

**Form ADV Part 2A: Firm Brochure**

March 22, 2022

**Inverdale Capital Management, LLC**

4550 Travis Street Suite 550

Dallas, Texas 75205

Telephone: (214) 871-2900

Attention: Ryan M. Small

**This brochure provides information about the qualifications and business practices of Inverdale Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (214) 871-2900. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

## Item 2. Material Changes

The material changes in this brochure from the last annual updating amendment of Inverdale Capital Management, LLC on March 31, 2021 are described below. Material changes relate to Inverdale Capital Management, LLC's policies, practices, or conflicts of interests.

- Inverdale Capital Management, LLC has updated their primary office address (Cover Page).

## Item 3. Table of Contents

4.	Advisory Business .....	2
5.	Fees and Compensation .....	2
6.	Performance-Based Fees and Side-By-Side Management .....	5
7.	Types of Clients .....	5
8.	Method of Analysis, Investment Strategies and Risk of Loss .....	6
9.	Disciplinary Information.....	16
10.	Other Financial Industry Activities and Affiliates .....	17
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	17
12.	Brokerage Practices .....	18
13.	Review of Accounts .....	20
14.	Client Referrals and Other Compensation .....	21
15.	Custody .....	21
16.	Investment Discretion .....	21
17.	Voting Client Securities .....	22
18.	Financial Information.....	23

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

Inverdale Capital Management, LLC, founded in 2012, is a diversified investment advisory services firm with a focus on alternative investment opportunities. Our clients include pooled investment vehicles and separately managed accounts. The principal owners of our firm are Ryan M. Small and William Hardy.

Our firm serves as the investment adviser to two hedge fund clients, namely Inverdale Strategic Fund, LP and Sutherland Impact Fund, LP. Our firm also serves as the investment adviser to separately managed account strategies utilizing a quantitative tactical asset allocation (TAA) methodology, as well as individualized asset allocation strategies for high net worth clients. We also serve as the general partner of Ballast Asset Management, LP, which is a separately registered investment adviser managing separately managed account clients as well as an exchange traded fund (ETF).

In providing our advisory services, we seek to achieve superior risk-adjusted returns on capital by adhering to consistent investment processes and an unwavering commitment to the highest ethical standards.

For more information on the investment strategy of our clients, please see Item 5: Method of Analysis, Investment Strategy and Risk of Loss.

Our firm tailors our advisory services in accordance with our clients' needs and investment strategy as disclosed in the offering documents or separately managed account agreements, which allows for investing in a broad array of securities with the goal of achieving our clients' investment objectives.

We do not participate in any wrap fee programs.

As of December 31, 2021, we managed \$ 140,053,513 in client assets on a discretionary basis and \$ 11,103,026 on a non-discretionary basis.

#### **5. Fees and Compensation**

Our firm, or an affiliate of our firm, receives compensation from our clients in the form of management fees based on the percentage of assets we manage and, in the case of some of our hedge fund clients, on performance achieved for our clients' accounts.

Our fees are generally not negotiable. We have the general discretion to waive all or a portion of the asset-based management fee and/or the performance-based compensation, but typically only exercise this discretion for investors that are our affiliates or employees. In addition, we have the ability to enter into side letter arrangements with certain investors in our hedge fund clients, in which we grant them preferential terms.

Our firm and our affiliates do not pay asset-based fees or performance-based compensation.

## *HEDGE FUNDS*

Generally, each year, we charge our hedge fund clients an asset-based management fee of 1.0% of their assets that we manage and performance-based compensation of 20% of their profits. This asset-based management fee is calculated each calendar month and paid each calendar quarter in arrears.

The performance-based compensation is subject to a high water mark, or the highest value that our hedge fund client accounts have reached at any time. Our high water mark ensures that we do not receive performance compensation or only receive a reduced amount of performance compensation when our hedge fund client account values are less than their previous greatest values (reduced pro rata by any withdrawals of capital by an investor). Should an account drop in value, then it must exceed the previous greatest value before we can receive the full amount of performance compensation again.

We deduct the asset-based management fee described above from our hedge fund client accounts quarterly. We also deduct the performance-based allocation described above from our hedge fund client accounts at the end of each year or when investors make a withdrawal (but only for the amount withdrawn). For those clients with illiquid private investments, the calculation of asset-based management fees and performance based compensation are detailed in their respective offering documents.

In connection with our hedge fund advisory services, our hedge fund clients bear all of their own expenses. The list below details some of these expenses, but does not include every possible expense our clients can incur.

Our hedge fund clients pay for some or all of the following operating expenses:

- Legal;
- Accounting;
- Audit;
- Tax preparation expenses; and
- Initial organizational and offering expenses.

Our hedge fund clients also pay for expenses related to the investment of their assets, such as:

- brokerage commissions;
- proxy related expenses;
- underwriting and private placements;
- interest payments and expenses;

- borrowing charges on securities sold short;
- custodial fees;
- investment related consulting and other professional fees (including valuation and appraisal services);
- compensation of unaffiliated third party managers that we select to manage certain hedge fund client assets;
- development, construction, marketing and maintenance costs and expenses related to real property assets held by certain of our hedge fund clients; and
- other expenses related to the purchase, sale, or transfer of our hedge fund client assets.

In addition, our clients can incur:

- withholding taxes;
- taxes imposed on transfers;
- any governmental, regulatory, licensing, filing or registration fees in compliance with the rules of any self-regulatory organization or any federal, state, or local laws;
- specific expenses for obtaining systems, research and other information used for portfolio management purposes that assist in valuations and accounting, including the costs of statistics and pricing services, service contracts for quotation equipment and related hardware and software;
- liability insurance; and
- all costs and expenses of reporting and providing information to existing and prospective investors.

We can elect to absorb some of these costs on behalf of our hedge fund clients in our sole discretion.

Our hedge fund clients do not pay any asset-based fees or performance-based compensation in advance.

#### *SEPARATE ACCOUNTS*

We charge our separately managed account clients an asset-based management fee of up to 1% (per annum) of the assets under management in each client account, depending upon the strategies selected in the separately managed account agreement.

We deduct the asset-based management fee described above from our separately managed account clients' accounts quarterly at the beginning of each quarter. The separately managed account clients also receive invoices for the amounts of our asset-based management fees reflecting the amounts deducted from their accounts. Our separately managed account clients do not currently pay any performance-based compensation. For those clients with illiquid private investments managed by our firm, asset-based management fees are calculated as the lesser of net invested capital and current valuation.

Our separately managed account clients pay for all of their own operating expenses. These include all expenses incurred with its account transactions, such as custodial fees, brokerage commissions, taxes, and any applicable registration fees.

In the event that one of our separately managed accounts pays an asset-based fee in advance and then terminates our advisory services prior to the end of the quarter for which they have paid the fee, the separately managed account client will not receive a refund of any pre-paid asset-based fees.

Neither our firm nor any of our principals or employees receives any compensation for the sale of securities or other investment products, including charges or fees from the sale of mutual funds.

For more information on brokerage transactions and costs, please see Item 9: Brokerage Practices.

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

Inverdale Strategic Fund GP, LP, an affiliate of our firm, receives performance-based compensation in the form of a performance allocation from our client, Inverdale Strategic Fund, LP. Therefore, all investors in Inverdale Strategic Fund, LP must meet the criteria of a "qualified client" as defined in Rule 205-3(d) (1) under the Investment Advisers Act of 1940, as amended. Neither Sutherland Impact Fund, LP nor our separately managed account clients pay any performance-based compensation. Please see Item 2: Fees and Compensation for a detailed explanation of our performance-based compensation.

The existence of the performance allocation creates an incentive for our firm or our affiliates to make riskier or more speculative investments. However, performance-based compensation is limited to our private equity focused hedge fund client that does not include any strategies that require side-by-side management, thereby mitigating this potential conflict of interest.

## **7. Types of Clients**

Our clients are hedge funds and separately managed accounts. Our hedge fund clients rely on an exclusion from the definition of "investment company" in the Investment Company Act of 1940, as amended. Accordingly, our hedge fund clients are not registered as investment companies with the Securities and Exchange Commission. Our

separately managed account clients are generally individuals and high-net-worth individuals.

### Investment Requirements

Investors in our hedge fund clients generally must make a minimum investment of \$1,000,000. We have the discretion to, and on occasion do, accept investments for a lesser amount.

We also provide investment advisory services to separately managed accounts. Strategies available via separately managed accounts include Tactical Asset Allocation as well as individualized wealth management strategies for high net worth individuals and family offices. We decide whether to open a separately managed account on a case by case basis, but generally there is a \$250,000 minimum to open a separately managed strategy account and a \$1,000,000 minimum to open an individualized strategy account.

This firm brochure is not an offer to invest in our hedge fund clients.

## **8. Method of Analysis, Investment Strategies and Risk of Loss**

The following is a description of the various strategies that we utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategies. For a complete explanation of all relevant investment strategies and their associated risks, investors in our hedge fund clients should also review our hedge fund clients' offering documents, which contain additional explanations of strategies, risks, and other related details that we do not discuss in this ADV Part 2A.

### **Hedge Fund Clients**

#### *PUBLIC SECURITIES*

In managing our equity hedge fund client, we predominantly use data science and statistical techniques to derive strategies based on market fundamentals, trading data and proprietary public security market meta-data to make investment decisions for this client.

We employ a systematic approach to investing that includes calculating signals for securities that score well on multi-factor or single-factor quantitative tests. Algorithms are used to test the effectiveness of signals, taking into account a broad spectrum of historical relationships as well as current and expected future conditions. Securities are

bought or sold in a systematic way, with a portfolio approach to risk management that limits portfolio concentration and optimizes asset class allocations.

The hedge fund client investment strategies may involve remaining in cash for stretches of time.

### *PRIVATE SECURITIES*

In managing our illiquid private investment hedge fund client, we allocate its investments to four broad alternative investment categories: hedge funds, private equity, real estate and other, which includes more speculative areas of investment.

The categories of investments below outline certain strategies that our client, Inverdale Strategic Fund, LP, may pursue:

*Hedge Funds:* Direct investments in our client, Sutherland Impact Fund, LP, or other quantitative strategies developed internally, as well as vetted external managers and fund opportunities.

*Private Investments:* Direct investments across a broad range of industries and subsectors. Opportunities include special situations, turnarounds, growth capital and cash flow generating companies. We intend to invest in both long term ownership opportunities, as well as investments with exit events in the medium term. We may also invest in vetted external manager opportunities for this client.

*Real Estate:* Direct equity and debt investments in real estate development projects, as well as purchasing existing properties to hold in a portfolio. Our client's investment strategy with respect to real estate investments includes selling developments for multiples that generate compelling internal rates of return and/or holding purchased or developed projects with compelling net operating income yield.

*Other:* Direct investing in more speculative areas of investment. This could include natural resources, mezzanine debt and venture capital. These investments will be categorized as having higher potential returns and higher risk exposure.

Our client's capital allocation across these areas of investments is intended to stay within the confines of no more than 33% of its assets, at cost, going into any one of the above categories.

### **Tactical Asset Strategy Clients**

The methods of analysis for our clients utilizing our Tactical Asset Allocation strategy involve quantitative analysis.

Quantitative analysis involves the mathematical and statistical analysis of patterns, signals, and anomalies, culminating in the forecasting of estimated future expected returns of, and between, various asset classes and individual securities. The Tactical



Asset Allocation strategy typically invests in a group of liquid asset class securities, in addition to cash, with monthly variations in allocations to those asset classes based upon proprietary signals. In order to maintain a diversified portfolio, the strategy limits the concentration of any single asset class.

### **Investment Strategy Risks**

Long term purchases can expose clients to various types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

Short term purchase risks include liquidity, economic stability, and inflation, in addition to the long term purchase risks listed above. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

Despite our thorough research and analysis and investment strategies, investing in any security involves a risk of loss that our separate account clients and investors in our hedge fund clients must be prepared to bear. Please see below for a detailed explanation of some of the significant risks associated with the investment strategies we employ.

- *Investment Judgment and Market Risk:* The success of our investment program depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment could be lost. The use of short sales and option trading can, in certain circumstances, substantially increase the impact of unfavorable price movements of our clients' investments. Also, changes in the general level of interest rates can negatively affect our clients' results.
- *Dependence on our Firm.* The success of our clients largely depends upon our firm. There is no guarantee that our firm or the individuals employed by our firm will remain willing or able to provide advice to our clients or that trading on this advice will be profitable in the future. The performance of our firm depends upon certain key personnel. If any of these personnel become incapacitated, the performance of our clients could be adversely affected.
- *Financial Markets and Regulatory Change:* The instability in global financial markets has increased the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with

which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment, and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.

- *Investment Style Risk.* The Tactical Asset Allocation strategy employs statistical techniques and analyzes historical information as part of its investment decision making process. By using historical information to assist in predicting outcomes, deviations from historical relationships can affect expected outcomes.
- *Small and Mid-Capitalization Company Risk.* The small- and mid-capitalization companies in which clients may invest may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets and financial resources, and may depend upon a relatively small management group. Therefore, small- and mid-cap stocks may be more volatile than those of larger companies.
- *Investments in Undervalued Securities.* Clients may invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from clients' investments may not adequately compensate for the business and financial risks assumed. Clients may make certain speculative investments in securities that our firm believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, clients may be required to hold securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the clients' funds would be committed to the securities purchased, thus possibly preventing the clients from investing in other opportunities.

As discussed above, our client, Inverdale Strategic Fund, LP, may invest in other pooled investment vehicles managed by vetted third party managers. Please see below for a detailed explanation of some of the significant risks associated with investing with third party managers.

- *General.* The investment performance of our client will depend in part upon the performance of the pooled investment vehicles in which its assets will be invested and upon the strategies, skills and abilities of the managers of these

pooled investment vehicles. Our firm will not have any actual control or participation as to the investments or investment strategies of the unaffiliated pooled investment vehicles we select for our client. Decisions to allocate and re-allocate our client's assets among pooled investment vehicles will be solely within the discretion of our firm.

- *Compensation of Unaffiliated Managers of Investment Vehicles.* The unaffiliated managers of the pooled investment vehicles selected by our firm normally will be entitled to two forms of compensation: a fee based on net assets under management (typically ranging from 1% to 3% annually) and a performance fee, performance allocation or carried interest. The unaffiliated managers of the pooled investment vehicles will likely receive incentive-based compensation from or with respect to our client's investment in their respective pooled investment vehicles. Since an unaffiliated manager will be compensated based upon the performance of its own pooled investment vehicle, an unaffiliated manager may receive incentive compensation from our client in respect of its investment in that pooled investment vehicle for a particular period, even if, overall, our client's net asset value declines in value during such period.
- *Valuation of Assets.* The investment in unaffiliated pooled investment vehicles may place certain constraints on our firm's ability to value our client's assets. Pooled investment vehicles may invest in securities with no current market or for which a market value is not readily determinable. In calculating the net asset value of our client's assets, we will rely solely on the unaffiliated managers of the pooled investment vehicles valuations of their respective pooled investment vehicles. We will not independently verify unaffiliated pooled investment vehicle valuations or other performance information furnished by unaffiliated pooled investment vehicles.
- *Use of Multiple Managers is No Assurance of Success.* No assurance is given that the pooled investment vehicles managers' collective performance will result in profitable returns for our client as a whole under all or any conditions. The possibility exists that good performance achieved by one or more managers may be neutralized by poor performance experienced by other managers.
- *A Manager's Trading Strategies May Not Be Successful.* There can be no assurance that the trading strategies employed by the managers of a pooled investment vehicle will be successful. For example, the proprietary models used by a manager of a pooled investment vehicle may not function as anticipated during unusual market conditions. While each manager who will invest on behalf of our client has a performance record reflecting its prior experience in using the strategies that will be applied to trading for our client, this performance cannot be used to predict future profitability.

The investment risks outlined below apply to investments made directly by our clients and indirectly through any pooled investment vehicles through which they may invest; therefore, references to the investment activity of our clients should be construed to also refer to our clients' investment activities through pooled investment vehicles, and references to our clients also include pooled investment vehicles, unless otherwise specified or the context so requires.

- *Equity Securities:* We buy, on our clients' behalf, equity securities, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Because of this, our clients could suffer losses if they invest in equity instruments of issuers whose performance diverges from our expectations.
- *Options:* We can invest in call and/or put options on behalf of some of our clients. There are risks associated with the sale and purchase of options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period.
- *Loans of Portfolio Securities.* Clients may from time to time lend securities from their portfolios to brokers, dealers and financial institutions and receive collateral in the form of cash or securities in an amount equal to at least 100% of the current market value of the loaned securities, including any accrued interest and/or dividend receivable. Clients will retain all rights of beneficial ownership as to the loaned portfolio securities, including voting rights and rights to interest or other distributions, and will have the right to regain record ownership of loaned securities to exercise such beneficial rights. Such loans will be terminable at any time. The clients may pay finders', administrative and custodial fees to persons unaffiliated with the clients in connection with the arranging of such loans.
- *Short Selling:* We sell short securities on behalf of our clients. Short selling of securities occurs when we borrow securities, promising to buy them at a later date. If the price drops, we can buy the securities at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at the higher price, and the investment loses money. Buying the securities can itself cause the price of the securities to rise further which would exacerbate the potential for loss.
- *Leverage/Borrowing.* Subject to applicable margin and other limitations, we have the ability to borrow funds in order to make additional investments for

our clients. Borrowing involves risk to our clients because the interest on the borrowed amount could be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of our clients to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of our clients will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Derivatives:* At times, we may invest in derivative contracts on behalf of our clients. A derivative is a financial instrument that is a contract between two parties, the value of which is linked to another security or commodity, or an “underlying asset.” Some of the derivatives in which we trade are over-the-counter, meaning they are privately negotiated between two parties, as opposed to being traded on an exchange. Over-the-counter transactions typically involve significant transaction costs.

Any derivative contract typically involves leverage, as it exposes our clients to potential gain or loss from a change in the price of an underlying asset in an amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the price of the underlying asset can result in a loss to our clients that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in a derivative contract. Finally, derivative contracts are risky because, ultimately, their success depends in part on the counterparty’s financial condition.

- *Illiquid Investments:* From time to time we make illiquid investments on behalf of our clients. Illiquid investments are investments that are not heavily traded and cannot easily be converted to cash. If our clients require cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.
- *Real Estate Market Fluctuation.* Real estate historically has experienced significant fluctuations and cycles in value, which historically have caused both increases and decreases in the value of real property assets. Similarly, national, regional, state, and local real estate markets have experienced significant, and sometimes divergent or inconsistent, fluctuations and cycles in conditions, which historically have resulted in varying increases and decreases in the value of real property assets. Accordingly, these fluctuations

and cycles in value and market conditions could have a materially adverse impact on real estate investments and, consequently, on our clients who invest in real estate assets.

- *Real-Estate Investments.* Real estate investments are subject to the risks generally incidental to the ownership and development of real estate and the operation of income-producing real estate. These risks include: (i) the illiquidity of the asset; (ii) the possibility that cash generated from operations will not be sufficient to meet fixed obligations; (iii) the presence of undetected physical and other defects; (iv) changes in economic conditions affecting real estate ownership directly or the demand for real estate, including the effects of a pandemic; (v) the need for unanticipated expenditures in connection with environmental matters; (vi) unavailability of certain types of insurance; (vii) increases in insurance costs; (viii) changes in tax rates and other operating expenses; (ix) reliance on unaffiliated third parties to conduct asset management; (x) adverse changes in laws, governmental rules and fiscal policies; (xi) terrorism; (xii) acts of God, including earthquakes and fire (which may result in uninsured losses); (xiii) environmental and waste hazards; and (xiv) other factors which are beyond the control of our firm. In addition, as recent experience has demonstrated, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values.
- *Real Estate Development.* Investment in the development of real estate is subject to certain risks associated with the real estate industry in general. These risks include: (i) possible declines in the value of real estate; (ii) risks related to general and local economic conditions, including the effects of a pandemic; (iii) possible lack of availability of development funds; (iv) overbuilding; (v) extended vacancies of properties; (vi) tenants' inability to pay rent; (vii) increases in competition, property taxes and operating expenses; (viii) changes in zoning laws; (ix) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; (x) casualty or condemnation losses; (xi) uninsured damages from floods, earthquakes or other natural disasters; (xii) limitations on and variations in rents; (xiii) changes in interest rates; and (xiv) reliance on unaffiliated third parties to manage construction and development.
- *Environmental Risk.* Under various U.S. federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property. Those laws often impose that liability without regard to whether the owner or operator knew of, or was responsible for, the release of those hazardous substances. The costs of removal or remediation may equal or exceed the value of the property, and the presence of those substances, or the failure to properly remediate those substances, when released, may adversely affect the owner's ability to sell that real estate or to borrow using that real estate as collateral. An owner or operator of a facility

may also be required to comply with various laws, ordinances, and regulations regarding the handling, production, storage, use, discharge, or disposal of regulated materials. The presence of these environmental hazards or toxic substances may have a significant adverse effect on the value and returns from such property.

- *Interest Rate Risk.* Changes in interest rates can have a variety of effects on the businesses of banks, thrifts and other financial institutions in which the clients invest. A financial institution's net interest income, which is the difference between interest income received on its interest-earning assets, including loans and investment securities, and the interest expense incurred in connection with such institution's interest-bearing liabilities, including deposits, can be significantly affected by changes in market interest rates. For most banking institutions, net interest income is the largest component of net income. Certain financial instruments, such as bonds and equities that have dividends or distributions, such as MLPs, are particularly sensitive to interest rate changes.
- *REIT Risk.* Real Estate Investment Trusts ("REITs") are pooled investment vehicles that own, and usually operate, income-producing real estate. REITs are susceptible to the risks associated with direct ownership of real estate, such as the following: declines in property values; increases in property taxes, operating expenses, rising interest rates or competition overbuilding; zoning changes; and losses from casualty or condemnation. REITs typically incur fees that are separate from those charged by our firm. Accordingly, investments in REITs will result in the layering of expenses such that clients will indirectly bear a proportionate share of the REITs' operating expenses, in addition to paying the fee charged by our firm. REIT operating expenses are not reflected in the fees listed in this brochure.
- *Royalty Trust Risk.* A royalty trust generally acquires an interest in natural resource companies or assets and distributes the income it receives to the investors of the royalty trust. A sustained decline in demand for crude oil, natural gas and refined petroleum products could adversely affect income and royalty trust revenues and cash flows. Factors that could lead to a decrease in market demand include a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand for these products. A rising interest rate environment could adversely impact the performance of royalty trusts. Rising interest rates could limit the capital appreciation of royalty trusts because of the increased availability of alternative investments at more competitive yields. Investments in royalty trusts may result in the layering of expenses such that clients will indirectly bear a proportionate share of the royalty trusts' operating expenses, in addition to the fee charged by our firm.

- MLP Risk.* MLPs are limited partnerships in which the ownership units are publicly traded. MLP units are registered with the U.S. Securities and Exchange Commission (the "SEC") and are freely traded on a securities exchange or in the over-the-counter market. MLPs often own several properties or businesses (or own interests in the same) that are related to oil and gas industries or other natural resources, but they also may finance other projects. To the extent that an MLP's interests are all in a particular industry, the MLP will be negatively impacted by economic events adversely impacting that industry. The risks of investing in a MLP are generally those involved in investing in a partnership as opposed to a corporation. For example, state law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded to investors in a MLP than investors in a corporation. For example, investors in MLPs may have limited voting rights or be liable under certain circumstances for amounts greater than the amount of their investment. In addition, MLPs may be subject to state taxation in certain jurisdictions which will have the effect of reducing the amount of income paid by the MLP to its investors. Economic factors that could lead to a decrease in market demand include a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand for such products. A rising interest rate environment could adversely impact the performance of MLPs. Rising interest rates could limit the capital appreciation of MLPs because of the increased availability of alternative investments at more competitive yields. Investments in MLPs may result in the layering of expenses such that clients will indirectly bear a proportionate share of the MLPs' operating expenses, in addition to the fee charged by our firm.
- Foreign Company Risk.* Investing in foreign companies, including direct investments and through ADRs, which are traded on U.S. exchanges and represent an ownership interest in a foreign security, poses additional risks since political and economic events unique to a country or region will affect those markets and their issuers. These risks will not necessarily affect the U.S. economy or similar issuers located in the United States. In addition, investments in foreign companies are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the U.S. dollar may affect (positively or negatively) the value of the investment. These currency movements may occur separately from events impacting the value of an individual security or in response to events that do not otherwise have an impact on the value of the security in the issuer's local market. The conversion of investment principal from US Dollars to the local market currency of the security will result in additional costs. Differences in tax and accounting standards and difficulties obtaining information about foreign companies can negatively affect investment decisions. Investments in foreign securities are also subject to the risk that the securities may be difficult to value and/or valued incorrectly. While ADRs provide an alternative to directly



purchasing the underlying foreign securities in their respective local markets and currencies, investments in ADRs continue to be subject to many of the risks associated with investing directly in foreign securities.

- *Foreign Currency Risk.* Investments in securities denominated in, and/or receiving revenues in, foreign currencies, are subject to currency risk. Currency risk is the risk that foreign currencies will decline in value relative to the U.S. dollar, in which case, the dollar value of an investment would be adversely affected.
- *ETF Risk.* ETFs are pooled investment vehicles that hold a portfolio of securities designed to track the performance of a specific index. ETF's are registered investment companies whose shares are listed and traded on U.S. stock exchanges or otherwise traded in the over-the-counter market. An investment in ETF's is subject to substantially the same risks as those associated with the direct ownership of the securities comprising the index on which the ETF is based, and the value of the investment will fluctuate in response to the performance of the underlying index. Investments in ETFs involve certain inherent risks generally associated with investments in a broadly-based portfolio of stocks including risks that the general level of stock prices may decline, thereby adversely affecting the value of each unit of the ETF. In addition, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or number of stocks held. ETFs typically incur fees that are separate from those charged by our firm. Accordingly, investments in ETFs will result in the layering of expenses and will bear a proportionate share of the ETFs' operating expenses, in addition to the fee charged by our firm. Because the value of ETF shares depends on the demand in the market, shares may trade at a discount or premium and may not be able to be liquidated at the most optimal time, which could adversely affect performance. We are the general partner of Ballast Asset Management, LP, which is the investment manager of an ETF, which we may include as an investment allocation in certain client accounts. We indirectly benefit from the success of Ballast Asset Management, LP and its ETF product due to our general partner relationship with Ballast Asset Management, LP.

We do not recommend primarily any single type of security. Our clients generally hold a diverse range of investments, yet we still encourage our clients as well as investors in our hedge fund clients to consider all of the risk factors we have described above. Any investment can be risky and our clients and investors in our hedge fund clients must be prepared to assume any potential loss.

## **9. Disciplinary Information**

Neither our firm nor any management person has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any management person has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither our firm nor any management person has been subject to a proceeding before any self-regulatory organization.

#### **10. Other Financial Industry Activities and Affiliates**

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or is an associated person of any of the above.

We manage Inverdale Strategic Fund, LP and Sutherland Impact Fund, LP, which are our related persons.

Inverdale Strategic Fund GP, LP, an affiliate of our firm, acts as the general partner to Inverdale Strategic Fund, LP. Sutherland Impact Fund GP, LP, an affiliate of our firm, acts as the general partner to Sutherland Impact Fund, LP.

Ballast Asset Management, LP, a subsidiary of our firm, is a separately registered investment adviser with clients that include separately managed accounts as well as an ETF.

We may select unaffiliated investment advisers to manage a portion of the assets of our client Inverdale Strategic Fund, LP; however, we do not receive compensation directly or indirectly from these unaffiliated advisers that creates a material conflict of interest. In addition, we do not have other business relationships with these unaffiliated advisers that create a material conflict of interest.

We may invest a portion of client assets in strategies or products managed by Ballast Asset Management, LP, in which we have an indirect economic interest; however we do not receive compensation directly from Ballast Asset Management, LP that creates a material conflict of interest.

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

We have adopted a Code of Ethics in order to ensure that our principals' and employees' securities transactions are consistent with our firm's fiduciary duty to our clients and to ensure compliance with legal requirements and our firm's business conduct standards. It focuses on specific areas where employee conduct has the potential to affect our clients' or the interests of investors in our hedge fund clients adversely. Our Code of Ethics restricts in certain circumstances personal trading on certain securities or instruments and sets forth procedures for dealing with potential uses of material non-public information.

This paragraph only represents a summary of key provisions in our Code of Ethics. We provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our hedge fund clients that requests one.

Other than (i) the investments by the beneficial owners of our separately managed account clients in our hedge fund clients, (ii) the investment of our client Inverdale Strategic Fund, LP into our other hedge fund clients, for which we waive additional fees in order to avoid any conflict of interest, and (iii) the investment of certain of our clients into Ballast Asset Management based strategies and products, for which we do not receive direct compensation, the principals and employees of our firm do not recommend to our clients, nor do they buy or sell for our clients' accounts, securities in which they have a material financial interest.

From time to time, representatives of our firm may buy or sell securities for themselves in their personal accounts at or around the same time as our clients, but only after receiving the written approval from our Chief Compliance Officer. This may provide an opportunity for representatives of our firm to buy or sell securities before or after recommending securities to our clients resulting in representatives profiting off the recommendations they provide to our clients. These transactions may create a conflict of interest. In order to mitigate these risks, when similar securities are being bought or sold, firm employees will either transact our clients' transactions before their own or will transact alongside our clients' transactions in block trades, if possible. All personal account transactions require the prior written approval of our Chief Compliance Officer.

## **12. Brokerage Practices**

We have investment and brokerage discretion over our clients' accounts, and many of our clients' securities trades are cleared through Charles Schwab, Interactive Brokers, and JPMorgan. In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, our firm seeks to obtain the best execution for our clients' portfolios and we take into account the following factors:

- The broker-dealer's ability to effect prompt and reliable executions at favorable prices (including the applicable profit or commission, if any);
- The operational efficiency with which transactions are effected, considering the size of the order and difficulty of execution;
- The financial strength, integrity, and stability of the broker-dealer;
- The broker-dealer's risk in positioning a block of securities;
- The quality, comprehensiveness and frequency of available research services considered to be of value; and
- The competitiveness of commission rates in comparison with other broker-dealers that satisfy our selection criteria.

We Have the Authority to Utilize Research and Other Soft Dollar Benefits with certain clients, in accordance with client agreements. We are authorized to pay higher prices to buy securities from, or accept lower prices for the sale of securities to, brokerage firms that provide us or our affiliates with certain investment and research information. Research services furnished by brokers includes written information and analyses concerning specific securities, companies, or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. We can also receive other products or services from broker-dealers in addition to those relating to research and brokerage, such as supplies, salaries, employee benefits, telephone services, postage, transportation, travel services and fees, meals and entertainment, placement fees and other marketing costs, office equipment, newswire and data processing charges, legal and accounting fees, office rent and electricity and periodical and other subscription fees.

We have the option to use “soft dollars” generated by our clients to pay for the research, research related services and other products and services described above. The term “soft dollars” refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for a client of the investment manager. 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). Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a “safe harbor” to investment managers 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 manager in the performance of investment decision-making responsibilities. In the event that we elect to use soft dollars for some of our non-research costs and expenses discussed above, those uses of soft dollars are not within the “safe harbor.”

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. If we use client markups or markdowns to obtain products and services, our firm receives a benefit because we do not have to pay for those products and services. The availability of these benefits can influence us to select one broker-dealer rather than another to perform services for our clients, based on our interest in receiving the products and services instead of on our clients’ interest in receiving the best execution prices. Obtaining these benefits can cause our clients to pay higher fees than those charged by other broker-dealers.

The use of soft dollars to obtain research services and to pay for other costs and expenses that our firm might otherwise incur creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that are primarily or exclusively for the benefit of our firm. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

### We Do Not Consider Referrals in Selecting or Recommending Broker-Dealers.

Our Clients Do Not Direct Brokerage. Our firm does not recommend, request, or require that our clients, nor do we permit our clients to, direct us to execute transactions through a specified broker-dealer.

Sometimes we decide that some of our clients should participate in the same investment opportunity. In this case, we aggregate the purchase or sale of the securities for all participating client accounts via block trading, when available. We then allocate the securities purchased (or sold) among all of these clients so that each client receives either their pro-rata share, or, if not prorated, then the proportion in which participating accounts will share transactions will be determined, typically in advance, by the portfolio manager(s) on the basis of investment objectives, cash availability, expected cash and liquidity needs, and other relevant factors.

We seek to execute orders for all of our clients on an equitable basis, such that no client is intentionally favored over another client that is similarly situated. If we decide to invest at the same time for some of our clients but are unable to block into a single trade order across custodians, we will aim to submit the trades for execution using an alternating convention based upon custodian to determine which clients, or groups of clients, are submitted first, with the goal of achieving equitable execution over time. The system is designed with the goal of allocating prices to clients in a manner that is fair and equitable over time and does not systematically disadvantage any client or group. Ultimately, clients can benefit when we aggregate trades because they get volume discounts on execution costs. On the other hand, situations can occur where one client could be disadvantaged because of the investment activities we conduct for our other clients if all clients are not able to participate in the same block trade due to having different account custodians.

## **13. Review of Accounts**

Our principal, Ryan M. Small, and our CFO, William Hardy, review our clients' investments and portfolios on an on-going basis and the reviews are conducted as a matter of practice rather than pursuant to any triggering event. Where applicable, these reviews include an assessment of profit and loss reports with respect to our clients' investment positions.

We also review client accounts if a client changes his or her investment objectives or if there are certain extraordinary events, such as natural disasters, extreme political and economic events (i.e. a market crash) and any other event we believe creates abnormal market conditions.

We provide investors in our hedge fund clients with investor letters and written reports that contain information about our clients. Any quarterly reports typically contain performance information and do not necessarily contain financial information. We also provide investors in our hedge fund clients with written annual reports that contain audited financial statements and tax information.

Each separately managed account client receives a monthly statement from the custodian detailing the client's account, including assets held, asset value, and transaction activity. This written report will come from the account custodian. We also provide a separate written statement to the client, quarterly, with commentary on the portfolio and investment strategy for those clients invested in the Tactical Asset Allocation strategies.

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

Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.

Our firm does not, nor does our principal or employees, currently compensate anyone for client referrals.

#### **15. Custody**

While it is our firm's practice not to accept or maintain physical possession of our clients' assets, we are deemed to have custody of our hedge fund client's assets because we and our affiliates, Inverdale Strategic Fund GP, LP and Sutherland Impact Fund GP, LP, have the authority to access our hedge fund clients' funds and deduct fees and expenses from their accounts.

In order to comply with applicable regulations, we utilize the services of qualified custodians to hold all of our hedge fund clients' publicly traded assets. We also ensure that the qualified custodians maintain these funds in an account that contain only our hedge fund clients' funds and securities, under our hedge fund clients' names. We further manage this risk by using an outside administrator who monitors these clients' accounts on a daily basis. In accordance with Rule 206(4)-2, we also (1) engage an outside PCAOB registered auditor to audit our client at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our hedge fund clients within 120 days after the end of the fiscal year.

All SMA accounts and assets are held in custody by unaffiliated broker/dealers or banks. However, with respect to certain assets, we do possess a level of authority and legal capacity and for this reason we are considered to have custody of such assets. Such capacity comes from our ability to deduct management fees. We do not custody the assets of our separately managed account clients. Account custodians send statements directly to the account owners monthly and should review these statements carefully and compare the account statements from their custodians with any reports that we send to them.

#### **16. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, the broker through which we effect trades and the commission rates at which we effect trades. Despite this broad authority, we are committed to adhering to the investment

strategy and program set forth in our clients' offering documents and/or separately managed account agreements. These documents cover matters such as the types and amounts of securities of which our clients' portfolios will consist and the degree of risk assumed by our clients' portfolios.

Before accepting their subscriptions for interests in our hedge fund clients, we provide all potential investors with an offering document that sets forth, in detail, our investment strategy and program for our hedge fund clients. By completing our subscription documents to acquire an interest in one of our hedge fund clients, investors give us complete authority to manage their investments in accordance with the offering document they each received.

Prior to providing investment advice to a separately managed account client, we require each separately managed account client to appoint us as agent and attorney-in-fact of its portfolio. This gives us complete discretionary authority to buy and sell any investment securities and instruments in the amounts and at the prices that we determine, subject to any other limitations that could be imposed in a separately managed account client's separately managed account agreement.

## **17. Voting Client Securities**

We have the sole authority to vote our clients' securities, and we adhere to an internal proxy voting policy that governs our practices in exercising this voting authority. Our policy is to vote our clients' proxies in the interest of maximizing shareholder value.

Votes on all proxy matters are determined on a case-by-case basis. We have the ability to choose not to participate in a particular proxy, to take no action or not vote if we conclude that the effect on shareholders' economic interest or the value of our clients' holdings is indeterminable or insignificant, the potential benefit of voting is outweighed by the cost, or when it is not in our clients' best interest to vote.

If a proxy vote creates a material conflict between the interests of our firm and our clients, we will resolve the conflict before voting the proxies.

Clients may obtain a complete copy of the proxy voting policies and procedures by contacting our office in writing. Each client may also request, by contacting our office in writing, information concerning the manner in which proxy votes have been cast with respect to portfolio securities held by the relevant client during the prior annual period.

## **18. Financial Information**

We do not require nor do we solicit prepayment of more than \$500 in fees per client, six months or more in advance.

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.