

## SOMERSET CAPITAL ADVISERS, LLC

October 31, 2016

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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 is Somerset Capital Advisors' narrative Brochure prepared in accordance with Part 2A of Form ADV. The following changes have been made since the previous filing dated March 29, 2016.

- Added our website to the cover page
- Item 5. Fees and Compensation  
Provided additional disclosure regarding potential trading costs when trading away from a client's custodian
- Item 12. Best Practices  
Provided additional disclosure regarding trade rotation regarding directed brokerage accounts

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

Somerset Capital Advisers, LLC (“SCA”) is an SEC registered investment advisor founded in 1999. The firm is wholly owned by Artemis U.S. III LLC, an affiliate of Artemis Investment Management Limited, an SEC registered investment advisory firm headquartered in Toronto, Ontario, Canada, which in turn is owned by Artemis Investment Management Corporation of which Mr. Miles Nadal is the controlling shareholder. The principals of Somerset are Michael Schaenen, Managing Member, and P. Ross Taylor, III, Managing Director and Chief Investment Officer.

SCA provides investment advisory services on a discretionary basis to its clients, including individuals and institutions with separately managed accounts (“SMA”) and pooled investment vehicles intended for sophisticated investors and institutional investors. SMA’s are managed according to the client’s needs, investment objectives and specific guidelines. In certain circumstances, clients with an SMA 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 vehicle.

As of December 31, 2015 SCA had approximately \$67 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 of 0.375% per quarter, or 1.5% per annum.

These are charged each quarter in based on the net assets in the client’s 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 an investor in the pooled investment vehicle makes an addition to his/her 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 SMA and pooled investment vehicle clients, SCA or its affiliate may also be paid or allocated annual performance-based compensation, which 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 SMA 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 the pooled investment vehicles are dictated by the terms set forth in the offering documents.

Clients with SMA's may select the method by which they prefer to pay the management fees; they may be paid directly from the account, or billed separately. With respect to the pooled investment vehicles, the fund's outside administrator will calculate and deduct the applicable fee.

In addition to 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 (please refer to Item 12 of this document for a discussion of our brokerage practices)
- custodial fees
- interest on borrowed funds (relative to short-sales or purchases on margin)
- transfer taxes
- finder's fees
- communications expenses
- extraordinary expenses such as litigation costs
- investment related travel expenses
- legal and accounting fees, including those associated with regulatory or compliance matters
- investment related consultants' and other service providers' expenses, including charges for research and statistical services
- insurance premiums
- Additional trading costs levied by the client's custodian for trading away
- Client assets may be invested in ETFs and money market mutual funds. In such cases, they will bear their pro rata share of the investment management fee and other fees charged by the underlying fund, in addition to the investment management fee paid to SCA.

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

SCA provides investment management services to multiple portfolios. The firm is paid or allocated performance-based compensation by certain SMA and by the pooled investment vehicles. In addition, the compensation of SCA's investment personnel might include a performance-based component. Because of this, both the firm and its investment personnel have an incentive to favor client accounts which pay or allocate performance-based compensation to SCA over those only pay a management fee.

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 significant unintended discrepancies. In addition, SCA's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities *pari passu* 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.

A minimum investment of \$5 million is generally required to open an SMA; however, SCA may change this amount, at its sole discretion.

Minimum subscription levels for both initial and additional investments in the pooled investment vehicle are disclosed in the offering documents.

#### **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, employing 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 rooted in value and leveraged by

growth, SCA seeks to generate superior long-term results and to avoid the “value trap” which can plague traditional value investors.

SCA believes stocks represent ownership in the cash flows of businesses and that the markets can be inefficient in valuing those interests. SCA looks for situations where there is a substantial disparity between what its research suggests the stock to be worth and its share price in the public marketplace. Once such a valuation gap is identified, SCA seeks to understand why it exists and attempts to determine whether there is a specific catalyst which can help in closing it. In certain situations the firm will assume a more active role by working with company managements in forming strategies which could help to maximize shareholder value.

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

Hedging is also an integral part of SCA’s approach to portfolio management. Index puts, both long and short, are utilized to provide what SCA believes to be 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.

The investment strategy involves the possible risk of loss, and clients must be prepared to bear the loss of their entire investment. Other risks SCA’s clients are exposed to include:

- Lack of Diversification. Client accounts will not be diversified among a wide range of securities, countries or industry sectors. Accordingly, 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 approach includes short selling. This strategy carries the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly with no effective limits. There is also the risk that the securities borrowed in connection with a short sale might need to be returned to the lender on short notice. If this occurs at a time when other short sellers of the same security are receiving similar requests, a “short squeeze” can occur. In this event SCA would be compelled to replace the borrowed securities by purchases in the open market, possibly at prices significantly in excess of the proceeds received earlier.

- Leverage. Performance may be more volatile if leverage is employed.
- Hedging. There can be no assurances that a particular hedge will be effective, or that inherent risk has been measured precisely. Thus, while the intent is to reduce risk, such transactions may result in poorer overall performance and increased, rather than reduced portfolio risk than if such hedging transactions had not been employed.
- 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 in any particular period will not necessarily be indicative of results that may be expected in future periods.
- Frequent Trading. SCA's primary strategy sometimes requires frequent trading, which results in significantly higher commissions and charges to client accounts; this could offset profits.
- Equity Securities. The value of equity securities fluctuates in response to developments with the issuer, as well as political, market and economic events. Fluctuations can be dramatic over the short or long term, and different sectors of the market and different types of equity securities can react differently to these developments. Political or economic developments can affect a single issuer, or the market as a whole. Changes in the financial condition of a single large issuer can also impact the market as a whole.
- Small- to Medium Capitalization Companies. The firm may make significant investments 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 which entail greater than ordinary investment risks. Option premiums paid to or received by an investor are relatively small in relation to the market value of the investments underlying the options; therefore buying and selling put and call options can result in large amounts of leverage. As a

result, such leverage could cause the value of the portfolio to be subject to more volatility than would be the case if options were not employed.

- Derivatives. Swaps, certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument. This includes 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 SCA. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and can expose the client's account to greater risks than regulated exchange transactions, which 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 client portfolios to the risk that the value of these securities will decline because of rising interest rates. Conversely, portfolios holding 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. Finally, investments in lower-rated debt securities will also subject those investments to the risk that the securities may fluctuate more in price, and be less liquid than higher-rated securities. They are financially weaker, and thus are more likely to encounter financial difficulties as well as being 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 upon 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 the issuer's creditworthiness. 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.

**Item 9. DISCIPLINARY INFORMATION**

Neither SCA nor any of its management persons have any legal or disciplinary events within the past ten years.

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

SCA is a related person of Artemis Wealth, LLC, an SEC registered investment advisor.

SCA is a related person of PS Management Inc., an SEC registered investment advisor.

SCA is a related person of A.R. Schmeidler & Company Inc., an SEC registered investment advisor.

SCA is a related person of ARS Advisors LLC, an SEC registered investment advisor.

SCA is a related person on Artemis Investment Management Limited, an SEC registered investment advisor, and an Ontario Securities Commission (OSC) registered investment fund manager, portfolio manager, exempt market dealer and commodity trading manager.

SCA is a related person of Vestcap Investment Management Inc., an OSC registered portfolio manager.

**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, Chief Compliance Officer, at (212) 931-6588.

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 addresses these issues in their Code of Ethics which specifically prohibits supervised persons from purchasing or selling, directly or indirectly, any security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership where such transaction is in conflict with the interest with clients. 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. 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 firm 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 periodic 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, the firm and its related persons used client brokerage commissions (or markups or markdowns) to pay for research reports and services (Bloomberg & Thompson Reuters), attend conferences, hold discussions with research analysts and have 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, SMA clients may be permitted to direct SCA to execute the client's trades with a specified broker-dealer. If this occurs 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. 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, such orders are typically traded subsequent to non-directed accounts 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 that particular broker-dealer 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 who 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 an on-going 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 SMA clients upon request. Investors in pooled investment vehicles receive reports pursuant to the terms of the offering document or as otherwise described in the 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. Such arrangements create an incentive for SCA to select or recommend broker-dealers based on an interest in receiving their research or other products or services and may result in the selection of a broker-dealer on the basis of considerations which are not limited to the lowest commission rates and which may result in higher transaction costs than would otherwise be obtainable. (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 certain 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**

SCA does not have actual custody of any client assets. However, it is deemed to have custody of client assets for certain of its Fund clients for which SCA or a related person of SCA serves as general partner. In accordance with Rule 206(4)-2, audited financial statements are furnished to Fund clients.

Clients are urged to carefully review all statements and to contact SCA if they have any questions.

## **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 client portfolios 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 which are typically managed on a *pari passu* basis may from time to time receive differing proportions of securities as calculated by dividing the total assets of each account eligible to invest in the particular investment by the total assets of all such accounts.

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. This could be due to factors such as 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. This could possibly avoid an unfavorable price movement that may be created through entrance into the market and could also save commission costs for both accounts. Cross transactions include rebalancing transactions which are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially alike. 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 plans or other similar accounts which are subject to ERISA.

If a trade error appears to have occurred, SCA reviews the relevant facts and circumstances to determine an appropriate course of action. SCA's error correction procedure is to ensure that *clients* are treated fairly and that following the error's

correction they are in the same position they would have been in 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 from reasons other than by breach of the standard of care described above are corrected as soon as practical, and no costs are borne by the client.

**Item 17. VOTING CLIENT SECURITIES**

When SCA has discretion to vote the proxies of its clients, it will endeavor to vote those proxies in their best interests and in accordance with its proxy voting policies and procedures. Because SCA votes in what it believes to be the best interests of each individual client, voting results could differ 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. If it deems that is not the case, it will 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 to give those clients the opportunity to vote their own proxies. 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.

**Item 18. FINANCIAL INFORMATION**

This item is not applicable.