

**SOMERSET CAPITAL ADVISERS. LLC**

**March 30, 2011**

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**This *brochure* provides information about the qualifications and business practices of Somerset Capital Advisors, LLC (“SCA”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this *brochure*, please contact us at (212) 931-9600 or [mschaenen@somersetcap.net](mailto:mschaenen@somersetcap.net). This information 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 SCA is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Registration with the SEC or with any *state securities authority* does not imply a certain level of skill or training.**

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**Item 2. MATERIAL CHANGES**

This brochure represents the first time we have used the SEC's new Form ADV Part 2. Much of the information called for by the form is new and many of our responses, therefore, may differ from those in previous versions of our Form ADV. The last version of our Form ADV Part 2 was released in March of 2010. This brochure, because it is based on the new form, should be reviewed in its entirety.

**Item 3. TABLE OF CONTENTS**

Item 1.	Cover Page.....	1
Item 2.	Material Changes.....	2
Item 3.	Table of Contents.....	3
Item 4.	Advisory Business.....	4
Item 5.	Fees and Compensation.....	4
Item 6.	<i>Performance Based Fees</i> and Side-by-Side Management.....	5
Item 7.	Types of Clients.....	6
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9.	Disciplinary Information.....	10
Item 10.	Other Financial Industry Activities and Affiliations.....	10
Item 11.	Code of Ethics, Participation or Interest in <i>Client</i> Transactions and Personal Trading.....	10
Item 12.	Brokerage Practices.....	11
Item 13.	Review of Accounts.....	13
Item 14.	<i>Client</i> Referrals and Other Compensation.....	14
Item 15.	Custody.....	14
Item 16.	Investment Discretion.....	14
Item 17.	Voting <i>Client</i> Securities.....	15
Item 18.	Financial Information.....	16

#### **Item 4. ADVISORY BUSINESS**

Somerset Capital Advisers, LLC (“SCA”) is an SEC registered investment advisor that was founded in 1999. SCA is jointly owned by its principals, Michael Schaenen, Managing Member and Chief Compliance Officer, and P. Ross Taylor, III, Managing Director and Chief Investment Officer.

SCA provides investment advisory services on a discretionary basis to its clients, who include individuals and institutions with separately managed accounts and pooled investment vehicles intended for sophisticated investors and institutional investors. Separately managed accounts are managed according to the client's needs, investment objectives and specific guidelines, if any. In certain circumstances, clients with separately managed accounts may impose restrictions on investing in certain securities or certain types of securities. SCA does not tailor advisory services to the individual needs of investors in the pooled investment vehicles.

As of February 28, 2011, SCA had approximately \$75 million of client assets under management, all on a discretionary basis.

#### **Item 5. FEES AND COMPENSATION**

SCA charges each client a quarterly investment management fee equal to 0.375% per quarter, or 1.5% per annum.

Investment management fees are charged each quarter in advance based on the net assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the first day of the quarter. If a new client account is established during the quarter or a client or investor in a pooled investment vehicle makes an addition to its account during the quarter, the investment management fee will be charged as of the effective date of the investment management agreement or the date of the additional investment and will be prorated for the number of days remaining in the quarter.

With respect to certain separately managed accounts and its pooled investment vehicle clients, SCA or its affiliate may also be paid or allocated annual performance-based compensation, which is compensation that is based on a share of capital gains on, or capital appreciation of, the assets of a client. This compensation rate is 20% and is subject to a loss carry forward provision.

SCA or its affiliate may waive or reduce the investment management fee or performance-based compensation with respect to certain clients with separately managed accounts and investors in pooled investment vehicles.

All prepaid but unearned investment management fees for separate accounts will be refunded on a pro-rata basis based on the number of days remaining in the quarter. Withdrawals and redemptions from a pooled investment vehicle are dictated by the terms set forth in the offering documents.

Separately managed account clients may select the method by which they would like to pay the investment management fee. SCA generally bills separately managed account clients for investment management fees. With respect to pooled investment vehicles, SCA deducts investment management fees quarterly by instructing the administrator of such pooled investment vehicles to deduct the applicable fee.

In addition to investment management fees and, with respect to certain clients, performance-based compensation, client accounts may also be subject to other expenses such as administrator and registrar and transfer agent fees and expenses, organizational expenses, governmental registration and filing fees, brokerage commissions, custodial fees, interest on borrowed funds, transfer taxes, finder's fees, communications, extraordinary expenses such as litigation, directors' fees and expenses, research expenses, administration expenses, investment related travel expenses, research related travel expenses, telephone calls, investment related consultants' and other service providers' expenses, including fees and expenses for research and statistical services, insurance premiums, printing and mailing costs, all tax, accounting, audit and legal and similar ongoing expenses, including those associated with regulatory compliance matters and investigating potential investments or maximizing return on existing investments and any other ongoing operating expenses. Client assets are invested in ETFs and money market mutual funds. In such cases, the clients bear their pro rata share of the investment management fee and other fees of the underlying fund, in addition to the investment management fee paid to SCA. Clients also incur brokerage and other transaction costs. Please refer to Item 12 of this Brochure for a discussion of SCA's brokerage practices.

#### **Item 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

SCA provides investment management services to multiple portfolios for multiple clients. SCA is entitled to be paid or allocated performance-based compensation by certain separately managed accounts and the pooled investment vehicles. In addition, SCA's investment personnel are typically compensated on a basis that includes a performance-based component. SCA and its investment personnel, including investment personnel that share in performance-based compensation, manage both client accounts that are charged performance-based compensation and accounts that are only charged an investment management fee. Because SCA manages more than one client account, SCA and its investment personnel have an incentive to favor client accounts that pay or allocate performance-based compensation to SCA.

SCA has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. SCA reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also compared at least semi-annually to determine whether there are any unexplained significant discrepancies. In addition, SCA's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate

in investment opportunities pro rata based on asset size and require that, to the extent orders are aggregated, the client orders are price-averaged. Finally, SCA's procedures also require the objective allocation for limited opportunities (such as new issues) to ensure fair and equitable allocation among accounts. SCA's Chief Compliance Officer monitors these areas.

## **Item 7. TYPES OF CLIENTS**

SCA's clients consist primarily of high net worth individuals, pension and profit sharing plans, charitable organizations, and pooled investment vehicles.

SCA generally requires a minimum investment of \$5 million to open a separately managed account. SCA may change or waive this amount.

Initial and additional subscription minimums for investors in pooled investment vehicles are disclosed in the offering memorandum for each pooled investment vehicle.

## **Item 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### *Methods of Analysis and Investment Strategies*

SCA's investment objective is to achieve capital appreciation through long and short equity investing across all market capitalizations with a long-biased G.A.R.P. value discipline and special non-traditional value situation component. Investments consist primarily of U.S. equities, but may also include bonds, ADRs, options and ETFs. SCA's research-driven long/short investment discipline focuses on absolute, not relative, returns.

In the long portion of its portfolios, SCA looks for value that can grow up the style ladder. Utilizing a dynamic investment discipline that is rooted in value, and leveraged by growth, SCA seeks to generate superior long-term results and avoid the "value trap" which can plague traditional value investors.

SCA believes stocks represent ownership in the cash flows of a business and that the markets can be inefficient in valuing them. SCA looks for situations where there is a substantial deviation between what its research suggests the stock is worth and what the shares are trading for in the public marketplace. Once a valuation gap is identified, SCA seeks to understand why it exists and to determine if there is a specific catalyst that can help close it.

SCA benchmarks of value include: EBITDA (earnings before interest, tax & depreciation), free cash flow yields, price to earnings ratio, hidden assets, strategic value, and earnings power that may be masked by an underperforming division or a product transition.

SCA differentiates between “alpha” shorts that focus on companies facing strategic, operational or financial hurdles, from those initiated to reduce volatility or the market risk of the portfolio. SCA primarily uses ETFs and options strategies in an effort to cap the downside risk and reduce the portfolios exposure to sharp market drops. Short positions are generally smaller in size and held for shorter durations than the portfolios long investments.

Hedging is also an integral part of SCA’s approach to investing. Index puts owned long and short are utilized to provide what SCA believes is a reasonable level of protection at an acceptable cost. SCA believes this strategy allows it to keep more capital invested on the long side of the portfolios.

These methods, strategies and investments involve risk of loss to clients and clients and investors in pooled investment vehicles must be prepared to bear the loss of their entire investment.

- Lack of Diversification. Client accounts will not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, client portfolios are subject to more rapid change in value than would be the case if SCA were required to maintain a wider diversification among types of securities and other instruments.
- Short Selling Risk. SCA’s investment program includes short selling. Short selling transactions expose SCA to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by SCA in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur, wherein SCA might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.
- Leverage. Performance may be more volatile if a client’s account employs leverage.
- Hedging. There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while SCA may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for SCA’s portfolios than if SCA did not engage in any such hedging transactions.
- Issuer-Specific Changes. Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can

affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

- Event-Driven Investing Risk. Due to the inherently speculative nature of event-driven investing, the results may fluctuate from period to period and are not expected to correlate with the direction of the equity markets. Accordingly, the results a particular period will not necessarily be indicative of results that may be expected in future periods.
- Frequent Trading. SCA's primary strategy uses frequent trading which results in significantly higher commissions and charges to client accounts due to increased brokerage, which will offset client profits.
- Equity Securities. The value of equity securities fluctuates in response to issuer, political, market and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets.
- Small- to Medium Capitalization Companies. At any given time, there may be significant investments in SCA's portfolios in small- to medium-capitalization companies of a less seasoned nature whose securities are traded in the over-the-counter market. These securities often involve significantly greater risks than the securities of larger, better-known companies.
- Options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause the value of the portfolio to be subject to more frequent and wider fluctuations than would be the case if SCA did not invest in options.
- Derivatives. Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative



instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or SCA. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

- Fixed-Income and Debt Securities. Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject clients' portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.
- Interest Rate Risks. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.
- Illiquid Instruments. Certain instruments may have no readily available market or third party pricing. Reduced liquidity may have an adverse impact on market price and SCA's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for SCA to obtain market quotations based on actual trades for the purpose of valuing a portfolio.
- Non-U.S. Securities. Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent

investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

**Item 9. DISCIPLINARY INFORMATION**

This item is not applicable.

**Item 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

This item is not applicable.

**Item 11. CODE OF ETHICS**

SCA has adopted a Code of Ethics (the “Code”) that obligates it and its supervised persons to put the interests of SCA’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of SCA’s personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Michael Schaenen, Managing Member and Chief Compliance Officer, by email at [mschaenen@somersetcap.net](mailto:mschaenen@somersetcap.net), or by telephone at (212) 931-9600.

SCA, in the course of its investment management activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which SCA has invested or seeks to invest on behalf of clients. SCA is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. SCA maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the firm is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, SCA may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but SCA will be prohibited from communicating such information to the clients or using such information for the clients' benefit. In such circumstances, SCA will have no responsibility or liability to the clients for not disclosing such information to the clients (or the fact that SCA possesses such information), or not using such information for the clients' benefit, as a result of following SCA’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

SCA or its supervised persons may invest in the same securities (or related securities, e.g., warrants, options or futures) that it recommends to clients. Such practices present a potential conflict because SCA or its supervised persons may be in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients’

trades). In addition to affecting SCA's or its supervised persons' objectivity, these practices by SCA or its supervised persons may also harm clients by adversely affecting the price at which the clients' trades are executed. SCA has adopted the following procedures in an effort to minimize such conflicts: A supervised person may not acquire any direct or indirect beneficial ownership in new issues. Further, SCA requires its supervised persons to preclear all transactions in their personal accounts prior to entering any trade with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients. Authorization is effective until the close of business on the day authorization is granted. In addition, SCA's supervised persons are required to instruct that duplicate copies of all brokerage account statements and confirms be sent directly to SCA and to provide an annual certification of such transactions to SCA. Trading in employee accounts are periodically reviewed by the Chief Compliance Officer and compared with transactions for the client accounts.

## **Item 12. BROKERAGE PRACTICES**

SCA considers a number of factors in selecting a broker-dealer to execute transactions and determining the reasonableness of the broker-dealer's compensation. Such factors include the financial stability and reputation of brokerage firms and the research, brokerage or other services provided by such brokers. In selecting a broker-dealer to execute transactions and determining the reasonableness of the broker-dealer's compensation, SCA need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not SCA's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. SCA's Chief Compliance Officer and Chief Investment Officer evaluate the broker-dealers used by SCA to execute client trades on a quarterly basis using the foregoing factors.

SCA receives research or other products or services other than execution from a broker-dealer in connection with client securities transactions. This is known as a "soft dollar" relationship. SCA will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit

orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations.

When SCA uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, SCA's Chief Compliance Officer and Chief Investment Officer periodically review and evaluate SCA's soft dollar practices to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or SCA's overall responsibilities to the accounts or portfolios over which SCA exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, SCA will not have to pay for the products and services itself. This creates an incentive for SCA to select or recommend a broker-dealer based on its interest in receiving those products and services.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by SCA in its other investment activities, including for the benefit of other client accounts. SCA does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

During SCA's last fiscal year, as a result of client brokerage commissions (or markups or markdowns), SCA and/or its related persons received research reports, attended conferences, held discussions with research analysts and had meetings with corporate managements, among other things.

SCA has entered into "client commission arrangements" pursuant to which SCA may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to SCA. SCA excludes from use under these arrangements those products and services that are not eligible under Section 28(e) and applicable regulatory interpretations.

When appropriate, SCA aggregates client orders for the purchase or sale of the same security submitted contemporaneously for execution using the same executing broker to achieve more efficient execution or to provide for equitable treatment among client accounts. Clients participating in aggregated trades are allocated securities based on the average price achieved for such trades. Such aggregation may enable SCA to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, brokerage commission rates are not necessarily reduced as a result of such aggregation. In some instances, average pricing may result in higher

or lower prices than otherwise obtainable by a single client. When an aggregated order is completely filled, SCA allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. If an aggregated order is only partially filled, SCA's procedures provide that the securities or proceeds are to be allocated pro rata to all participating clients.

Under certain circumstances, SCA may permit clients with separately managed accounts to direct SCA to execute the client's trades with a specified broker-dealer. If a client with a separately managed account directs SCA to use a specified broker-dealer to execute all or a portion of the client's securities transactions, SCA treats the client direction as a decision by the client to retain, to the extent of the direction, the discretion SCA would otherwise have in selecting broker-dealers to effect transactions and in negotiating commissions for the client's account. Although SCA attempts to effect such transactions in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which case SCA will comply with the client's instructions.

A client who directs SCA to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain costs or disadvantages to the client. Such costs may include higher brokerage commissions (because SCA may not be able to aggregate orders to reduce transaction costs), less favorable execution of transactions, and the potential of exclusion from the client's portfolio of certain foreign ordinary shares and/or small capitalization or illiquid securities due to the inability of the particular broker-dealer in question to provide adequate price and execution of all types of securities transactions. When a client directs SCA to execute the client's trades through a specified broker-dealer, SCA makes no attempt to negotiate commissions on behalf of the client and, as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specified broker-dealer and upon other factors such as number of shares, round and odd lots and the market for the security. The commissions charged to clients that direct SCA to execute the client's trades through a specified broker-dealer may in some transactions be materially different than those of clients who do not direct the execution of their trades. Clients that direct SCA to execute the client's trades through a specified broker-dealer may also lose the ability to negotiate volume commission discounts on batched transactions that may otherwise be available to other clients of SCA.

### **Item 13. REVIEW OF ACCOUNTS**

A member of SCA's investment team reviews all portfolios on a daily basis to determine whether securities positions should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and performance of each client account. In addition, positions are reconciled daily with the custodians.

Each client will receive a quarterly letter reviewing events for the prior period and summarizing SCA's current market outlook. Monthly performance reports and any other account data, such as transaction reports and portfolio appraisals, are available to clients

with separately managed accounts upon request. Investors in pooled investment vehicles receive reports from such pooled investment vehicle pursuant to the terms of its offering memorandum or as otherwise described in its offering document.

#### **Item 14. CLIENT REFERRALS AND OTHER COMPENSATION**

SCA receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for SCA to select or recommend broker-dealers based on SCA’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by SCA. Please see Item 12 for further information on SCA’s “soft-dollar” practices.

SCA does not currently engage any third-party solicitors for client referrals. However, it does compensate third parties for prior referrals. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

#### **Item 15. CUSTODY**

This item is not applicable.

#### **Item 16. INVESTMENT DISCRETION**

SCA provides investment advisory services on a discretionary basis to clients pursuant to a grant of authority in the investment management agreement and/or limited partnership agreement. Unless otherwise instructed or directed by a discretionary client, SCA has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. SCA may consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is SCA’s policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead SCA to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a pari passu basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type divided by the total assets of all accounts eligible to invest in the particular investment.

Allocations will be made among client accounts eligible to participate in new issues and secondary offerings on a pro rata basis, except when SCA determines in its discretion that a pro rata allocation is not appropriate, which may include a client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and an investor's status as a "restricted person" under applicable regulations.

SCA may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable SCA to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. SCA has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

If it appears a trade error has occurred, SCA reviews the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, SCA's error correction procedure is to ensure that *clients* are treated fairly and, following error correction, are in the same position they would have been if the error had not occurred. In the event that a client account incurs a trade error as a result of SCA's gross negligence, willful misconduct, or fraud, trade errors will be corrected by SCA as soon as practicable, in a manner such that the client incurs no loss. Similarly, trade errors that result other than by breach of the standard of care above are corrected as soon as practical and no costs are borne by the client account.

#### **Item 17. VOTING CLIENT SECURITIES**

When SCA has discretion to vote the proxies of its clients, it will endeavor to vote those proxies in the best interest of its clients and in accordance with its proxy voting policies and procedures. Because SCA votes in what it believes to be the best interests of each particular client, it may happen that voting results could differ for proxies for the same issuer.

To the extent SCA has been delegated proxy voting authority on behalf of its clients, SCA complies with its proxy voting policies and procedures that are designed to ensure that in cases where SCA votes proxies with respect to client securities, such proxies are voted in the best interests of its clients, which may result in different voting results for proxies for the same issuer.

If a material conflict of interest between SCA and a client exists, SCA will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. SCA does not make any qualitative judgment regarding its client's investments. If a

material conflict exists, SCA determines whether it is appropriate to disclose the conflict to the affected clients and give those clients the opportunity to vote their proxies themselves. In the case of ERISA clients, if the investment management agreement reserves to the ERISA client the authority to vote proxies when SCA determines it has a material conflict that affects its best judgement as a ERISA fiduciary, SCA will give the ERISA client the opportunity to vote the proxies themselves.

Clients may obtain a copy of SCA's proxy voting policy and record of votes cast by contacting Michael Schaenen at (212) 931-9600 or [mschaenen@somersetcap.net](mailto:mschaenen@somersetcap.net).

**Item 18. FINANCIAL INFORMATION**

This item is not applicable.