr. Bobman is not obligated to devote any specific amount of his business time to the affairs of the Adviser and the Adviser is not required to accord any exclusivity or priority to a particular Client in the event of "limited availability" investment opportunities. Certain Clients may underperform other Clients managed by the Adviser that use the same or similar strategies. Records of such proprietary trading are not generally available to the Clients or Client Investors.

#### *Reliance on Corporate Management and Financial Reporting*

Many of the strategies implemented by the Adviser rely on the financial information made available by the issuers in which the Clients invest. The Adviser has no ability to independently verify the financial information disseminated by the issuers in which the Clients invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that the Clients could incur as a result of corporate mismanagement, fraud and accounting irregularities.

#### *No Independent Verification of Market Information*

The Adviser selects investments for the Clients on the basis of information and data filed by issuers with various government regulators or made directly available to the Adviser by such issuers or through other sources. Although the Adviser evaluates all such information and data and seeks independent corroboration when the Adviser considers it appropriate and when it is reasonably available, the Adviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data. The lack of accurate information on issuers is one of the particular risks inherent in distressed and non-U.S. securities investing.

#### *Volatility*

The prices of some of the instruments traded by the Adviser have been subject to periods of excessive volatility in the past and such periods may recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions.

While volatility can create profit opportunities for the Adviser, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain of the Adviser's positions that profit from price movements.

#### *Directional Trading*

Certain Client positions are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

### *Securities Lending and Borrowing*

The Clients may borrow and may lend securities on an ongoing basis in the regular course of its investing. Third parties that borrow securities from the Clients may not be able to return them on demand (possibly causing the Clients to default on its obligations to other parties) and may also default on the payment obligations owed to the Clients in connection with such securities loans, potentially resulting in substantial losses to the Clients. The Clients may borrow securities from lending broker-dealers and are subject to such lenders' margin requirements. Lenders can call back the borrowed securities sooner than the Clients intended. If the Clients are unable to deliver the borrowed securities to the lender, then some or all of the Client's assets can be liquidated in order to satisfy the lenders' requirements. Borrowed securities incur interest at rates that fluctuate depending on, but are not limited to, the issuing broker-dealer's rate, amount and value securities borrowed, market interest rates and number of other factors.

### *Use of Leverage*

The Clients may utilize leverage. This results in the Clients controlling substantially more assets than the Clients have equity. Leverage increases the Clients' returns if the Clients earns a greater return on investments purchased with borrowed funds than the Clients' cost of borrowing such funds. However, the use of leverage exposes the Clients to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Clients 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 Clients' cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the Clients' assets, the Clients might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

### *Short Sales*

As an integral part of its trading strategies, the Clients routinely sell securities "short." Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the security necessary to cover the short position will be available for purchase by the Clients. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Clients. Furthermore, the Clients may prematurely be forced to close out a short position if a counterparty from which the Clients borrowed securities demands their return, resulting in a loss on what might otherwise have ultimately been a profitable position.

## **C. Risks Involved with Particular Investments**

### *Small Capitalization Issuers*

The market values of the small cap securities invested in by the Adviser may be more volatile than those of larger companies. The risk of trading in small cap securities with greater volatility is increased when a Fund Investor is subject to an additional fee upon withdrawal/redemption from a Fund, especially while a Fund is incurring significant losses. Also, the chance for prolonged mispricings are greater due to the lack of market information and analyst coverage of these issuers as well as the significantly lesser liquidity of the markets for this sector. While these conditions create profit opportunities, they also result in a high degree of risk.

### *Concentration in Insurance Companies*

A significant portion of the Adviser's portfolio will be concentrated in investments in insurance companies. The financial resources of these businesses may be impaired as a result of catastrophic losses, investment portfolio losses, regulatory control, tax assessments or otherwise and such losses may be unforeseen by the Adviser. In addition, many of these companies are not adequately diversified by geography, line of business and investment portfolio which also increases the risk of these investments.

### *The Insurance Sector in General*

Prolonged cyclical trends inherent to the insurance industry may reduce the number of profitable investment opportunities for the Adviser to execute or may adversely impair investments made by the Adviser.

### *Reliance on Insurance Industry Specialists for Investment Opportunities*

One component of the Adviser's investment strategy is to seek information regarding investment opportunities in the insurance sector from persons who specialize in that sector. The Clients face the risk that such specialists may pass along material non-public information regarding a security that could prevent the Adviser from trading that security on behalf of the Clients.

### *Possible Positive Correlation with Stock and Bonds*

There can be no assurance that the Clients will be non-correlated or negatively correlated with a traditional portfolio of stocks and bonds.

### *Equity Securities*

Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and terrorist factors, influence the cost of equities; there can be no assurance that the Adviser will be able to predict future price levels correctly. In addition, the Clients' directional equity positions may be leveraged, and, if they are leveraged, even comparatively minor adverse market movements may result in substantial losses.

### *Options*

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

### *Non-U.S. Securities*

Investing in securities of non-U.S. governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain

considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

### *Derivatives*

The Clients may utilize both exchange-traded and over-the-counter derivatives, including, but not limited to, forwards, swaps, options and contracts for differences, as part of its investment policy. These instruments can be highly volatile and expose investors 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.



**Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client or investor's evaluation of the adviser or the integrity of adviser's management.

There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory services or the integrity of management.

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

### **A. Broker-Dealers**

The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.

### **B. Futures and Commodity Trading**

Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

### **C. Material Relationships**

The Adviser's investment objective and strategy that it implements on behalf of its Clients includes investing materially in insurance companies or agencies. These relationships are discussed in Item 8 and in the offering materials and governing agreements of the Clients.

### **D. Investment Adviser Recommendation**

The Adviser does not recommend or select other investment advisers for its Clients.

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

### **A. Code of Ethics**

The Adviser has adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the Advisers Act. The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser requires pre-clearance of personal trading of single company publicly-traded securities issued by insurance related businesses by employees; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

As part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non-public information, and, therefore, may not trade on the basis of that information.

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

### **B. Participation or Interest in Client Transactions**

The Adviser, Mr. Bobman and other employees hold economic interests in the Funds, which in certain cases are material, and thus would have pecuniary interests in such investments made by the Funds.

### **C. Personal Trading**

Neither the Adviser nor any of its related persons invest in the same securities that the Adviser has selected for its Clients, subject to the Adviser's personal trading plan.

### **D. Personal Trading Contemporaneous with Client Transactions**

See Item 13.C. below.

## **Item 12 - Brokerage Practices**

### **A. Selection of Broker Dealers**

The Adviser has complete discretion to determine, subject to each Client's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries used in effecting the transactions for the Clients, and the commission rates to be paid for such transactions.

*Brokerage.* The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of the Clients. The Adviser is not required to, and currently does not, solicit competitive bids to seek the lowest available commission or transaction cost. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause a Client to enter into arrangements pursuant to which the Client pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. The transactions executed by a Client may be cleared through, and the Client's investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser's agreement with each Client, the Adviser generally will use multiple financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of investor referrals when selecting broker-dealers to execute transactions.

The Adviser does not permit Clients to direct brokerage to a specified broker-dealer unless agreed to in a written agreement. Generally, all brokerage transactions will be executed through the broker-dealers selected by the Adviser.

*Soft Dollars.* The Adviser or its affiliates may receive from a Client's broker-dealers products and services in addition to brokerage services.

A portion of the commissions generated on a Client's brokerage transactions may generate "soft dollar" credits that the Adviser or broker-dealer is authorized to use to pay for research and other brokerage related services and products used by the Adviser or its affiliates. The Adviser may enter into "soft dollar" arrangements with one or more broker-dealers whereby the Adviser will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer or may use such "soft dollar" credits to pay for research and other brokerage related services provided by other brokerage firms. Although the Adviser will use the research and services in making investment decisions for the applicable Client, the Adviser may use such research or services for other Clients and the applicable Client will generally pay more than the lowest available commissions for execution of these transactions.

The Adviser has authority to use "soft dollar" credits generated by a Client's securities transactions to pay for expenses that might otherwise have been borne by the Adviser. This may give the Adviser an incentive to select brokers or dealers for Client transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Clients.

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Exchange Act, as amended, or such services that are otherwise reasonably related to the investment decision-making process. However, the Adviser has the authority to use services that may fall outside of the safe harbor afforded by Section 28(e) provided in each case that the arrangements are equitable and consistent with the Client's objective.

The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

The use of brokerage commissions to obtain investment research and other brokerage related services creates a conflict of interest between the Adviser and the Clients, because a Client may pay for such products and services that are not exclusively for the benefit of that Client and that may be primarily or exclusively for the benefit of the Adviser or another Client. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including management fees paid by a Client), the Adviser's use of "soft-dollars" would tend to increase the Adviser's profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for the Clients. The Funds' offering documents specifically authorize these practices to the fullest extent permitted by law.

## **B. Aggregation of Orders of Securities**

When managing multiple Clients with similar investment strategies, the Adviser generally will attempt to aggregate multiple orders for the purchase or sale of the same instrument into a single transaction, subject to the overall obligation to achieve best price and execution for the Clients.

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

### **A. Periodic Review of Accounts**

Mr. Bobman is responsible for reviewing Client investment portfolios. Mr. Bobman may perform intraday, daily, weekly or monthly reviews of Client positions as he deems appropriate. Performance, security positions, exposure levels, and investment opportunities are among some of the matters that may be reviewed. Further, the Chief Operating Officer and/or the Chief Compliance Officer periodically reviews trading records of accounts to ensure compliance with trading guidelines.

### **B. Factors that Trigger a Review of an Account**

See Item 13.A. above.

### **C. Reports to Clients Regarding their Accounts**

The Adviser provides Fund Investors with audited annual financial statements, periodic unaudited performance reports and all tax information relating to their investments in each Fund necessary for U.S. federal income tax purposes. The Adviser provides the Segregated Fund reports in accordance with the IMA between the parties.

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

The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Clients.

The Adviser has entered into agreements with persons who refer potential Fund investors to the Adviser. For their referral services, these persons receive compensation from the Adviser in the form of a percentage of the management fee and/or performance allocation that the Adviser and its affiliates receive from the Funds with respect to the referred Investors. All solicitation arrangements that the Adviser enters into have been and will be designed to be in compliance with Rule 206(4)-3 under the Advisers Act and any similar state regulations.

## **Item 15 - Custody**

While it is the Adviser's practice not to accept or maintain physical possession of any client assets, the Adviser is deemed to have custody of the Funds' assets under Rule 206(4)-2 of the Advisers Act, as amended, because the Adviser has the authority to deduct fees from the Funds' accounts and its affiliates act as general partners to the Funds.

In order to comply with Rule 206(4)-2, the Adviser utilizes the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all Fund assets. In accordance with Rule 206(4)-2, Adviser also (1) engages an outside auditor to audit the Funds at the end of each fiscal year and (2) distributes the results of the audit in audited financial statements that are prepared in accordance with United States generally accepted accounting principles to all Fund Investors within 120 days after the end of the calendar year.



**Item 16 - Investment Discretion**

The Adviser contractually assumes discretionary authority with each Client under an IMA with the Client. The Adviser's authority to manage Client accounts is in all cases subject to the specific objectives, guidelines and limitations set forth in the applicable IMA.

## **Item 17 - Voting Client Securities**

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Client, are voted to further the best interest of that Client. The policy establishes a mechanism to address any conflicts of interests between the Adviser and the Clients. Further, the policy establishes how an Investor may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of the Investors and is consistent with the investment philosophy as set forth in the relevant Client offering documents or IMA.

If a proxy vote creates a material conflict between the interests of the Adviser and a Client, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Client's best interest and was not the product of the conflict.

The Adviser maintains records of (i) all proxy votes that are made on behalf of the Clients; (ii) all written requests from each Investor regarding voting history; and (iii) all responses (written and oral) to Investors' requests. Such records are available to each Investor upon request.

## **Item 18 - Financial Information**

### **A. Balance Sheet**

The Adviser does not require or solicit prepayment of any fees greater than six months in advance.

### **B. Financial Condition Likely to Impact Contractual Commitments**

The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.

### **C. Bankruptcy Petitions**

The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.