

## **Item 1: Cover Page**

**Verdad Advisers, L.P.**

**695 Atlantic Ave., 4<sup>th</sup> Floor  
Boston, MA 02111**

**March 2024**

Form ADV, Part 2A (the “Brochure”) provides information about the qualifications and business practices of Verdad Advisers, L.P. and its affiliates (collectively “Verdad” or “Adviser”). For more information on the disclosure requirements required for Part 2A see the “General Instructions for Part 2 of Form ADV” by visiting [www.sec.gov/rules/final/2010/ia3060.pdf](http://www.sec.gov/rules/final/2010/ia3060.pdf). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Daniel Rasmussen at (202) 251-6707, or [dan@verdadcap.com](mailto:dan@verdadcap.com)

Additional information about Verdad is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Verdad is registered as an investment adviser with the Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

## **Item 2: Material Changes**

The date of the last Brochure that was filed with the Securities and Exchange Commission was on March 27, 2023. This Brochure is compiled by Verdad to provide Clients with clearly written and meaningful disclosures of its business practices, conflicts of interest, and the background of its advisory personnel. A summary of certain material changes made to the Brochure since the date of the last filed Brochure is set forth below:

- We updated our regulatory assets under management as of December 31, 2023. **See Item 4.**
- We updated certain risk factors. **See Item 8.**

In this Item, Verdad will periodically identify and discuss material updates to the Brochure. This is intended to inform current and prospective Clients of important developments that may take place in Verdad's business practices. All recipients of this Brochure are encouraged to read it carefully in its entirety.

## **IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

*This Disclosure Brochure is not:*

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer*
- *a complete discussion of the features, risks or conflicts associated with any Issuer*

As required by Advisers Act, Verdad provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a private pooled investment vehicle, together with other relevant Offering Documents, such as the private pooled investment vehicle's private placement memoranda or offering circular, prior to, or in connection with, such persons' investment in the private pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of Verdad, persons who receive this Brochure (whether or not from Verdad) should be aware that it is designed solely to provide information about Verdad as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant Offering Documents. More complete information about each private pooled investment vehicle is included in relevant Offering Documents, certain of which may be provided to current and eligible prospective investors only by Verdad. To the extent that there is any conflict between discussions herein and similar or related discussions in any Offering Documents, the relevant Offering Documents shall govern and control.

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## **Item 4: Advisory Business**

### **A. Background**

Verdad is a Delaware limited partnership that was formed in March 2014 for the purpose of providing investment advisory services to pooled investment vehicles and separately managed accounts. Verdad is headquartered in Boston, Massachusetts. The primary sole beneficial owner of Verdad is Mr. Daniel Rasmussen.

### **B. Description of Advisory Firm**

Verdad currently provides investment advisory services to private funds (referred herein as the “Funds” or “Clients”) on a fully discretionary basis and may sponsor and /or advise additional private funds or separately managed accounts (the “Managed Account Clients”).

Verdad invests primarily in leveraged small value stocks – small companies with a high ratio of net debt to enterprise value and a low ratio of enterprise value to cash flow. Verdad believes that investing in companies that will generate equity returns through the pay down of debt may generate superior returns for investors.

Verdad primarily invests in securities, consisting principally, but not solely, of equity and equity-related securities of issuers that are traded publicly in U.S. and non-U.S. markets. The Adviser may also seek to invest in preferred stocks, convertible securities, options (including covered and uncovered puts and calls and over-the-counter options), derivative instruments, bonds and other fixed income securities, non-U.S. currencies, commodity interests, private securities, money market instruments and cash and cash equivalents. See Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss of this Brochure for more information on Verdad’s investment strategies philosophy, context and process, including portfolio construction.

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

Verdad’s advisory services to the Funds primarily consists of managing a Fund’s portfolio, pursuant to an investment management agreement or other similar agreement (the “Management Agreement”), to each respective Fund in accordance with each Fund’s respective private placement memorandum, offering memorandum, offering circular, limited partnership agreement, indenture or other similar disclosure and governing documents (collectively, the “Offering Documents”).

Managed Account Clients may place investment restrictions on the Adviser and tailor the advisory services to their individual needs. The Managed Account Clients may also have certain portfolio

liquidity, concentration and exposure limits, in addition to being prohibited from trading specified instruments.

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

Verdad tailors its advisory services to the specific investment objectives and strategy of the Clients it advises, in accordance with the investment objectives, policies, and guidelines set forth in the Funds' Offering Documents.

#### **E. Wrap Fee Programs**

Verdad does not participate in wrap fee programs.

#### **F. Client Assets Under Management**

As of December 31, 2023, Verdad manages \$740,543,488 of regulatory assets under management on a discretionary basis.

### **Item 5: Fees and Compensation**

#### **A. Funds.**

Verdad does not have a general fee schedule. The fees and expenses associated with Clients investments may vary and are described in detail in the Fund's Offering Documents. Verdad may, in its sole discretion, manage other funds or Managed Account Clients with higher or lower fees, different fee structures and different expense payment arrangements than the Funds. Verdad generally charges each fund an investment management fee based on the balance of each limited partner's capital account (the "Management Fee"). Management Fees are generally charged each month in advance based on the opening net asset value of each capital account on the first day of that month.

In addition to the Management Fees, Verdad is generally entitled to a performance-based profit allocation ("Special Profit Allocation") with respect to certain class shareholders. For investors, these fees are generally not negotiable, though Verdad retains the right to waive, reduce, rebate and/or calculate differently the Management Fee attributable to investments made by affiliates, employees and/or certain other limited partners in the Fund.

Client accounts will also be subject to investment, operational and regulatory expenses related to its investment program, including expenses related to proxies, underwriting and private placements, research expenses, surveys, subscriptions, studies, brokerage commissions, interest on debit balances or borrowings, custody fees and any withholding or transfer taxes imposed on such Client. See Item 12 herein for a discussion of our brokerage practices. Client accounts also

bears all out-of-pocket costs of its administration of the Fund, including accounting, audit and legal expenses, costs of any litigation or investigation involving the activities of the Fund, and costs associated with regulatory compliance, the organization of the Fund, and reporting and providing information to existing and prospective investors, as applicable.

The Funds have entered into an agreement with a third-party administrator, to perform certain administrative and bookkeeping services which is paid as an annual fee for its administrative services, plus additional fees for any preparation of the Funds' tax returns. These fees may change. Further information will be provided upon request.

In general, Verdad pays its ordinary administrative and overhead expenses, incurred in connection with managing, originating and monitoring investments, such as employee salaries, rent and utilities.

## **B. Separate Managed Accounts**

The fees and expenses associated with the Managed Account Clients will be negotiated and are described in detail in each Managed Account Client's investment advisory agreement. The Management Fee may be charged quarterly or monthly and may be paid in advance or arrears depending on the specific arrangement between the Adviser and the Managed Account Client.

Managed Account Clients will incur brokerage and other transaction costs. Item 12 of this brochure discusses how the Adviser selects brokers and determines the reasonableness of their compensation. Furthermore, the Adviser will refund any pre-paid Management Fees if the advisory contract with such Managed Account Client is terminated before the end of the billing period. Management Fee refunds are calculated on a pro-rata basis for partial periods. Other than as described above, neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the Adviser or its affiliates receive performance-based fees or allocations from certain Clients. 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, which requires that performance-based fees only be charged to "qualified clients" (as such term is defined in Rule 205-3). Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any future clients, the Adviser will implement policies and procedures to ensure that all clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

## **Item 7: Types of Clients**

Verdad provides investment advisory services to Clients which are structured as private funds and Managed Account Clients of unaffiliated pooled investment vehicles. Verdad may in the future provide investment advice and other services to other clients or types of clients.

The minimum investment requirement for the Funds is \$500,000, though the Adviser or its affiliates may accept investments of lesser amounts in its sole discretion. Verdad does not have a minimum account size for Managed Account Clients.

The Managed Account Clients are required to enter into the respective advisory agreement that, among other things, sets forth the nature and scope of the investment advisory authority of Verdad and the investment objectives, guidelines and restrictions applicable to the management of any Managed Account Clients.

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

The following is a summary of the investment strategies and methods of analysis employed by Verdad on behalf of Clients. This summary should not be interpreted to limit in any way Verdad's investment activities. Verdad may offer any advisory services, provide advice with respect to any investment strategies and make any investments, including those that may not be described in this Brochure, that Verdad considers appropriate, subject to each Client's investment objectives and guidelines. Specific descriptions of such strategies and methods are included in each Client's Offering Documents. In the case of sub-advised or separate accounts managed by Verdad, the investment strategies and methods of analysis employed on behalf of each managed account will be set forth in the Management Agreement between the managed account and Verdad or in other related documents. There can be no assurance that the investment objectives of any Client will be achieved. The investments are highly speculative and are not intended as a complete investment program. It is designed only for sophisticated persons who are able to risk losing their investment in Verdad and who have limited need for liquidity. The risks described below are not exhaustive. Potential investors should review other related documents carefully and, in its entirety, and consult with their professional advisors before deciding whether to invest with Verdad.

**Dependence on Management.** The Adviser's success depends on the skill and acumen of its principals, who serve as the Adviser's portfolio managers. Its principals may devote only part of their time to the Adviser's activities and devote a significant amount of time to other activities, including managing the Funds and investing in transactions without presenting such opportunities to the Clients or the investors, even if such opportunities may be appropriate. There is no requirement that the principals will allocate a specific amount of time to the Clients. If the



principals should cease to participate in the Adviser's activities, its ability to select attractive investments and manage its portfolio could be impaired severely. The Adviser cannot assure investors that: (a) it will realize its investment objectives; (b) its investment strategy will prove successful; or (c) investors will not lose all or a portion of their investment in Verdad.

The Adviser has exclusive and absolute discretion and authority to manage and control the investments and affairs, subject only to specific and express limitations in the respective agreements. The investors have no opportunity to select or evaluate any investments or strategies. The Adviser has the unrestricted right to select the securities in which it invests and the amount of funds to be used for each purpose. The Adviser may exercise this discretion and authority conditionally or unconditionally, arbitrarily, or inconsistently in varying or similar circumstances, without accountability to the investors. For example, the Adviser or the administrator may provide certain investors more frequent or more detailed reports of the portfolio holdings or performance, special fee and allocation arrangements and special withdrawal rights that it does not provide to other investors.

**Investment Risks.** The Adviser invests substantially all of the available capital (other than capital that the Adviser retains in cash or cash equivalents) in securities. The Adviser may also trade in options (including covered and uncovered puts and calls and over-the-counter options), derivative instruments, non-U.S. currencies, commodity interests, private securities and money market instruments. The Adviser may also invest in credit default swaps and other derivative instruments, including equity derivatives, exchange traded funds, including corporate bond exchange traded funds, US government securities (Treasury bond, bills and notes), Treasury futures, Eurodollar futures, money market instruments and cash and cash equivalents. Markets for such instruments fluctuate and the market value of any particular investment may vary substantially. The investment portfolios may not generate any income or appreciate in value.

The Adviser can never learn all relevant information regarding a company or a security. Further, the Adviser may misinterpret or incorrectly analyze the information that it has about a particular company or security. These and other factors may cause the Adviser to (a) invest in securities at times that will lead to losses in the Adviser's portfolio and may cause an investor to lose a significant portion of its investment or (b) refrain from investing in particular securities at times that would have resulted in gains in the portfolio if the Adviser would have invested.

**General Risks of Fixed-Income Related Investments.** Certain Funds invest in fixed-income securities. Most of these investments are subject to risks such as interest rate risk, inflation/deflation risk, limited liquidity and the other risks described below.

(a) **Interest Rate Risk.** Fixed-income investments decline in value because of changes in market interest rates. When interest rates decline, the value of a portfolio invested in fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of a portfolio invested in fixed-income Securities can be expected to decline.

During periods of rising interest rates, the average life of certain types of securities in which the Fund may invest may be extended because borrowers choose not to repay principal on the loans to take advantage of a below market interest rate. This increases the security's duration (the estimated period until the security is paid in full) and reduces the value of the security. This is

known as extension risk. During periods of declining interest rates, an issuer of fixed-income securities may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Lower-grade securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem a lower-grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the issuer's credit standing.

(b) Interest Rate Hedging. The Adviser may seek to hedge its interest rate risk. The successful use of swaps, caps and floors to preserve the rate of return on a portfolio of financial instruments depends on the Adviser's ability to predict correctly the direction and extent of movements in interest rates. If the Adviser's judgment about the direction or extent of the movement in interest rates is incorrect, the Fund's overall performance will be worse than if it had not entered into any such transactions. For example, if the Fund enters into an interest rate swap or an interest rate floor to hedge against its expectation that interest rates will decline but instead interest rates rise, the Fund will lose part or all of the benefit of the increased payments it would receive as a result of the rising interest rates because of the amounts it will be required to pay its counterparty under the swap agreement or because of the purchase price it will have paid for the interest rate floor.

(c) Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from the Fund's investments will be worth less in the future as inflation decreases the present value of payments at future dates. Deflation risk is the risk that prices throughout the economy decline over time — the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio.

(d) Credit Rating Risk. A credit rating agency is a private company that assigns credit ratings to certain types of fixed-income obligations. Such ratings measure credit worthiness and affect the value of those securities and loans. Credit rating agencies include Moody's Investors Services, Fitch Ratings and Standard & Poor's.

Ratings assigned to fixed-income securities by credit rating agencies are intended to indicate different levels of risk that a fixed-income security will pay its principal and interest to investors on a timely basis. Ratings are based on various factors, such as the fixed-income security's seniority in the capital structure of a particular issuer, credit characteristics, collateral composition, if any, degree of diversification, weighted average life of the collateral, if any, and the legal structure of the issuer. Such ratings are subject to limitations. An issuer's rating is heavily weighted by historical data and does not necessarily reflect future conditions.

A Fund may invest primarily in below investment grade securities which have higher risk of default than securities rated investment grade. For securities with these ratings, sustained periods of deteriorating economic conditions or rising interest rates are more likely to lead to a weakening in the issuer's capacity to pay interest and repay principal than in the case of higher-rated securities.

(e) **High Yield and Stressed/Distressed Securities.** A Fund may invest in securities that are rated below investment grade, or that are unrated but determined by the Adviser to be below investment grade quality. Securities rated below investment grade quality are commonly known as “high yield/high risk” or “junk bonds.” Junk bonds, while generally offering higher yields than investment grade securities with similar maturities and features, involve greater risks, including the possibility of default or bankruptcy. They are regarded as predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal.

The prices of high-yield securities are less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse business, financial or economic conditions which could lead to the issuer’s inability to make timely interest and principal repayments on its debt securities. For example, a projection of an economic downturn could cause a decline in high-yield security prices because a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt Securities. If the issuer of high-yield securities that a Fund holds defaults, the Fund may incur additional expenses to seek recovery, reducing the value of the its investment. In the case of high-yield securities structured as zero coupon or payment-in-kind securities, the market prices of such securities are affected to a greater extent by interest rate changes, and therefore tend to be more volatile than securities which pay interest periodically and in cash.

The secondary markets on which high-yield securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of a Fund’s investments. For example, such reduced liquidity could adversely affect the price at which a Fund could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer. Adverse publicity and investor perceptions may decrease the values and liquidity of high-yield securities, especially in a thinly traded market. In addition, a Fund may invest in debt instruments of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The terms and conditions associated with debt instruments, particularly high yield and distressed securities, are often complex and require a sophisticated level of evaluation of financial, operational and legal matters. There is no assurance that the Adviser will correctly evaluate the value of a company’s assets, the terms of its debt instruments or the prospects for a successful reorganization or similar action. Investments in these securities require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Adviser. The involvement by the Adviser in an issuer’s reorganization proceedings could result in the imposition of restrictions limiting a Fund’s ability to liquidate its respective position in the issuer.

**Credit Default Swaps.** A Fund may purchase and sell credit derivatives contracts - primarily credit default swaps - both for hedging and other purposes. The typical credit default swap contract requires the seller to pay to the buyer, if a particular reference entity experiences specified “credit events,” the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer

agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. A Fund may also buy and sell credit default swaps on a basket of reference entities.

If the Fund does not own the debt securities that are deliverable on a specified credit event under a credit default swap, the Fund is exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” The derivative contracts may not clearly define whether or not a “credit event” triggering the seller’s payment obligation has occurred. In either of these cases, the Fund would not be able to realize the full value of the credit default swap on a default by the reference entity.

As a seller of credit default swaps, the Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Fund will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Fund following a credit event and will likely choose the obligations with the lowest market value to maximize its payment obligations.

**Investments in PIPEs.** The Adviser may invest a Fund in PIPE transactions. A PIPE transaction is a private placement of either newly issued shares of common stock (or debt or equity securities convertible into shares of common stock) or shares of common stock held by selling stockholders (or a combination of primary and secondary shares) of an already-public company that is made to accredited investors usually through a placement agent. Investors in a traditional PIPE transaction commit to purchase a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the SEC’s preparedness to declare effective a resale registration statement covering the resale from time to time of the shares sold in the private placement. Investors in a “non-traditional” PIPE transaction commit to purchase a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the issuer’s preparedness to file with the SEC within a specified period of time a resale registration statement covering the resale from time to time of the shares sold in the private placement. In such a transaction, the shares purchased by the investor are restricted, or unable to be sold or transferred from anywhere from six months to a year, depending on whether the investor is affiliated with the issuer and whether or not the issuer complies with current public information requirements. A Fund may invest in (non-) traditional PIPE transactions. While it is standard in a PIPE transaction to obtain registration rights, under certain circumstances a Fund may enter into a PIPE transaction in which it will not receive registration rights in connection with their investment. These factors may affect the ability of the Adviser to liquidate the Fund’s positions in PIPEs.

## **Risks of Commodities and Currency Futures Investments.**

(a) Options, Futures, Commodities and Other Derivatives. The Adviser trades in exchange-traded and over-the-counter derivatives, including futures, commodities and commodity futures, swaps, options on any of these instruments and contracts for differences. These instruments can be highly volatile and expose the Adviser to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small change in the price of the contract may result in a profit or a loss that is high in proportion to the Adviser's funds actually placed as initial collateral and may result in unquantifiable further loss exceeding any collateral deposited. These changes are extremely difficult to predict.

In addition, if the Adviser purchases options that it does not sell or exercise, it will lose the premium paid in such purchase. If the Adviser sells call options and must deliver the underlying Securities at the option strike price, it theoretically has an unlimited risk of loss if the price of such underlying Securities increases. If the Adviser sells put options and must buy the underlying Securities, it risks losing the difference between the market price of the underlying Securities and the option strike price. Further, if it sells meaningfully out-of-the-money put or call contracts, the Adviser may incur substantial losses if these contracts unexpectedly progress into-the-money. Any gain or loss from selling or exercising an option is reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase, exercise or sale of an option. The Adviser may also sell covered and uncovered options on Securities. If such options are uncovered, the Adviser could incur an unlimited loss.

Daily limits on price fluctuations and speculative position limits on exchanges may prevent the Adviser from promptly liquidating positions, even if it desires to, resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risk because there is no exchange market on which to close 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 the Adviser's net asset value, incorrect collateral calls or delays in collateral recovery.

The Adviser may trade in futures contracts (and options on futures). Futures positions may be illiquid because, for example, most U.S. commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating unfavorable positions and subject the Adviser to substantial losses. In addition, the Adviser may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator

(such as the SEC or the CFTC) may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be held in particular commodities. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.

(b) Special risks are associated with using derivatives. Deciding whether, when and how to use derivatives involves different skills and judgment than those needed to select portfolio Securities. Even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. If the Investment Adviser incorrectly forecasts market values or other relevant factors, which may be particularly difficult in certain sectors as described below, the Adviser may be in a worse position than if it had not engaged in derivatives transactions. When derivatives are used for hedging, there may be no correlation between price movements in the derivative and in the portfolio Securities being hedged. A lack of correlation could result in a loss on both the hedged Securities and the hedging vehicle, so that the Adviser's return might have been better had it not attempted to hedge.

(c) Changes in volatility of these instruments are extremely difficult to predict. If the Adviser is short these instruments and the volatility increases, or if the Adviser is long such instruments and volatility declines, the Adviser could be affected materially and adversely.

(d) Derivative instruments also may be difficult to value accurately. Any misvaluation could adversely affect one or more Limited Partners.

**Risks of Currency Trading.** The Adviser may invest a portion of its assets in non-U.S. currencies directly and indirectly through derivatives. The U.S. dollar derives some of its value due to its status as the dominant reserve currency in the world. Thus, even if the U.S. pursues policies that typically would lead to a decline in its value, actions by or developments in other countries and economic unions that also are major issuers of currencies (such as Japan, the European Union, England, China and Switzerland) can lead to a strengthening of the U.S. dollar. Some of the risks of investing in non-U.S. currencies are included in "Risk Factors -- Risks of Non-U.S. Investments" below. Some of the other risks specifically related to currency trading include:

(a) *Currency Trading Is Volatile.* Speculative trading in the currency markets should be expected to result in volatile performance. The General Partner's trading may be concentrated not only in the currency markets but also in a limited number of currencies. The market risk and volatility to which a concentrated portfolio is exposed generally, are greater than, and may be substantially greater than, the market risk and volatility of a diversified portfolio. The potential for extreme volatility in the Advisers's portfolio may not be consistent with an investor's risk/reward tolerance levels and objectives.

(b) *Zero-Sum Trading.* Currency trading is a zero-sum economic activity, in which for

every gain there is an equal and offsetting loss (in addition to transaction costs). An investment in the Adviser differs from a typical securities investment, in which there is an expectation of some consistency of yield (in the case of debt) or participation over time in general economic growth (in the case of equities). No assurance can be given that the Adviser's portfolio will appreciate in value.

(c) *Illiquidity or Disruption in Currency Markets.* The markets in which the Adviser trades can experience periods of illiquidity, sometimes of significant duration. None of the participants in the currency markets is required to maintain a market in any particular currency or to maintain a reasonable spread between the bid and ask prices that it quotes. Disruptions can occur in any market traded by the Adviser due to unusually high trading volume, political intervention or other factors. Market illiquidity or disruption could result in major losses to the Adviser.

**Risks of Small Cap Equity Investments.** The Adviser invests in Securities of small, unseasoned companies. The Securities of such companies typically are less actively traded and more volatile than those of larger companies. Investments in such companies typically involve a high degree of business and financial risk and can result in substantial losses. For example, such companies are typically subject to a greater degree of change in earnings and business prospects than are companies with larger market capitalizations. The Adviser might not be able to buy or sell significant positions in such Securities at reasonable prices or within reasonable times. These factors could affect the Funds materially and adversely.

#### **Risks of Investments in Non-U.S. Issuers.**

(a) General. The Adviser invests in securities of non-U.S. companies, which may be denominated in U.S. or non-U.S. currencies, which involve unusual risks not typically associated with investing in U.S. companies. These risks include, but are not limited to, less public information available regarding non-U.S. issuers, limited liquidity of non-U.S. securities and political risks associated with the countries in which non-U.S. securities are traded and the countries where non-U.S. issuers are located. Individual non-U.S. economies may differ unfavorably from the U.S. economy in growth of gross national product, rate of inflation, rate of savings and capital reinvestment, resource self-sufficiency and balance of payments positions, and in other respects. The Adviser may invest in securities of non-U.S. governments (or agencies or subdivisions thereof), and some or all of the foregoing considerations may apply to such investments as well.

(b) Political Risks. The companies in which the Adviser invests, directly or indirectly, may be exposed to the risk of political change and governmental action. With respect to some non-U.S. countries, there is the possibility of expropriation or confiscatory taxation, limitations on the removal of funds or other assets of the Adviser, political or social instability, or diplomatic developments that could materially and adversely affect the value and marketability of the Adviser's investments in those countries. The businesses of the companies in which the Adviser invests would be adversely affected by acts of terrorism or war in the countries in which the Adviser invests. At times, non-U.S. governments may nationalize companies or industries, in which case the Adviser would lose its entire investment in that company or industry.

(c) **Foreign Investment Limitations.** Some of the countries in which the Adviser invests, directly or indirectly, may have laws and regulations that currently preclude or severely restrict direct foreign investment in securities of their companies. Indirect foreign investment may, however, be permitted through investment funds that have been specifically authorized for that purpose. Because of the limited number of authorizations granted in such countries, however, units or shares in most of the investment funds authorized in those countries may at times trade at a substantial premium over the value of their underlying assets. There can be no certainty that these premiums will be maintained and if the restrictions on direct foreign investment in the relevant country were significantly liberalized, premiums might be reduced, eliminated altogether or turned into a discount.

(d) **Non-U.S. Securities Regulation.** The securities of non-U.S. issuers held by the Adviser generally are not registered under, nor are the issuers thereof subject to the reporting requirements of, U.S. securities laws and regulations. Accordingly, there may be less publicly available information about these securities and about the non-U.S. company or government issuing them or the board of trade clearing them than is available about a U.S. company, government entity or board of trade. Non-U.S. companies and boards of trade generally are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. Further, government supervision of stock exchanges, boards of trade, securities brokers and issuers of securities is generally less stringent than supervision in the U.S. The investments also may be subject to withholding taxes imposed by the applicable country's taxing authority.

(e) **Limited Liquidity of Non-U.S. Investment Instruments.** securities of some non-U.S. companies are less liquid, and their prices are more volatile than securities of comparable U.S. companies. Investing in non-U.S. securities creates a greater risk of securities clearance and settlement problems.

(f) **Non-U.S. Currency Risks.** The Adviser holds cash in U.S. Dollars to meet expenses and may hold cash in other currencies for hedging or investment purposes or to meet settlement requirements for non-U.S. securities. The Adviser may be affected unfavorably by exchange control regulations or changes in the exchange rate between such currencies and the U.S. Dollar. Changes in non-U.S. currency exchange rates influence values within the Adviser's portfolio from the perspective of U.S. investors. Changes in non-U.S. currency exchange rates may also affect the value of dividends and interest earned, gains and losses realized on the sale of securities and net investment income and gains, if any, of the Adviser. The rate of exchange between the U.S. Dollar and other currencies is determined by the forces of supply and demand in the non-U.S. exchange markets. These forces are affected by the international balance of payments and other economic and financial conditions, government intervention and other political and diplomatic conditions, speculation and other factors.

**Change in Sentiment.** Changes in investor sentiment on the market, an industry or sector, or an individual stock can have pronounced effects on securities prices. Rapid changes in investor sentiment cannot be predicted and can be severe.



**Earnings Surprises.** The Adviser cannot assure that the companies in which it invests will report earnings or losses as the Adviser expects. The Adviser may hold stocks that disappoint earnings expectations and decline rapidly, producing losses.

**Concentration of Investments.** The Adviser is not required to maintain a minimum level of capital. If the Adviser fails to raise substantial initial capital or incurs losses or withdrawals, it may not have sufficient funds to diversify its investments. Except as described in the respective Offering Documents, there are no hard limits as to concentration in issuers or types of investments. If the Adviser concentrates its investments in several, relatively large securities positions or industries relative to its capital, a loss in any one position or a downturn in any one industry could reduce the Adviser's performance materially.

**Information Sources.** The Adviser selects investments for the Clients based in part on information and data that the issuers of such securities file with various government agencies or make directly available to the Adviser or that it obtains from other sources. The Adviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not readily available.

**Investment Selection.** The Adviser primarily engages in long purchases of securities. The Adviser also may invest in preferred stocks, convertible securities, options (including covered and uncovered puts and calls and over-the-counter options), derivative instruments, bonds and other fixed income securities, non-U.S. currencies, commodity interests, private securities, money market instruments and cash and cash equivalents.

**Hedging.** The Adviser may use hedging strategies to attempt to control risk. Hedging strategies may not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged. A Fund may not be able to hedge a particular position, which can result in undesired exposure to that position and may lead to liquidation of that position when it is disadvantageous to the Adviser. The Adviser is not obligated to hedge its portfolio positions and it frequently may not do so.

**General Risks of Leverage.** The Adviser may use leverage by borrowing on margin, entering into swaps, and using other derivative contracts and leveraging strategies. Such leverage increases profit potential, but at the same time increases risk of loss and volatility. In the stock market, "margin" refers to buying stock on credit. Margin customers are required to keep cash and securities on deposit with their brokers as collateral for their borrowings. As a result, a relatively small price movement in a security may result in immediate and substantial losses to an investor. For example, if at the time of purchase 50% of the price of a security is borrowed on margin, a 20% decrease in the price of the security would, if the security is then sold, result in a 40% loss of the cash invested before any deduction for brokerage commissions or margin interest costs. Thus, any purchase of securities using leverage increases the risk and volatility of the Adviser's portfolio and may result in losses that greatly exceed the amount invested. In addition, margin trading requires the Fund to pledge its securities as collateral. Margin calls or changes in margin requirements can require the Fund to pledge additional collateral or liquidate its holdings, which can force the Fund to sell securities at substantial losses that it otherwise would not incur.

Trading on margin also results in interest charges, which can be substantial. To the extent the Fund uses financial derivatives, it has risk and return characteristics similar to a leveraged position in the underlying securities, as well as other risks. By trading one or more financial derivatives, the Fund may trade with the economic equivalent of a substantially leveraged position in the underlying securities portfolio, in comparison to its actual assets. The Adviser may, in its sole discretion, employ implicit leverage of its actual assets by trading financial derivatives.

**Economic Conditions and Political Conditions.** Changes in economic conditions, including, for example, interest rates, credit availability, inflation rates, industry conditions, government regulation, competition, technological developments, political and diplomatic events and trends, tax and other laws and innumerable other factors, can affect the Adviser's investments and prospects materially and adversely. None of these conditions is within the Adviser's control, and it may not anticipate these developments. These factors may affect the volatility of securities prices and the liquidity of the Adviser's investments. Unexpected volatility or illiquidity could impair the Adviser's profitability or result in losses.

Economic conditions in the U.S. and the rest of the world have fluctuated significantly recently, and the U.S. economy has experienced a period of prolonged heightened unemployment. Global equity markets have experienced high volatility. Credit markets have fluctuated significantly, and the health of several major financial institutions has been affected by these economic conditions. As a result, securities markets are extremely volatile. The Adviser faces additional risks when it invests in these troubled markets.

Economic conditions also affect the Adviser's investment, if any, in fixed income securities. For example, an increase in overall interest rates will depress the investment value and consequently the price of any fixed-income securities that the Adviser holds. The value of these securities also may be affected by non-payment of interest due on them, or liquidation or dissolution proceedings with respect to their issuers.

The U.S. federal government, Federal Reserve, U.S. Treasury and other government and regulatory bodies (federal, state and local) have implemented a variety of programs to respond to these economic conditions. These programs could lead to inflation or other adverse consequences that could have a material adverse effect on the issuers of securities and equities markets generally.

### **Special Risks of Emerging Market Investments.**

(a) *General Risks.* The Adviser invests in Securities issued by companies that are located in, do significant business in, or derive significant income from emerging markets. Such investments involve unusual risks, some of which are described below not typically associated with investing in companies based in more developed countries. Any of these events could materially and adversely affect the value and marketability of the Adviser's investments in those countries.

(b) *Potential Market and General Economic Volatility.* The volatility of Securities traded in emerging markets may be extremely high. For example, the prices of Securities listed on exchanges in many such markets have been subject to sharp fluctuations over the past 5 years.

Prospective investors should therefore be aware that the value of Shares may continue to fluctuate significantly.

Individual emerging and frontier market economies may differ unfavorably from more developed economies in gross national product growth, inflation rate, savings rate, capital reinvestment, resource self-sufficiency, balance of payments positions and in other respects. These economies also are more likely to experience high levels of inflation, deflation or currency devaluation, which can harm their economies and increase volatility in their securities markets.

(c) *Reliance on High Commodities Prices.* Many emerging and frontier market economies rely on revenue from commodities (especially oil and base and precious metals). Fluctuations in commodities prices can have a significant effect on those economies.

(d) *Investment Infrastructure.* The infrastructure for the safe custody of Securities and for purchasing and selling Securities, settling trades, collecting dividends, initiating corporate actions, and following corporate activity is not as well developed in all emerging and frontier markets as is the case in certain more developed markets. Also, some markets within this region are developing quickly, which may lead to strains on the investment infrastructure. Typically, there are fewer brokers in emerging and frontier markets and such brokers are generally not as well capitalized as those in more developed nations. This may prevent trade orders from being processed in a timely manner. Brokerage commissions, dealer concessions and other transaction costs are higher in some emerging and frontier markets than in more developed stock markets.

(e) *Corporate Disclosure, Accounting and Regulatory Standards.* Companies in some countries with emerging and frontier markets are typically not subject to disclosure, accounting, auditing and financial standards that are equivalent to those applicable in more developed countries. Such information as is available is often less reliable. There is less rigorous government supervision and regulation. Regulatory regimes relating to foreign investment are still relatively new in these countries. This may mean that rules are being applied for the first time or inconsistently which may result, among other things, in the amount and nature of information available to the General Partner about companies in which the Adviser invests and potential investments being inconsistent from time to time and from company to company. In addition, companies involved in the provision of financial and investment services have only recently been subject to a more developed regulatory regime and, in particular, to restrictions on the disclosure of information. In particular, new regulations drafted to impose strict requirements and conditions of such companies equivalent to those in more of the developed markets have not all been implemented as yet.

Further, government supervision of stock exchanges, boards of trade, securities brokers and issuers of Securities is generally less stringent than supervision in the U.S. or other developed jurisdictions.

(f) *Government Involvement and Taxation.* Government involvement in the private sector varies in degrees among the emerging countries in which the Adviser may invest. Such involvement may include government ownership, wage and price controls, imposition of trade barriers, confiscatory taxation, limitations on the use or transfer of the Adviser's assets or other

protectionist measures. In the event of a default of any obligations by the issuer of a Security, it may be more difficult for the Adviser to obtain or enforce a judgment against the issuers of such Securities.

Taxation of dividends, interest and capital gains received by non-residents varies among countries with emerging and frontier markets and, in some cases, is comparatively high. In addition, many of these countries have less well-defined tax laws and procedures and such laws may permit retroactive taxation so that the Adviser could in the future become subject to local tax liability that it had not reasonably anticipated in conducting its investment activities or valuing its assets.

(g) *Foreign Exchange Restrictions.* Some countries with emerging markets may limit the Adviser's ability to repatriate income out of the country. These countries may require government approval before proceeds may be repatriated and such consent may be delayed or refused for any reason. In some instances, those countries may have insufficient foreign exchange available to convert local currency amounts into generally convertible currency. This may cause a delay in the valuation of the Adviser's portfolio. In addition, the insufficient foreign exchange could also result in the actual amount realized in a transaction after conversion to U.S. dollars being materially lower than the amount that would have been realized had sufficient foreign exchange been available.

(h) *Legal System Risks.* The legal systems in some countries with emerging markets may operate on different principles from those countries with "Western" legal systems. Companies in which the Adviser invests may be subject to local legal systems of decrees, laws, regulations, interpretations and court decisions that are not fully developed and may be retroactively applied. In addition, the legal systems of those countries may not provide adequate or timely recourse for investors. The Adviser may not be able to enforce its agreements in accordance with their terms in such countries. In particular, corruption is common in the legal systems of some of the countries in which the Adviser invests and litigation is time-consuming, expensive and unpredictable.

**Risk of Default by Counterparties, Brokers and Exchanges.** The Adviser will be exposed to the credit risk of the brokers, dealers and exchanges through which they deal. The Adviser may be subject to risk of loss of its assets on deposit with a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions on behalf of the Adviser, or the bankruptcy of an exchange clearing house.

**Options, Futures and Other Derivatives.** The Adviser uses both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, options and contracts for difference. These instruments can be highly volatile and expose the Adviser to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small change in the price of the contract may result in a profit or a loss that is high in proportion to the funds actually placed as initial collateral and may result in unquantifiable further loss exceeding any collateral deposited. These changes are extremely difficult to predict.

If the Adviser purchases options that it does not sell or exercise, it will lose the premium paid in such purchase. Any gain or loss from the sale or exercise of an option is reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. The Adviser may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the Adviser could incur an unlimited loss. Daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risks.

**Special risks are associated with using derivatives.** Deciding whether, when and how to use derivatives involves different skills and judgment than those needed to select portfolio securities. Even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. If the Adviser incorrectly forecasts market values or other relevant factors, the Adviser may be in a worse position than if it had not engaged in derivatives transactions. In addition, some derivative instruments may be difficult to value accurately. Any miscalculation could adversely affect one or more investors.

**Investment Companies.** Investment companies (such as ETFs and LETFs) are companies registered with the SEC under the Investment Company Act that purchase and sell securities, such as stocks and bonds, under the direction of an investment adviser. Many of the investment companies purchased for the Adviser's portfolio will concentrate heavily in a particular asset category or sector. These categories could include, among others, sector funds, blue chip stock funds, small capitalization stock funds, growth funds, bond funds and international funds; such funds may specialize even further on the basis of country or region of the world and engage in the use of leverage. Shareholders of an investment company generally bear all expenses of that company, including fees of the investment adviser and custodian, brokerage commissions and legal and accounting fees. As a result, investors will be paying two levels of advisory fees -- the Management Fee to the general partner and the advisory fee charged by the investment adviser of the investment companies in a Fund's portfolio. The Fund will also bear its own brokerage commissions and other expenses related to the purchase, sale or transmittal of its assets. The foregoing fees and expenses may be expected to result in a higher cost of investment than would be the case if an investor were to invest directly in the investment companies purchased by the Fund. As a result, the returns realized by the investors from the Fund's activities will be less than the returns investors would realize from engaging in the same activities directly.

Investment companies are required to distribute to their shareholders 90% of all realized gains, interest and dividends earned in a year. Even though the Fund may intend to reinvest all such distributions, an investor will be credited with net income, and will incur the consequent income tax liability, even though that investor did not receive any distributions unless that investor withdrew all or part of its capital account.

**Small Capitalization Companies.** The Adviser expects to invest primarily in securities of companies with small-sized market capitalizations. Those securities involve substantially higher risks in many respects than do investments in securities of larger companies. For example, prices of the securities of these companies are often more volatile than prices of the securities of companies with large market capitalizations and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip"

companies. Further, due to thin trading in securities of some small-capitalization companies, an investment in those stocks may be illiquid.

**Risk of Default by Counterparties, Brokers and Exchanges.** The Adviser will be exposed to the credit risk of the brokers, dealers and exchanges through which they deal. The Adviser may be subject to risk of loss of its assets on deposit with a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions on behalf of the Adviser, or the bankruptcy of an exchange clearing house.

The Adviser effects transactions in "over-the-counter" or "interdealer" markets. Participants in these markets typically are not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. If the Adviser invests in swaps, derivatives or synthetic instruments, or other over-the-counter transactions in these markets, it may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions, which generally are characterized by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject the Adviser to the risk that a counterparty will not settle in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Such "counterparty risk" is increased for contracts with longer maturities when events may intervene to prevent settlement. The Adviser's ability to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the Adviser's potential for losses.

**Service Provider Default Risk.** The Adviser has contractual agreements with various service providers, including its brokers and custodians and the administrator, to perform various functions or effect certain transactions for or on its behalf. These entities may not be subject to credit evaluation and regulatory oversight and may default on their obligations, which could adversely affect the Adviser and investors.

**Limited Liquidity of Investments.** The Adviser may invest from time to time in thinly traded and relatively illiquid securities, securities that may not be traded at the time the Adviser invests or securities that may cease to be traded after the Adviser invests. The Adviser also may take positions in particular securities that are relatively large as compared to trading volumes or overall market capitalization. In such cases and in the event of extreme market activity, the Adviser may not be able to liquidate its investments promptly if necessary. In addition, the Adviser's sales of thinly traded securities are likely to depress the market value of such securities and thereby reduce the Adviser's profitability or increase its losses. Such circumstances or events could affect the Adviser's gain or loss materially and adversely.

**Valuation.** The Adviser determines the value of the Clients' securities, whether or not a public market exists for securities of the same class or type. If the Adviser's valuation of any such securities is inaccurate, the Adviser and its affiliates might receive a special profit allocation and Management Fee, respectively, that are greater than the allocation and fee to which the Adviser would otherwise be entitled. The Adviser may not be able to effectively

manage its investment portfolio, diversification and other internal guidelines and risks if the Adviser's portfolio is inaccurately valued. Any such inaccuracy could affect the investors adversely.

**Limitation on Liability of Various Persons.** The Adviser, its affiliates, any person acting on their behalf and any person that controls the investments generally is not responsible to any investor for losses incurred in connection with the Clients activities, including without limitation, a failure to obtain the lowest brokerage commission, any error in judgment, any trade error or any tax liability asserted against any investor. Accordingly, investor losses generally will not be recoverable from the Adviser if they resulted from an erroneous decision.

The Adviser's agreements with brokers, custodians, administrators, auditors and other service providers may contain provisions that limit the liability of, and indemnify, those parties and their affiliates in certain circumstances.

**Reliance on Technology.** The Adviser and its service providers (including accountants, custodians, transfer agents and administrators) rely heavily on internal and third-party computer hardware and software, online services, data feeds, trading platforms, and other technology to conduct the Adviser's investment and trading activities, and trade settlement, operations and accounting processes. Disruptions to these systems or resources may make it difficult or impossible to implement the Adviser's investment strategy and could materially and adversely affect the Adviser. Examples of such circumstances include natural disasters, terrorism, cybersecurity attacks, public service or utility disruptions such as those caused by fires, floods, earthquakes, market trading halts, systems failures and other extraordinary events.

**Electronic Trading.** The Adviser frequently places trades electronically. If an electronic trading system or component fails, it may not be possible to enter new orders, execute existing orders or modify or cancel orders, and order priority may be lost. Any such event may cause material losses for the Adviser.

**Cybersecurity.** Although the Adviser and its affiliates employ various computer security measures, they may not be successful in fending off cybersecurity attacks from viruses, malware, computer hackers or other malicious corruption of their information technology systems. Cybersecurity breaches of the systems of the and its affiliates or their service providers (including accountants, custodians, transfer agents and administrators) may cause disruptions to business operations, cause losses due to theft or other reasons, interfere with the Adviser's net asset value calculations, impede trading, or lead to violations of applicable privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. The Adviser and its affiliates cannot control the cybersecurity plans and systems put in place by their service providers and the issuers in which the Adviser invests. System breaches can and do occur. Any cybersecurity breach could materially and adversely affect the Adviser.

The Adviser's agreements with brokers, custodians, administrators, auditors and other service providers may contain provisions that limit the liability of, and indemnify, those parties and their affiliates in certain circumstances.

**Trade Errors by the Adviser.** The Adviser places orders for the purchase and sale of securities with brokers on behalf of the Clients. The trading process is complex and can vary for different types of securities. Moreover, the Adviser may be required to break up orders or may buy or sell the same security for more than one client, including the Funds, further complicating the trading process. The Adviser might make or cause trading errors. The Adviser is responsible for any such trade errors. The Adviser and its affiliates will not be required to bear the cost of any trade error or reimburse for resulting costs or losses (unless due to the gross negligence, willful misconduct or fraud of the Adviser or its affiliates).

**Limited Liquidity of Interests.** No market for interests exists or is expected to develop. It may be difficult or impossible to transfer any Interests, even in an emergency. However, an investor generally may withdraw capital only by means of withdrawals, with respect to a capital contribution by a Class A or Class B investor, generally every three years following that capital contribution, subject to the restrictions. The investor(s) requesting withdrawal bear the risk of any decline in the value of the interests during the period from the date of notice of withdrawal until the effective withdrawal date. The Adviser or its affiliates has the power to suspend, limit and compel withdrawals.

Although the Adviser or its affiliates believes the withdrawal notice provisions in the Offering Documents allow sufficient time to liquidate its investments in the amounts necessary to satisfy investor withdrawals, the Clients may not be able to do so in a timely manner. Substantial withdrawals by investors in a short period could require the Adviser to liquidate investments more rapidly than is desirable, possibly reducing the value of the assets or disrupting the Adviser's investment strategy. Further, reduction in the size of the portfolio could make it more difficult to generate a positive return or to recoup losses.

**Reserve for Contingencies.** The Adviser or its affiliates may establish reserves as it deems necessary or appropriate to pay any prospective liability or obligation that it believes may arise with respect to any of the investments or activities. Any such reserve may be established, whether or not it is required under generally accepted accounting principles and may be allocated among the capital accounts that the Adviser or its affiliates deems appropriate. An investor may not withdraw any capital account balance related to any such reserve until the Adviser or its affiliates deems that the reserve no longer is necessary.

**Risk of Asset Growth.** If the assets that the Adviser and its affiliates manage grow significantly, it may adversely affect the Adviser's investment performance. It becomes more difficult to find attractive investment opportunities as the amount of assets that the Adviser must invest increases. In this event, the Adviser may find it necessary to invest in a greater number of companies than it currently intends, which could dilute its focus on individual companies, impair its ability to monitor existing and potential investments, and result in investments in companies that it otherwise would not select. In addition, with greater assets to invest, it will be increasingly difficult for the Adviser and its Clients to make investments large enough to be meaningful to their overall portfolios.

**Inside Information.** The Adviser (through its representatives or otherwise) may receive information that restricts its ability to buy or sell securities of a company for substantial periods of



time when the Adviser otherwise could realize a profit or avoid a loss. This may adversely affect the Adviser's flexibility in buying or selling securities.

**Conflicts of Interest.** The Adviser and its affiliates sponsor, manage and participate in other securities investment activities unrelated to the Adviser's activities (some of which may compete with the Adviser's investment activities). These other activities may include, among other things, investing for their own accounts and providing investment advisory services to the Funds.

These other activities create conflicts of interest with the Adviser such as, for example, the following:

(a) The Adviser and its affiliates, on behalf of the Funds and in other capacities with other entities or for its own account, has discretion in determining which investments are made by the Funds, sold to others or made by it or its affiliates, with or without the participation of any other person. The interests of the Adviser and the Funds in selecting, negotiating and administering investments may conflict in some circumstances. The Adviser and its affiliates may give advice and take action with respect to any Managed Account Client that differs from the advice that it gives or the timing or nature of action that it takes with respect to the Adviser. For example, the Adviser and its affiliates select investments based solely on investment considerations for such persons. The Adviser may have different types of clients, including separate accounts and private funds. These clients may have different investment strategies and expected levels of trading. In the course of providing advisory services, the Adviser may buy or sell a security for one type of client but not for another. Further, the Adviser may buy (or sell) a security for one type of client while simultaneously selling (or buying) the same security for another type of client. The Adviser or its affiliates may be able to obtain more favorable compensation, cost reimbursement or risk sharing arrangements in connection with some investments if the Clients do not participate. These factors could influence the Adviser not to make investments on behalf of the Clients even though participation might benefit the Client.

In addition, the Adviser may manage some Funds using the same or a substantially similar investment strategy as the Clients but provide greater liquidity and transparency to those Funds than it does to the investors. Because of these different terms, the holders of those Funds may from time to time take actions that could adversely affect the investors. For example, the holder of a Managed Account Client that has the same investment strategy as a Fund but more frequent withdrawal rights may terminate that Managed Account Client at a time when investors not permitted to withdraw from the Fund, and the resulting liquidation of the Managed Account Client may adversely affect the value of certain positions in the Adviser's portfolio.

(b) The Adviser and its managers, members, officers, employees and affiliates also may engage in securities transactions for their own accounts. The Adviser is not obligated, however, to acquire for the Clients any security that any of such persons may acquire for its or their own accounts. The Adviser and any of such persons may make any investment whether or not in competition with the Clients or in a manner that would limit or eliminate the Clients opportunity to make the investment, without any accountability to the Clients or any investor.

(c) The Adviser and its affiliates will have conflicts over the amount of time spent managing the Clients. To the extent that the Adviser or its affiliates receive better overall compensation and other benefits with respect to managing certain Clients compared to managing a separate Client(s), they have an incentive to allocate more time to those other activities.

(d) The Adviser or its affiliates determines the value of its securities and has an incentive to overvalue those securities so that it will receive a greater special profit allocation and Management Fee, respectively, than it would otherwise be entitled.

(e) Legal counsel for Mr. Rasmussen does not and will not serve as counsel for the Clients or represent the interests of the investors in connection with the organization and activities of the Adviser or any offering of interests. Such counsel disclaims any fiduciary or attorney-client relationship with the investors or the Clients (even if such counsel represents one or more investors in matters unrelated to the Clients). None of the Clients, the potential investors in the Funds as a group or the investors as a group have been represented by separate counsel. The attorneys and certain other experts who perform services for the Clients either directly or on behalf of the Adviser or Mr. Rasmussen do not represent or perform services for the investors.

(f) The brokers to which the Adviser directs the trades of the Clients offer the Adviser and their affiliates nonmonetary benefits or “soft dollars.” These soft dollars take the form of research, other services regarding securities investments and other products and services and are available to the Adviser or its affiliates in connection with transactions in which the Adviser does not participate. Brokers also may solicit or refer investors to invest with the Adviser. These benefits influence the Adviser and its affiliates to select one broker rather than another to perform services for the Clients. The Adviser expects that all such goods and services will be within the “safe harbor” of Exchange Act section 28(e).

**Effect of Special Profit Allocation.** The Adviser or its affiliates receives the special profit allocation with respect to Class B investors that is based on net changes in the Clients’ asset values. The special profit allocation increases as a result of unrealized appreciation, as well as realized gains. The special profit allocation is not affected by losses in a subsequent fiscal year.

The special profit allocation may create an incentive for the Adviser to make investments that are riskier or more speculative than it would make if its Affiliate did not receive an allocation based on the Clients’ performance and for the Adviser to overvalue the securities.

**Differing Terms for Particular Limited Partners and Funds.** The terms that govern any particular Managed Account Client may be more advantageous than those generally applicable to the Adviser, and the terms that apply to a particular investor or investor in a separate managed account may be more advantageous than those generally applicable to other investors in the Fund. For example, some investors may receive the following terms and conditions that do not apply to other investors in the Funds: a reduction, rebate or waiver of Management Fees or the special profit allocation (or other terms); rights to receive reports on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions); special rights to make future investments in the Fund, other investment funds or managed accounts; and such other rights as may be negotiated by those persons or Funds. Also, if an investor also has a separate managed account with the

Adviser that uses an investment strategy that is similar to that of the Funds, that investor may use its knowledge of the portfolio in that Managed Account Client to decide if and when to make an additional investment or withdraw capital from the Fund. Such investments or withdrawals could occur at times when other investors would have made similar decisions had they had similar transparency.

**Anti-Money Laundering.** If the Adviser, the administrator or any governmental agency believes that it has accepted subscriptions for interests by, or is otherwise holding assets of, any person or entity that is acting, directly or indirectly, in violation of any U.S., international or other anti-money laundering laws, rules, regulations, treaties or other restrictions, or on behalf of any suspected terrorist or terrorist organization, the Adviser, the administrator or such governmental agency may freeze the assets of that investor, or suspend its withdrawal rights. The Adviser also may be required to remit or transfer those assets to a government agency. Neither the Adviser or the administrator will be liable for losses in connection with delays or otherwise related to the anti-money laundering verification process. The Adviser or the administrator also may be required to remit or transfer those assets to a governmental agency.

**Adviser's Right to Dissolve and Expel Investors.** The Adviser may dissolve a Fund at any time on notice to the investors. Accordingly, there is a risk that if a Client's assets become depleted or the unrecouped losses become significant and, as a result, the Management Fee and special profit allocation are reduced, the Adviser or its affiliates may elect to dissolve such Fund at a time when dissolution may be disadvantageous to the investors. In addition, the Adviser or its affiliates may expel all or any portion of an investor's capital account from the Fund at any time, in which event the expelled investor will be deemed to have withdrawn from the Fund to the extent of such expulsion. Such expulsion could result in adverse tax and economic consequences to the investor.

**No Distributions.** The Adviser or its affiliates does not intend to make distributions to the investors prior to the Fund's dissolution, but intends to reinvest substantially all of the Fund's income and gain. As a result, investors may be credited with Fund net income, and will incur the consequent income tax liability (to the extent that they are subject to income tax), even though investors receive little or no distributions. Accordingly, an investment in the Fund may not be suitable for investors seeking current returns for financial or tax planning purposes.

**Operating Expenses.** The Clients trade in securities and incurs brokerage, custody and other transaction costs and expenses. These and other expenses of operating the (including monthly Management Fees payable to the Adviser and fees payable to the administrator) are paid out of the Client's capital, reducing the Client's investments and potential for profitability. This risk is higher if the Client has limited capital. Additionally, if the Client has limited capital, each investor would bear a greater amount of the Client's fixed expenses.

**Regulatory Risks Related to Advisers and Private Investment Funds.** The U.S., the E.U. and other countries and regulatory authorities have enacted major legislation that increases the regulation and reporting of investment advisers and private investment funds. Some of that legislation has not yet been fully implemented, so investment managers' and investment funds' compliance obligations are uncertain in some respects. In addition, the regulatory and tax environment for derivative securities and related instruments is also evolving and may be subject

to modification by government or judicial action. These regulatory developments and continuing uncertainty regarding their implementation may adversely affect the Adviser and the value of the Adviser's investments.

**State and Federal Securities Laws.** This offering has not been registered under the 1933 Act, in reliance on the exemptions in section 4(a)(2) of the 1933 Act and Regulation D promulgated thereunder. Similar reliance has been placed on apparently available exemptions from securities registration or qualification requirements under applicable state securities laws. The Adviser cannot assure investors that the offering currently qualifies or will continue to qualify under any of such exemptions due to, among other things, the adequacy of disclosure and the manner of distribution, the existence of similar offerings in the past or in the future, or the retroactive change of any securities law or regulation. If, and to the extent that, claims or suits for rescission are brought and successfully concluded for failure to register this offering or other offerings or for acts or omissions constituting offenses under the 1933 Act, the 1934 Act, or applicable state securities laws, the Adviser could be affected materially and adversely, jeopardizing its ability to operate successfully. Furthermore, the human and capital resources of the Adviser, the Investment Adviser and the General Partner could be affected adversely by defending actions under these laws, even if the Adviser is ultimately successful in its defense.

The Adviser relies on the exclusion from the definition of "investment company" provided by ICA section 3(c)(7) and, accordingly, should not be required to register as such under the ICA. ICA section 3(c)(7) depends in part, however, on all Limited Partners being qualified purchasers. Section 3(c)(7) and the SEC's rules and interpretations defining "qualified purchaser" are highly complex and uncertain in numerous respects. As a result, the Adviser cannot assure investors that it will not be deemed an "investment company" for purposes of the ICA and required to register as such thereunder, in which event the Adviser and the General Partner could be subject to legal actions by regulatory authorities and others, and could be forced to terminate. The costs of defending any such action could constitute a material part of the Adviser's assets. Termination could have materially adverse effects on the Adviser and the value of the Interests. See "Suitability Standards."

Pursuant to an exemption from the CFTC in connection with pools whose participants are limited to qualified eligible persons, an offering memorandum for this pool is not required to be, and has not been, filed with the CFTC. The CFTC does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of an offering memorandum. Consequently, the CFTC has not reviewed or approved this offering or any offering memorandum for this pool.

None of the Adviser, the General Partner or the Investment Adviser is or intends to be registered as a broker or dealer under the 1934 Act or any other securities law. The General Partner believes that neither it nor the Adviser is required to be so registered, but if the SEC or any state securities law administrator were to assert that such registration is required, the Adviser would bear the resulting increased expenses and its activities could be restricted, which could lead to dissolution of the Adviser and liquidation of its investments at a time when such liquidation may be disadvantageous to the Adviser, or could lead to other materially adverse effects on the Adviser's activities.

Securities and investment businesses generally are regulated comprehensively and intensively under state and federal laws and regulations. Any investigation, litigation or other proceeding that state or federal regulatory agencies or private parties undertake that involves the Investment Adviser, the General Partner or the Adviser could require the Adviser to spend material amounts of its funds for legal and other costs and could require the General Partner and its principals to spend a significant amount of money and time to address those matters, which could have materially adverse consequences for the Adviser. In addition, because (a) this offering has not been registered under the 1933 Act, (b) the Adviser is not registered under the ICA and (c) the General Partner and the Investment Adviser are not registered as an a broker with any regulatory authority, the Limited Partners do not have certain regulatory protection available to investors in offerings or entities that are registered under such laws or that are managed by brokers that are registered under such laws.

**Tax Considerations.** The tax aspects of an investment in the Clients are complicated. Each investor should have them reviewed by professional advisers familiar with such investor's personal tax situation and with the tax laws and regulations applicable to the investor and investment limited partnerships. The Adviser is not intended and should not be expected to provide any tax shelter but is organized as a partnership to provide for a single level of tax.

The availability of a single level of tax depends on the classification of the Adviser as a partnership rather than as an "association" taxable as a corporation for federal income tax purposes. Regulations provide that a limited partnership with two or more partners may elect to be taxed as a corporation or a partnership. The Adviser does not intend to elect to be taxed as a corporation, and thus should be treated for federal income tax purposes as a partnership.

In addition, the investors, are taxed on any realized income or gain of the Fund (to the extent that the investors are subject to income tax). This tax liability exists even in the absence of cash distributions. Accordingly, an investor may have taxable income and tax liability arising from that investor's investment in the Fund in a fiscal year when no cash is distributed to that investor by the Fund, or even in a fiscal year when that investor's capital account balance is reduced (for example, when that investor's share of net unrealized losses exceeds that investor's share of net realized income and gain in that fiscal year).

None or almost none of the income, gains and losses of the Fund is passive income, gains and losses. Thus, investors may not offset their distributive shares of income and gain, if any, from the Fund against passive losses derived from other investments (except to the limited extent of an investor's distributive share of nonportfolio passive income or gain, if any, generated by the Fund).

Under Code section 67(c), temporary regulations prevent taxpayers from deducting indirectly, through a pass-through entity such as a partnership, expenses that would not be deductible if paid or incurred directly by such taxpayers. Under Code section 67(g), expenditures related to investment income or property generally are not deductible beginning in 2018. The Management Fee and other expenses of the Fund may constitute such investment income expenditures and thus may not be deductible by an investor. The IRS may assert that the special profit allocation should be treated as an expense of the Fund, rather than as an allocation of profits. If the IRS successfully asserts that position, the special profit allocation also may constitute such an investment income expenditure and not be deductible. If the Fund is deemed to be engaged in a trade or business, then the Management Fee and other such expenses will not be deemed to be such investment income expenditures and this limit will not apply. The general partner, with the advice of

the outside accountants, determines each year whether the Fund is engaged in a trade or business for that year. The IRS may not agree with such determination.

Tax-exempt investors may be subject to unrelated business taxable income as a result of their investment in the Fund.

The tax consequences described herein may not apply to the Fund or the investors. Such matters are subject to change by legislation, administrative action and judicial decisions. Legislation has been proposed from time to time in Congress which, if enacted, could modify the tax treatment of the Fund or the investors. In addition, the Fund may engage in some investments that have uncertain federal income tax consequences. If the IRS challenges any tax position that the Partnership takes and such challenge is sustained, investors may be liable for interest and penalties.

An investor may be liable for taxes under state or local income tax laws of certain jurisdictions in which the Fund operates as well as the jurisdiction of such investor's residence or domicile, which laws vary from one locale to another and which, like federal income tax laws, are complex and subject to change. Special tax considerations also may apply to tax-exempt entities.

Prospective investors are urged to consult their own tax advisers concerning the effect of federal, state and local taxes on an investment with the Adviser.

**Consequences of Prohibited Transactions.** If a transaction in which the Fund engages were to constitute (or were alleged to have constituted) a prohibited transaction under ERISA section 406 or Code section 4975(c) and not qualify for exemptive relief under a statutory, regulatory or administrative exemption, (a) the particular transaction may have to be rescinded or otherwise corrected, with potential substantial losses to the Fund, (b) responsible fiduciaries may be subjected to claims for monetary relief under ERISA section 409, (c) affected parties may assert indemnity or other claims against the Fund, (d) fiduciaries and other parties in interest may be subject to claims for equitable relief, and (e) any party in interest (other than a fiduciary acting solely in that capacity) may be required to pay excise taxes under Code section 4975.

**ERISA Fiduciary Liability.** Fiduciaries of ERISA Plans that invest in the Adviser are subject to the fiduciary responsibility and liability provisions of ERISA.

The Adviser is not a "qualified professional asset manager" (a "QPAM"). At any time that the Adviser is not a QPAM and the assets of the Client are "plan assets," under ERISA section 3(42) and the regulations referred to therein, (a) transactions involving the Client will not be eligible for the DOL prohibited transaction class exemption that otherwise would be available if the Client were managed by a QPAM (although another class exemption may apply), and (b) fiduciaries of Plans that invest will not receive the protection from potential liability that otherwise would apply by virtue of that class exemption.

**Liquidation.** If the Fund becomes insolvent, the investors may be required to return with interest any property distributed that represents a return of capital, repay any distributions wrongfully made to them and forfeit any undistributed profits.

THE FOREGOING RISK FACTORS DO NOT COMPLETELY EXPLAIN THE RISKS INVOLVED IN THIS OFFERING. POTENTIAL INVESTORS MUST READ THE ENTIRE OFFERING CIRCULAR, INCLUDING ALL APPENDICES AND EXHIBITS, AND CONSULT THEIR OWN ADVISERS BEFORE INVESTING IN THE ADVISER.

## **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or a prospective Client's evaluation of Verdad's advisory business or the integrity of Verdad's management.

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

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

Neither Verdad nor any of its management persons or affiliates are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

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

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

### **C. Material Relationships**

Verdad does not have any other relationships or arrangements with any related persons that is material to its advisory business or to its Clients.

### **D. Other Investment Adviser Selection or 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**

Verdad has adopted a written Code of Ethics (the "Code") predicated on the principle that the Adviser owes a fiduciary duty to its Clients. The Code is designed to address and avoid potential conflicts of interest, and is applicable to all officers, directors, members, investors or employees of Verdad (the "Employees"), each Employee's spouse, minor children and other family members living in his or her household (the "Related Persons"), as well as each other individual designated

in writing by a compliance officer as being subject to all or a portion of the compliance procedures or policies adopted by the Adviser (collectively the “Covered Persons”). The Code also covers policies and procedures to protect the confidentiality of Client information. A copy of Verdad’s Code is available upon written request to:

Name: Daniel Rasmussen

Phone Number: (202) 251-6707

Email: [dan@verdadcap.com](mailto:dan@verdadcap.com)

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

Verdad and its employees may hold economic interests in its Funds and thus would have pecuniary interests in such investments made by the Funds, with such interests being on parity with the Funds. As noted in Item 5.A. above, investors affiliated with Verdad, including its employees, may bear no management fees.

## **C. Personal Trading**

Verdad’s Code of Ethics permits employees to invest for their personal accounts, subject to certain guidelines and restrictions. All personal securities transactions by employees must be conducted in accordance with the requirements of Verdad’s Code of Ethics. Among other things, Verdad’s policies require that certain personal securities transactions by employees be approved in advance by Verdad’s compliance department. Employees must report certain personal securities holdings upon employment and periodically thereafter and arrange for certain duplicate confirmations and account statements to be sent to Verdad’s compliance department.

The Adviser requires pre-clearance before purchasing an IPO or limited offering (i.e., private placement); requires periodic reporting of Covered Persons’ personal securities transactions and all holdings; places other restrictions on Employee personal trading; and requires prompt internal reporting of Code violations. Verdad endeavors to maintain current and accurate records of all personal securities accounts of its Covered Persons in an effort to monitor all such activity.

Certain transactions in which Verdad engages may require, for either business or legal reasons that no Covered Person trade in the subject securities for specified time periods. Such securities will appear on a list (the “Restricted List”) that will be circulated to all Covered Persons. No Covered Person may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the Chief Compliance Officer.

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

Conflicts of interest may arise when Verdad or its employees (or a related person) buy or sell securities for Client accounts at or about the same time as it buys or sells the same securities for its own account. In these situations, Verdad addresses actual or potential conflicts of interest in the manner outlined in Items 11.B. and 11.C. above.



## **Item 12: Brokerage Practices**

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

Verdad has complete discretion to determine, subject to each Fund'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 use in effecting the transactions for the Fund, and the commission rates to be paid for such transactions.

### **B. Research and Soft Dollars Benefits**

Verdad or its affiliates may receive from a Fund's broker-dealers products and services in addition to brokerage services. A portion of the commissions generated on the Fund's brokerage transactions may generate "soft dollar" credits that Verdad is authorized to use to pay for research and other non-research related services and products used by Verdad or its affiliates. Verdad may enter into "soft dollar" arrangements with one or more broker-dealers whereby Verdad will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Verdad will use the research and services in making investment decisions for the applicable Funds. Verdad may also enter into "soft dollar" arrangements to cover the Funds' expenses or costs and expenses of Verdad to the extent such arrangements are permitted by law. Verdad has authority to use "soft dollar" credits generated by the Funds' securities transactions to pay for expenses that might otherwise have been borne by Verdad. This may give Verdad an incentive to select brokers or dealers for Fund transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by Verdad rather than giving exclusive consideration to the interests of the Funds.

In the event that Verdad 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 Securities Exchange Act of 1934 or such services that are otherwise reasonably related to the investment decision-making process. 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 services and to pay for the administrative costs and expenses of Verdad creates a conflict of interest between Verdad and the Fund, because the Fund pays for such products and services that are not exclusively for the benefit of the Fund and that may be primarily or exclusively for the benefit of Verdad. To the extent that Verdad is able to acquire these products and services without expending its own resources (including management fees paid by the Fund), Verdad's use of "soft-dollars" would tend to increase Verdad's profitability. In addition, the availability of these nonmonetary benefits may influence Verdad to select one broker rather than another to perform services for the Fund. The Fund's Offering Documents specifically authorize these practices to the fullest extent permitted by law.

### **C. Brokerage for Client Referrals**

Verdad does not consider whether it or a related person receives client referrals from a broker-dealer or a third party when selecting or recommending broker-dealers.

### **D. Directed Brokerage**

Verdad determines the brokers to be used to execute securities transactions on behalf of the Funds and does not solicit or accept directed brokerage instructions from any discretionary Client. For non-discretionary Clients, although the Funds managed by Verdad do not typically require the services of a broker-dealer, if one were required Verdad may use a broker-dealer specified by such Client.

### **E. Aggregation of Orders of Securities for Client Accounts.**

Although the investments of the Funds do not generally require the services of a broker-dealer, Verdad may seek to aggregate orders of securities for the accounts of the Funds where practicable.

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

### **A. Funds.**

Each portfolio investment of the Funds is reviewed by Verdad's investment professionals on a regular basis when deemed appropriate based on the financial performance and communications and other developments related to the investment, but in no event less than on a quarterly basis. These investment professionals monitor operations, overall performance, financial performance and strategic direction of each portfolio investment owned by the Funds. Verdad's investment professionals perform periodic comprehensive reviews. In addition, the investment professionals of Verdad meet on a regular basis to review, among other, things, (i) market events and their effect on investments; (ii) and investment ideas, economic developments and current events, and investment strategies. In addition, the Funds typically retain third party service providers to assist with fund administration, certain back-office functions, valuations, tax reporting and other similar functions. The offering materials and governing agreements for each Fund contain additional specific descriptions of the oversight and monitoring of the portfolio investments of such Fund.

### **B. Separate Managed Accounts**

Verdad reviews all separate Managed Accounts on a regular basis. Such reviews may involve performance and risk analysis and may result in portfolio rebalancing to meet the Clients' investment objectives. Verdad's Separate Managed Accounts have online custodian access to all account details, transactions and other portfolio data on a daily basis.

### **C. Factors that Trigger a Review of a Client Account**

Verdad's investment professionals review the portfolio investments of the Clients on a periodic basis as described above. The Client accounts may be reviewed more frequently if triggered by changes in the market or significant changes in the portfolio assets.

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

Verdad delivers, via its third-party administrator, written financial reports to the investors in the Funds on a quarterly basis. These reports include information relevant to the Fund's investments (and each investor's investment in such Fund). In addition, the investors in the Funds receive written audited annual financial statements of the applicable Fund on an annual basis.

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

Currently, Verdad does not compensate any person for referrals of clients. However, Verdad may enter into such arrangements in the future.

## **Item 15: Custody**

Verdad is deemed to have custody of Fund's securities and cash for the purposes of Rule 206(4)-2 of the Advisers Act.

In order to comply with Rule 206(4)2, Verdad utilizes the services of a bank and other qualified custodians (as defined under Rule 206(4)-2) to hold all cash and securities of the Funds (except with respect to privately offered securities). In accordance with Rule 206(4)2, Verdad also (1) has engaged an independent public auditor to conduct annual audits of the Funds, and (2) distributes audited financial statements of the Funds that are prepared in accordance with United States generally accepted accounting principles to all investors in the Funds within at least 120 days after the end of the fiscal year. Qualified custodians are not expected to provide account statements directly to investors in the Funds.

Managed Account Clients engage an independent broker-dealer/custodian to custody and maintain their clients' accounts. Verdad does not have physical custody or access to the unaffiliated advisor's client assets, monies, or securities. Clients receive and/or have access to account statements directly from the broker-dealer/custodian.

## **Item 16: Investment Discretion**

Verdad generally has discretionary authority to manage the Clients' investments.

## **Item 17: Voting Client Securities**

In the event Verdad is called upon to vote proxies, it will vote such proxies in accordance with the proxy voting policies and procedures in Verdad's compliance manual. Pursuant to SEC Rule 206(4)-6, Verdad has established policies and procedures to address voting procedures and any conflicts of interests involved in a proxy vote between Verdad and the Clients. Verdad's proxy voting procedures are designed to ensure that proxies are voted in a manner that is in the best interest of the Client. Verdad will generally vote in favor of matters that follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and market practices. Verdad addresses conflicts of interest involved in a proxy vote through the following three-step process of identifying potential conflicts of interest, determining material conflicts and establishing procedures to address material conflicts. Verdad may determine not to vote proxies in respect of securities of an issuer if it determines it would be in a Client's overall best interest not to vote. A Client may obtain copies of Verdad's proxy voting policies by contacting the Chief Compliance Officer.

## **Item 18: Financial Information**

### **A. Balance Sheet**

Not applicable.

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

Verdad is not aware of any financial condition that is likely to impair its ability to meet contractual commitments to Clients.

### **C. Bankruptcy Petitions**

Verdad has not been subject to any bankruptcy proceeding during the past 10 years.