

**Item 1. Cover Page**

**Brochure of**

**Faraday Capital, L.P.**

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This brochure provides information about the qualifications and business practices of Faraday Capital, L.P. (“**Faraday**”). If you have any questions about the contents of this brochure, please contact us at (916) 251-7146 or [compliance@faradaycap.com](mailto:compliance@faradaycap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

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

Although Faraday is a “registered investment adviser,” that registration does not imply a certain level of skill or training.

**Item 2. Material Changes**

From March 10, 2023, to December 31, 2023, Faraday’s regulatory assets under management decreased from \$ \$471 million to \$65 million. Effective March 6, 2024, Stephen Henry Brinck Jr. became Faraday’s Chief Compliance Officer.

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

Faraday initially was formed as “Goalkeeper Capital, LLC” in August 2017, and converted into a limited partnership and changed its name effective April 19, 2018. Stephen Henry Brinck Jr. and Bijan E. Pajooi are the principal owners of Faraday and Faraday Capital GP, LLC.

Faraday Capital GP, LLC is a minority owner and general partner of Faraday. Faraday Capital, LP serves as the general partner of the private investment funds Faraday Capital Partners, L.P., Faraday Capital Partners II, L.P. and Faraday Capital Offshore II, L.P., which is a “feeder fund” to Faraday Capital Partners II, L.P., and Faraday Capital Managed Duration, LP (together with any other private funds that Faraday may manage in the future, the “**Funds**”). The investors in the Funds have no opportunity to select or evaluate any Fund investments or strategies. Faraday selects all Fund investments and strategies. The Funds will seek to generate consistent returns in trading within high grade and liquid U.S. municipal market issues while attempting to hedge substantial volatility and interest rate risk through swaps and futures. See Item 8 for more information.

As of December 31, 2023, Faraday had total discretionary regulatory assets under management of approximately \$65 million. Faraday only manages assets on a discretionary basis.

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

##### Fund Fees

Faraday’s compensation from limited partners in the Funds is negotiable and varies, but typically, it charges an annual management fee of approximately 1.75% of the net asset value of each limited partner’s investment in a Fund, due in advance on the first day of each fiscal quarter based on the Fund’s net asset value on that date. Faraday also charges each limited partner in a Fund a performance fee equal to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to such limited partner. Performance fees are assessed in arrears on an annual basis and are only applied to the portion of profits that exceed the cumulative losses previously allocated to the limited partners.

##### General Disclosure

Faraday complies with Rule 205-3 under the Investment Advisers Act of 1940, as amended. Performance fees charged by the Funds may create an incentive for Faraday to make more risky and speculative investments than it would otherwise make.

Faraday typically deducts management fees and performance fees (if any) directly from client accounts.

Accounts that invest in mutual funds or ETFs also pay, indirectly, investment advisory fees to the managers of those funds.

Faraday believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in a Fund, to use the “alternative reporting option” to report Faraday’s compensation as “eligible indirect compensation” on the Schedule C of the plan’s Form 5500 Annual Return/Report of Employee Benefit Plan.

Relationships with each Fund are terminable on expiration of the Fund’s term, dissolution of the Fund or on Faraday’s withdrawal as general partner. Each limited partner may withdraw from the Fund, on sixty days’ prior written notice, on the last day of any fiscal quarter, subject to certain withdrawal limitations set forth in the Fund’s offering circular.

In all cases, expenses, the pro rata portion of the management fee and the performance fee through the date of termination are charged to the account. All prepaid but unearned advisory fees are refunded on termination of a client’s account. A limited partner who withdraws from a Fund on a date other than the last day of a quarter does not receive a refund of the management fee previously paid.

Each account is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. In addition, some of Faraday’s research and brokerage costs and expenses may be paid by securities brokerage firms that execute clients’ securities trades, as discussed in Item 12 below.

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

Faraday currently manages only accounts that pay performance-based compensation as described in Item 5.

#### **Item 7. Types of Clients**

Faraday provides investment advice to the Funds. Investors in the Funds are required to invest a minimum of \$1,000,000, but Faraday may waive this minimum. Faraday may in the future provide investment advice to individually managed accounts. If it does so, it intends only to manage such accounts for non-retail investors.

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

##### Investment Strategies

The Funds seek to generate consistent returns in trading within high grade and liquid U.S. municipal market issues while attempting to hedge substantial volatility and interest rate risk through swaps and futures. The Funds expect to employ a significant degree of leverage through margin and reverse repurchase agreements.

Under normal circumstances approximately 90% of a Fund’s assets will be invested in municipal securities issued by or on behalf of states, territories and possessions of the U.S. and their political subdivisions, agencies or instrumentalities, the interest on which is, in the opinion of

bond counsel to the issuer of such securities, exempt from federal individual income tax (but not necessarily exempt from the AMT), and a Fund's remaining investments will be in short duration municipal bonds, money market instruments, or various hedging positions.

The Funds also may invest in other municipal securities and other fixed income securities, variable rate demand obligations ("VRDOs") and VRDOs in the form of participation interests, preferred stocks, convertible securities, warrants, rights, swaps and other derivative instruments, futures, other commodity interests, private securities, money market instruments, cash and cash equivalents. The Funds also may engage in short selling from time to time.

The investment strategies summarized above represent Faraday's current intentions, are general in nature, and are not exhaustive. There are no limits on the types of securities in which Faraday may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Faraday may use any trading or investment techniques, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Faraday may pursue any objectives or use any techniques that it considers appropriate and in clients' interest.

### Risk Factors

Investing in securities involves risk of loss that clients should be prepared to bear. Below are some of the risks that investors should consider before investing in any account that Faraday manages. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a client or investor may encounter. Potential investors in a Fund should review such Fund's offering circular carefully and, in its entirety, and consult with their professional advisers before deciding whether to invest.

### *Fund Risks*

The following risk factors apply primarily to the Funds, but may apply to other clients:

- Faraday invests in fixed-income investments. 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 declining interest rates, an issuer of fixed-income securities may exercise its option to prepay principal earlier than scheduled, forcing Faraday to reinvest in lower yielding securities. This is known as call or prepayment risk. Municipal bonds 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.

- Faraday invests in municipal securities such as bonds, notes, commercial paper and other instruments (including participation interests in such securities) issued by, or on behalf of, the states, territories and possessions of the U.S. (including their political subdivisions, agencies and instrumentalities). Municipal securities generally are exempt from ordinary federal income tax. As such, the yields and market values of municipal securities may be adversely affected by changes in tax rates and policies compared to taxable fixed-income securities. A municipal security issuer's obligation to pay the principal and interest on that security is subject to bankruptcy, insolvency and other laws affecting creditors' remedies. The value of municipal securities may be negatively impacted to the extent that such laws are amended to extend the time for payment of principal or interest, or otherwise impose constraints on the enforcement of such obligations. Moreover, there is the possibility that as a result of litigation or other conditions, the ability of that issuer to pay the principal or interest on a municipal security when due, may be materially affected.
- Faraday may invest in revenue bonds. Revenue bonds are payable from a specific source of revenue and are not backed by the full faith and credit of an issuer with taxing power. Thus, bondholders cannot compel taxation or legislative appropriation of funds not already pledged for payment of debt service. Revenue bonds typically are issued by private sector corporations (such as hospitals) or public service issuers (such as public utilities companies or transportation authorities) and are supported by the revenues paid by the end users of the financed public project. As such, investments in revenue bonds entail special risks because their yields are dependent on the issuer's and the public project's operational effectiveness and financial management. Moreover, revenue bonds' yields are susceptible to changes in consumer tastes and economic changes affecting the sectors or geographic areas in which the financed public project is conducted. Revenue bond holders typically have no claims on the issuer's other resources.
- Faraday may invest in municipal leases, certificates of participation and "moral obligation" bonds. Investments in these securities entail special risks because an issuer of such securities cannot be legally compelled to appropriate money to enable it to meet its payment obligations under these securities. Therefore, if an issuer of these securities defaults, Faraday may be without recourse and may not be able to obtain another acceptable source of payment.
- Faraday may invest in variable rate demand obligations ("VRDOs"). A VRDO is a tax-exempt obligation that contains a floating or variable interest rate adjustment formula and gives its holder a right of demand to receive payment of the unpaid principal plus accrued interest on a short notice period. The interest rates are adjustable at intervals (ranging from daily to up to one year) to some prevailing market rate for similar investments, such adjustment formula being calculated to maintain the market value of the VRDOs, at approximately the par value of the VRDOs on the adjustment date. The adjustments typically are based on the Public Securities Association Index or some other appropriate interest rate adjustment index. If the underlying issuer of a VRDO defaults or becomes insolvent, such investment's demand features may not be honored, which would limit the repayment of principal and interest.

- There is not and will not be an active market for Fund interests. It may be impossible to transfer any such interests, even in an emergency.
- Faraday and its affiliates may spend time on activities that compete with a Fund without accountability to investors, including investing for other clients and their own accounts. If Faraday receives better compensation and other benefits from managing other assets or client accounts compared to managing a Fund, it has incentive to allocate more time to those other activities. These factors could influence Faraday not to make investments on a Fund's behalf even if such investments would benefit the Funds.
- A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- The Funds do not intend to make distributions but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a Fund without a cash distribution to pay the related taxes.
- Faraday is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity trading adviser or commodity pool operator. The equity interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. Faraday believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, Faraday and any Fund could be subject to expensive legal action and potential termination. In addition, investors in the Funds do not have certain regulatory protection that they would have if these registrations were in place.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.

### *General Risks*

The following risk factors may apply to all client accounts:

- Client accounts may not achieve their investment objectives. A strategy may not be successful, and investors may lose some or all of their investment.
- Faraday may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Faraday also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.
- Faraday invests in investment companies (both mutual funds and ETFs) registered under the Investment Company Act of 1940. 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, client accounts invested in investment companies will be paying two levels of advisory fees -- the

management fee to Faraday and the advisory fee charged by the investment adviser of the investment company in which the client account is invested. Accordingly, the returns realized by those client accounts will be less than the returns they would realize from engaging in the same activities directly.

- Faraday may sell securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Faraday may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. Faraday is not obligated to hedge a client's portfolio positions, and it frequently may not do so.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation or other negative consequences to investors.
- The global coronavirus pandemic has caused and continues to cause disruption in the global economy, unprecedented business and travel disruption and extreme fluctuations in global capital and financial markets. The pandemic has led to significant increases in unemployment levels, a decline in business and consumer confidence and spending, an economic recession in many economies throughout the world and significant increases in federal, state and local deficits and debt may continue. The severity and extent of the impact of the pandemic on the U.S. and global capital and financial markets and economies will depend largely on future developments. A prolonged period of economic contraction or stagnation may adversely affect a Fund's performance and reduce available investment opportunities. Additional effects may arise that cannot be predicted currently, including the impact of the pandemic on a Fund's service providers, a Fund, Faraday and its affiliates.
- Faraday may use leverage by borrowing on margin, selling securities short or entering into swaps and other derivative contracts, which increases volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses.
- Faraday may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- Faraday may cause a client to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.



- Faraday may cause clients to invest in securities of non-U.S., private and government issuers. The risks of these investments include: political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which Faraday does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Faraday may acquire for a client a large position in an issuer's securities, but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if Faraday holds a large position in an issuer's securities, it could depress the market for those securities.
- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a client account has invested may cause significant losses.
- Some of an account's positions may be or become illiquid, in which case Faraday may not be able to sell such positions.
- An account may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly traded securities and may never become publicly traded.
- Faraday determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If Faraday's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- Faraday and its affiliates and agents generally are not responsible to any client or investor for losses incurred in an account unless the conduct resulting in such loss breached Faraday's fiduciary duty to the client or investor.
- The client and not Faraday is responsible for any trade errors that Faraday makes in an account, even when the error may adversely hurt the client.
- If the assets that Faraday and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Faraday to find attractive investments as the amount of assets that it must invest increases.

- No client or investor has been represented by separate counsel. The attorneys who represent Faraday do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.
- Faraday may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or clients.
- An account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Federal, state, and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that Faraday must devote to regulatory compliance, to the detriment of investment activities.
- Faraday's activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- Faraday's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.

The above is only a brief summary of some of the important risks that a client or investor may encounter. Before deciding to invest in a Fund, you should consider carefully all of the risk factors and other information in the Fund's offering circular.

## **Item 9. Disciplinary Information**

Neither Faraday nor its current principals has been involved in any matter that, pursuant to the instructions for Item 9, is presumed to be material to a client's or prospective client's evaluation of its advisory business or the integrity of its management.

Nevertheless, to ensure clients have all information that might be relevant to their decision to establish accounts with Faraday, below is information related to a FINRA complaint filed in 2010 against Mr. Brinck, which was ultimately dismissed by a FINRA Hearing Panel.

In April 2010, FINRA's Department of Enforcement filed a Complaint with FINRA alleging that Mr. Brinck's former employer, Thomas Weisel Partners, LLC ("**Weisel**") and Mr. Brinck violated the 1934 Act, Rule 10b-5 thereunder and NASD Conduct Rules 2120 and 2110 by "stuffing" auction rate securities ("**ARS**") held by Weisel's parent company into three Weisel customers' accounts shortly before the ARS market froze in February 2008. A FINRA Hearing Panel dismissed those claims against Weisel and Mr. Brinck in November 2011. It found "no evidence that either Weisel or Brinck intended to defraud customers or were reckless in selling the ARS to them." A copy of the FINRA Hearing Panel's decision is available from Faraday.

The Complaint also included three other causes of action against Weisel (not Mr. Brinck) related to (a) providing false information to FINRA, (b) providing false information to customers and (c)

failing to have adequate policies and procedures in place governing principal transactions. The Hearing Panel dismissed the first two causes of action. It found only that Weisel violated NASD Rules 3010 and 2110 by not having policies and procedures in place regarding principal transactions and therefore fined Weisel \$200,000.

The FINRA Hearing Panel's decision was upheld in February 2013 after an appeal by FINRA's Department of Enforcement. In particular, the appellate body concluded "with certainty" that the preponderance of the evidence did not support a finding of fraud. A copy of the appellate decision is available from Faraday.

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

Faraday (and Faraday Capital Offshore GP, LLC with respect to Faraday Capital Offshore II, L.P.) acts as a commodity pool operator with respect to the Funds but is exempt from registration with the Commodity Futures Trading Commission.

Faraday has no other reportable financial industry activities or affiliations.

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

Faraday has adopted a Code of Ethics that establishes standards of conduct for Faraday's supervised persons. The Code of Ethics includes general requirements that Faraday's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to Stephen Henry Brinck Jr., Faraday's Chief Compliance Officer (the "CCO") and requires the CCO to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the CCO. Each supervised person of Faraday receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Annually, each supervised person must certify that he or she has complied with the Code of Ethics. Clients and prospective clients may obtain a copy of Faraday's Code of Ethics by contacting the CCO at [compliance@faradaycap.com](mailto:compliance@faradaycap.com) or (916) 251-7146.

Under Faraday's Code of Ethics, Faraday and its supervised persons and employees may personally invest in securities of the same classes as Faraday purchases for clients and may own securities of issuers whose securities that Faraday subsequently purchases for clients. This practice creates a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a client account to profit personally by the market effect of such transactions and recommendations. To address this conflict, except as described in Item 12 regarding aggregating securities transactions, Faraday and its supervised persons, its employees and their family members must obtain the CCO's pre- approval before engaging in any personal securities transactions (whether or not through proprietary accounts), other than long purchases and subsequent sales of any of the following securities: (a) securities issued by the government of the U.S. or any state, (b) money market

instruments (e.g. bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high-quality short-term debt instruments) and (c) shares of money market funds. The pre-approval requirement also applies to securities acquired in IPOs and private placements. The CCO must obtain the prior written approval of a separately appointed employee before effecting any transactions in the CCO's own proprietary accounts.

Faraday solicits investors who may or may not be Faraday's clients to invest in the Funds. Faraday has an incentive to cause a client to invest in a Fund instead of an individually managed account because of the reduced expenses and administrative burdens of managing a Fund compared to an individually managed account, Faraday's performance compensation from a Fund receives more favorable tax treatment than that from an individually managed account and limited partners have less transparency and liquidity than individually managed account clients. Faraday discloses these conflicts of interest to clients and investors.

Because Faraday manages more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Faraday selects investments for each client based solely on investment considerations for that client. Different clients have differing investment strategies and expected levels of trading. Faraday may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client but it is Faraday's policy, to the extent practicable, to allocate investment opportunities to its clients fairly and equitably over time. Faraday is not obligated to acquire for any account any security that Faraday or its supervised persons or employees may acquire for its or their own accounts or for any other client, if in Faraday's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

## **Item 12. Brokerage Practices**

Faraday has complete discretion in selecting the broker or futures commission merchant that it uses for client transactions and the commission rates that clients pay such brokers and futures commission merchants. In selecting a broker or futures commission merchant for any transaction or series of transactions, Faraday may consider a number of factors, including, for example:

- net price, clearance, settlement and reputation;
- financial strength and stability;
- efficiency of execution and error resolution;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- order of call;
- offering to Faraday on-line access to computerized data regarding clients' accounts; and
- computer trading systems

Faraday may also purchase from a broker or futures commission merchant or allow a broker or futures commission merchant to pay for the following (each a "soft dollar" relationship):

- research services;
- economic and market information;
- portfolio strategy advice;
- industry and company comments;
- technical data;
- recommendations;
- research conferences;
- general reports;
- periodical subscription fees;
- consultations;
- performance measurement data;
- on-line pricing;
- news wire charges;
- quotation services;
- computer hardware and software; and
- the availability of stocks to borrow for short trades.

Faraday may receive soft dollar credits based on principal, as well as agency, securities transactions with brokers and futures commission merchants or direct a broker or futures commission merchant that executes transactions to share some of its commissions with a broker or futures commission merchant that provides soft dollar benefits to Faraday.

Section 28(e) of the Securities Exchange Act of 1934 provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If Faraday uses commission dollars to pay for products or services that provide administrative or other nonresearch assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Faraday may pay to a broker or futures commission merchant commissions and mark-ups that exceed those that another broker or futures commission merchant might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker or futures commission merchant provides. Faraday determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Faraday’s overall fiduciary duty to its clients. An account may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Faraday’s brokerage relationships benefit Faraday’s operations as a whole and all accounts that it manages, including those that do not generate the soft dollars that pay for such research and other benefits and accounts of clients that direct Faraday to use a broker or futures commission merchant that does not provide Faraday with soft dollar services. Faraday does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate.

Faraday has retained Pershing, LLC (One Pershing Plaza, Jersey City, NJ 07399), Wells Fargo Securities, LLC. (550 S. Tryon Street, Charlotte, NC. 28202), and RJ O'Brien (222 South Riverside Plaza, Suite 1200, Chicago, IL, 60606) to serve as the Funds' custodians. The services that these firms provide as custodians may include providing custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the brokerage and custody agreements entered into with the Funds. Faraday receives other services from these firms. These services may include technology services (such as internet access and IT support), capital introduction services, portfolio reporting and access to electronic communications networks.

These arrangements may be deemed to be soft dollar arrangements. Faraday expects to use a substantial portion of these services for research and trading on behalf of the Funds, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e) of the 1934 Act. Although many brokers provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if Faraday did not receive these services from these firms, Faraday would be required to pay for all or some portion of them. Faraday expects to direct a significant portion of the Funds' securities transactions to these firms, but is not required to direct a particular number or percentage of trades to them or to continue to use them as the Funds' broker or custodian, but it has an incentive to do so based on their prior and continued services.

Faraday's relationships with brokers and futures commission merchants that provide soft dollar services influence Faraday's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. Faraday has an incentive to select or recommend a broker or futures commission merchant based on Faraday's interest in receiving soft dollar services rather than clients' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Faraday uses soft dollars to pay expenses it would otherwise be required to pay itself.

Faraday addresses these conflicts of interest by periodically evaluating the trade execution services that Faraday receives from the brokers and futures commission merchants that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and futures commission merchants. Faraday considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers or futures commission merchants, increasing or decreasing targets for each broker or futures commission merchant and the appropriate level of commission rates.

During Faraday's last fiscal year, it did not acquire any products or services with client brokerage commissions or markups.

**Trade Aggregation.** Faraday may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Faraday manages or with accounts of its affiliates. In such event, Faraday may charge or credit a client the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the client than it would be if Faraday were not executing similar transactions concurrently for other accounts.

**Broker Referrals.** Faraday may in the future direct a certain amount of brokerage to a broker or futures commission merchant in return for the broker's or futures commission merchant's referral of prospective clients or investors. Directing brokerage in exchange for client or investor referrals creates a conflict of interest in that Faraday has an incentive to refer its clients' brokerage business to brokers and futures commission merchants to which it might not otherwise direct transactions. During its last fiscal year, Faraday did not direct client transactions to a particular broker or futures commission merchant in return for client referrals.

**Directed Brokerage.** If a client directs Faraday to use a specific broker, Faraday has not negotiated the terms and conditions (including, among others, commission rates) relating to the services provided by such broker. Faraday is not responsible for obtaining from any such broker the best prices or particular commission rates. A client that directs Faraday to use a specific broker may not be able to participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable pricing and execution. The client may pay higher commissions and mark-ups than it would pay if Faraday had discretion to select broker-dealers other than those that the client chooses.

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

Each account receives ongoing and continuous investment management and will be subject to supervisory review by Stephen Henry Brinck Jr. and Bijan Pajoohi. Matters generally reviewed include adherence to guidelines established by Faraday relating to specific securities held and adherence to client-established guidelines.

Reviews may be triggered by material market, economic or political events.

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

Faraday has engaged Williams Trading LLC, Castle Hill Capital Partners, Inc. and Layton Road Group (Profor Securities, LLC) to solicit investors for the Funds. Faraday may engage additional solicitors to whom it pays cash, or a portion of the advisory fees paid by clients or investors referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client or investor, and Faraday complies with the other requirements of Rule 206(4)-1 under the Investment Advisers Act of 1940, to the extent required by applicable law.

### **Item 15. Custody**

All cash and securities managed for Faraday's Fund investors are held in custody by unaffiliated broker-dealers or banks. However, Faraday Capital is deemed to have custody of its Funds' assets because of the firm's authority as general partner.

To comply with Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), Faraday will require each Fund with assets over which it is deemed to have custody of, to be audited annually and distribute audited financial statements to all investors. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of a Fund, Faraday Capital will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP.

## **Item 16. Investment Discretion**

Faraday has discretionary authority to manage investment accounts on behalf of clients pursuant to a grant of authority in each Fund's governing documents or a limited power of attorney in each client's account agreement. Except for Faraday's Fund clients, such discretion is limited by the requirement that clients advise Faraday of:

- the investment objectives of the account.
- any changes or modifications to those objectives; and
- any specific investment restrictions relating to the account.

A client must promptly notify Faraday in writing if the client considers any investments recommended or made for the account to violate such objectives or restrictions. A client may at any time direct Faraday to sell any securities or take such other lawful actions as the client may specify to cause the account to comply with the client's investment objectives. In addition, a client may notify Faraday at any time not to invest any funds in the client's account in specific securities or specific categories of securities.

## **Item 17. Voting Client Securities**

Faraday decides whether to vote proxies on behalf of each account over which Faraday has proxy voting authority after considering whether the proposal will have a material effect on the account's investment strategy. This analysis typically leads Faraday to not vote proxies. In determining whether a proposal serves an account's best interests, Faraday considers a number of factors, including:

- the proposal's economic effect on shareholder value.
- the threat that the proposal poses to existing rights of shareholders.
- the dilution of existing shares that would result from the proposal.
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Faraday abstains from voting proxies when Faraday believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Faraday and a client, Faraday will vote all proxies in accordance with the policy described above. If Faraday determines that this policy does not adequately address the conflict of interest, Faraday will notify the client of the conflict and request that the client consent to Faraday's intended response to the proxy solicitation. If the client consents to Faraday's intended response or fails to respond to the notice within a reasonable time specified in the notice, Faraday will vote the proxy as described in the notice. If the client objects in writing to Faraday's intended response, Faraday will vote the proxy as the client directs.

A client can obtain a copy of Faraday's proxy voting policy and a record of votes cast by Faraday



on behalf of that client by contacting Faraday.

**Item 18. Financial Information**

Faraday Capital, L.P. has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to managed client assets.

**Item 19. Requirements for State-Registered Advisers**

Not applicable.

**Privacy Policy**

Faraday and the Funds: (a) collect non-public personal information about clients and investors from the following sources: information received from clients or investors on applications or other forms and information about clients' or investors' transactions with Faraday, its affiliates or others; (b) do not disclose any non-public personal information about their clients or investors or former clients or investors to anyone, except as permitted by law; (c) restrict access to non- public personal information about their clients and investors to their employees who need to know that information to provide services to such clients and investors; and (d) maintain physical, electronic and procedural safeguards that comply with federal standards to guard clients' and investors' personal information.

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