



## MCCABE CAPITAL MANAGERS, LTD.

*2011 Renaissance Boulevard, Suite 210, King Of Prussia, PA 19406*

*Tel.: (610) 277-8890 Fax: (610) 277-6903 [www.mccabecapital.com](http://www.mccabecapital.com)*

### **Item 1 – Cover Page**

## **Firm Brochure (Part 2A of Form ADV)**

**Date Prepared: July 27, 2011**

This Brochure provides information about the qualifications and business practices of McCabe Capital Managers, Ltd. If you have any questions about the contents of this Brochure, please contact McCabe at (610) 277-8890. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

McCabe Capital Managers, Ltd. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about McCabe Capital Managers, Ltd. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# MCCABE CAPITAL MANAGERS, LTD.

## **Item 2 – Material Changes**

James L. McCabe is a Director and shareholder of both Green Cay Asset Management Ltd. (“GCAM”) and Green Cay Private Client Ltd (“GCPC”). GCPC is an international business company organized under the laws of the Bahamas that provides investment advice to non-US high net worth investors. GCAM is an international business company formed under the laws of, and domiciled in, The Bahamas.

James L. McCabe does not provide investment advice to GCPC and McCabe does not recommend that its clients invest with Green Cay Private Client Ltd.

McCabe acts as investment advisor to the The Siebels Multifund (Cayman), Ltd., an exempted company with limited liability formed under the laws of the Cayman Islands (“the Company”). GCAM acts as the investment manager to the Fund.

Whenever you would like to receive a complete copy of McCabe’s Firm Brochure, please contact Adrea Scaramucci by telephone at: (610) 277-8890 or by email at: [adrea@mccabecapital.com](mailto:adrea@mccabecapital.com).

Additional information about McCabe is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with McCabe who are registered, or are required to be registered, as investment adviser representatives of McCabe.

# MCCABE CAPITAL MANAGERS, LTD.

## Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees and Side-By-Side Management .....	7
Item 7 – Types of Clients.....	7
Item 8 –Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9 – Disciplinary Information .....	17
Item 10 – Other Financial Industry Activities and Affiliations .....	17
Item 11 – Code of Ethics .....	19
Item 12 – Brokerage Practices .....	22
Item 13 – Review of Accounts.....	25
Item 14 – Client Referrals and Other Compensation.....	25
Item 15 – Custody.....	25
Item 16 – Investment Discretion .....	26
Item 17 – Voting Client Securities.....	27
Item 18 – Financial Information.....	27
Brochure Supplement(s)	

# MCCABE CAPITAL MANAGERS, LTD.

## **Item 4 – Advisory Business**

### **Firm Description**

McCabe Capital Managers, Ltd. (“McCabe”) has provided clients with investment management, manager selection and monitoring, asset allocation, and other financial services since 1982 when the Firm was founded by James L. McCabe. Additionally, McCabe assists financial institutions with advice regarding alternative investments, emerging markets, and socially responsible investing.

McCabe currently advises a diverse range of clients, including high net worth individuals and families, trusts, charitable organizations, endowments, corporations, investment partnerships and other SEC registered advisors.

### **Principal Owner**

McCabe is wholly owned by Drexel Morgan & Co. (“Drexel Morgan”), a financial holding company and federally registered investment advisor. Drexel Morgan owns The Haverford Trust Company (“Haverford Trust”) which in turn owns Haverford Trust Securities, Inc. (“HTS”), a broker-dealer. George Connell, Sr. is the sole owner of Drexel Morgan and Haverford Financial Services, Inc. (“Haverford Financial”), a federally registered investment advisor. Mr. Connell acts as President to Drexel Morgan and as Vice Chairman to Haverford Trust, HTS and Haverford Financial.

### **Advisory Services**

McCabe provides asset allocation advice to clients and advises clients on a discretionary and non-discretionary basis as to the appropriate allocation of their assets among various investments in different asset classes with different levels of risk and return.

In connection with this service, McCabe may directly purchase or sell securities in client accounts, recommend mutual funds, exchange-traded funds or other alternative investment products and/or select and recommend sub-advisors or unaffiliated investment advisors to manage a portion of a client portfolio.

Client investments may include, but are not limited to, equity and fixed income securities, exchange-traded funds, mutual funds, limited partnerships, commodity futures, options, managed accounts, hedge funds, private equity, and venture capital investments or other alternative investments.

Clients may choose to contract with an unaffiliated investment advisor, on McCabe’s recommendation, to manage portions of their portfolio on a discretionary basis, as determined by the overall client investment objective. The sub-advisors or unaffiliated

# MCCABE CAPITAL MANAGERS, LTD.

investment advisors determine the type and quantity of securities to be bought and sold, the broker or dealer to be used, and the commission paid.

In some instances, McCabe will directly manage securities portfolios for clients on a discretionary (authorized to execute transactions for clients without client prior approval) and non-discretionary basis (required authorization from the client prior to executing transactions) as authorized by the contract between McCabe and McCabe's clients. If a client chooses to hire McCabe on a discretionary basis, McCabe maintains investment discretion as to which investments shall be purchased or sold in a client's account in a manner consistent with the respective client's investment objectives, policies and restrictions, as applicable. McCabe has authority to determine which securities, and the number of securities, to be bought or sold in discretionary accounts only.

McCabe also acts as a fiduciary advisor to certain clients. As fiduciary advisor, McCabe sets investment policy and guidelines; makes and implements asset allocation decisions; selects, supervises and monitors the outside unaffiliated investment managers; and reports to the fiduciary or other person responsible for overall management of the assets.

McCabe furnishes continuous advice and service to an investment advisory client only after exploration and analysis of the client's investment objectives and financial position.

Investment decisions are determined by the goals set by the owners of the accounts. Clients may limit McCabe's authority by prohibiting or limiting transactions of certain securities or industry groups. In addition, the client may further limit McCabe's authority by requiring that all or a portion of client's transactions be executed through client's designated broker/dealer.

In determining the investment management style to be used by McCabe for the individual needs and financial situation of each client, McCabe relies on the Financial Objective and Profile completed by the prospective client, which includes, among other things, certain financial and relevant information including the client's investment objectives, risk tolerances and investment restrictions, as applicable, or on such other information provided by the client to McCabe from time to time.

McCabe holds a series of discussions with the client to thoroughly evaluate the client's current financial and tax position and to carefully assess the client's investment goals, constraints, and risk tolerance. McCabe assists the client with setting appropriate goals, reviewing them periodically with the client, and adjusting them as changes are dictated by structural adjustments to capital markets or new circumstances being introduced into the client-specific landscape.

Some of McCabe's clients request asset performance reports for investments that are not under McCabe's advisement. McCabe has not participated in the selection or purchase of such investments and assumes no responsibility or liability for the on-going due diligence, research or appropriateness of the investment for the client. McCabe provides this service at no additional fee.

## MCCABE CAPITAL MANAGERS, LTD.

McCabe does not hold itself out as a financial planner, but upon occasion, will perform one-time or event driven consultative services relating to financial planning for clients referred to it or for existing clients. For example, McCabe may be requested to evaluate the liquidity of a client's assets for estate planning purposes. In addition, McCabe also provides advice on tax shelters, privately held corporations, the performance of bank fiduciaries, estimates of fair market value, financial policy of publicly held corporations and other investment matters.

McCabe generally invests the assets of clients in registered and unregistered investment funds that are managed by it and third-party investment managers who employ a variety of investment strategies. The limited partnership strategies are commonly referred to as funds of funds. McCabe selects these investment funds on the basis of, among other things, the investment strategies utilized by these investment funds, quantitative measures and qualitative analysis. On the quantitative side, McCabe looks for strong relative performance, adherence to a distinct and repeatable style, and an acceptable level of risk. On the qualitative side, McCabe looks for an organization with stability, depth, and coherent investment philosophies and risk control processes. McCabe may invest client assets in partnership interests investing in hedge funds with strategies in publicly traded securities.

Under an Investment Advisory Agreement dated February 22, 2010, between McCabe and Red Wing Management II, LLC, ("the General Partner"), the General Partner appointed McCabe to act as investment advisor to the International Allocation Fund ("the Fund"). James L. McCabe is the sole member of Red Wing Management II, LLC. The Fund is an interest in Glamorgan Partners, L.P., a Delaware limited partnership (the "Partnership"). The General Partner exercises ultimate authority over the Partnership and is responsible for its day-to-day operations. McCabe is responsible for investing the Partnership's assets. Interests in the Partnership may be sold in one or more series of limited partnership interests (each a "Series"), each having such relative rights and preferences, including, without limitation, with respect to fees and incentive allocations, and pursuing such investment strategies as determined by the General Partner in accordance with the Partnership Agreement. The General Partner has the authority to establish different management fees for different limited partnership interests in the Fund. The minimum initial subscription by a Limited Partner for the Fund Interests is \$250,000 subject to increase at the General Partner's discretion. The General Partner may waive such minimum in its sole discretion.

McCabe advises SEC registered investment advisors which provide specialized investment products, including hedge funds and socially responsible funds, to institutional clients, as well as an offshore investment advisor which manages a group of hedge funds.

Under an Investment Sub-Advisory Agreement dated September 29, 2005, between McCabe and SALI Fund Management, LLC ("Investment Advisor"), Investment Advisor appointed McCabe to act as an investment sub-advisor to the McCabe Multi-Manager Insurance Fund, Genspring-McCabe Insurance Fund, and the McCabe/Natural Investments

# MCCABE CAPITAL MANAGERS, LTD.

SRI Insurance Fund, together (“Funds”). The Funds are interests in the SALI Multi-Series Fund I, L.P. or the SALI Multi-Series Fund II, L.P., both Delaware limited partnerships (“Partnerships”).

Pursuant to the Sub-Advisory Agreement, McCabe is responsible for: conducting initial and ongoing due diligence on the underlying funds, managers, and investment strategies; monitoring the performance of all underlying investments and suggesting changes to the investments, including allocations, as necessary; providing investment recommendations to the Investment Advisor who has discretion to accept or reject said recommendations; providing an investment mandate, which describes the investment style, and details of the potential risks associated with investments in the Funds; assisting the Investment Advisor in the creation of marketing materials and, as appropriate, providing periodic client service communication, typically a narrative on past performance and outlook on future directions.

The Partnerships’ general partners, SALI Fund Partners, LLC and SALI Fund Partners II, LLC (the “General Partners”), exercise ultimate authority over the Partnerships and are responsible for their day-to-day operations. The Investment Advisor is responsible for investing the partnerships’ assets.

Investments in the Partnerships are available only to insurance company investors on behalf of certain of their segregated separate accounts for owners of variable life insurance and variable annuity contracts. If appropriate, McCabe may recommend investment in these Partnerships to its clients.

McCabe acts as investment advisor to the The Siebels Multifund (Cayman), Ltd., an exempted company with limited liability formed under the laws of the Cayman Islands (“the Company”). McCabe is responsible for allocating and reallocating assets of the Company to the various Funds and selecting the Other Investments to be acquired by the Company. Green Cay Asset Management Ltd., an international business company formed under the laws of, and domiciled in, The Bahamas, acts as the investment manager to the Funds.

Investment in alternative investment products requires that the investor meet certain suitability standards, and therefore, investment in these alternative investment products may not be suitable for all investors.

McCabe’s services are terminable by McCabe or the client upon notification in accordance with the applicable contractual notice provision contained in the investment advisory contract.

As of December 31, 2010, McCabe advises on over \$1.38 billion in assets. Approximately \$1.04 billion involves assets under management for accounts receiving continuous and regular supervisory or management services, including \$220 million on a discretionary basis and \$820 million on a non-discretionary basis. The remainder (approximately \$342 million) involves consulting assets where McCabe provides continuous and regular

# MCCABE CAPITAL MANAGERS, LTD.

supervision for assets under management with other investment advisers. In addition, McCabe is a member of a multi-advisor investment committee for a client whose assets are over \$280 million.

## **Item 5 – Fees and Compensation**

Clients generally compensate McCabe for advice and service according to an annual fee schedule, based on the value of a client's account at the end of each calendar quarter. Fees are negotiable and therefore may vary by client.

### **Direct Management Fees**

McCabe's annual fee can range from .50% to .85% with a minimum annual fee of \$5,000. The percentage of management fee assessed against the account typically depends on the size of the account (assets under management), type of asset class, securities used (i.e., stocks, bonds, mutual funds, exchange-traded funds, cash, etc.) and the amount of predicted time devoted to the management process. Fee amounts, including minimum fees, may also differ due to the type of account held by the client.

### **Asset Allocation Services**

McCabe's annual fee can range from .1% to .75% of the total account assets under advisement. The percentage of fees assessed against the account depends on the size of the account and the advisory services requested. McCabe may charge a flat fee.

The specific manner in which fees are charged by McCabe is established in the client's written agreement with McCabe. McCabe's fee is based on the total value of the account on the last day of the management period.

The basic fee schedules above may be modified upon mutual written agreement between McCabe and the client. Some of McCabe's clients may have fee schedules that differ from the above due to prior contractual relationships.

McCabe also acts as a fiduciary advisor to certain clients. Fees for fiduciary advisory services described above are negotiable depending upon the size of the asset base and the scope and complexity of the services involved.

There are some important exceptions to these fee schedules.

In some situations where McCabe is advising a professional fiduciary acting as, or an attorney advising, a trustee or executor, or if McCabe is advising in conjunction with another advisor, McCabe will either charge a flat fee, a fee based on hourly rates, or a discount from the standard rates. McCabe may also provide eleemosynary discounts. All fees will be agreed upon in advance. The hourly rate varies depending on the professional



## MCCABE CAPITAL MANAGERS, LTD.

level of the personnel required to support the service. The hourly rates are currently: \$300 - \$350 per hour for the President and \$175 - \$300 per hour for related persons. The flat fee is negotiated, takes into account the size of the portfolio and the experience of the fiduciary, and generally is significantly less than the corresponding fee above.

In accounts \$10 million and over, McCabe will, under certain circumstances, also agree to charge a reduced market value, hourly rate or flat fee. In this case, the size of the discount will be based on, among other things, the anticipated growth in the value of the account due to additional contributions. In its sole discretion, McCabe may charge a flat annual fee of \$250 per account for accounts of its employees or their dependents.

On occasion, McCabe will perform one-time or event driven consultative services relating to financial planning for clients referred to McCabe or to existing clients. Fees for these services are either based on hourly rates or are negotiated. If negotiated, fees are based upon the type and complexity of the services performed.

As part of the investment advisory services provided to clients, McCabe will advise such clients on the performance of other investment advisors of such clients. Fees for this are either included in the market value based compensation at full or discounted rates or the hourly rate fees, depending on the account.

McCabe is the investment advisor to the International Allocation Fund, ("the Fund") and receives a fee for its management services. McCabe may elect to invest all or a significant portion of a client's assets in the Fund, in which case this fee is waived for limited partnership interests subject to a management fee by McCabe under a separate investment management agreement.

McCabe receives an advisory fee for acting as sub-advisor to the McCabe Multi-Manager Insurance Fund, Genspring-McCabe Insurance Fund, and the McCabe/Natural Investments SRI Insurance Fund (together "the Funds"). Quarterly, McCabe receive a fee from the investment advisor based on the Funds' assets under management in accordance with the Series Supplements to the Confidential Private Offering Memorandums of each partnership.

In addition, McCabe receives an advisory fee for providing asset allocation advice to an offshore SEC registered investment advisor which manages a group of hedge funds. McCabe credits its clients for the pro rata amount of advisory fee McCabe receives from the investment advisors based on that client's assets invested in the Fund.

Fees are payable in arrears on a quarterly basis, as may be negotiated. Fees are deducted from the client's account whenever possible. Clients may elect to be billed directly for fees or to authorize McCabe to debit fees directly from the client custodial account.

Accounts initiated or terminated during the billing period will be charged a prorated fee. McCabe's services are terminable by either party upon notification in accordance with the applicable contractual notice provision.

# MCCABE CAPITAL MANAGERS, LTD.

## **Other Fees and Charges**

Clients contract directly with unaffiliated investment advisors, custodians and brokers. Unaffiliated investment advisor fees are detailed in the investment advisory agreement between the client and unaffiliated investment advisor. McCabe's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to McCabe's fee, and McCabe shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that McCabe considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

McCabe does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

McCabe currently advises a diverse range of clients, including high net worth individuals and families, trusts, charitable organizations, endowments, private investment funds, and other U.S. and international institutions.

McCabe acts as investment advisor and sub-advisor to private investment funds. The funds include: International Allocation Fund, McCabe Multi-Manager Insurance Fund, Genspring-McCabe Insurance Fund, McCabe/Natural Investments SRI Insurance Fund and The Siebels Multifund (Cayman), Ltd.

Investment in alternative investment products requires that the investor meet certain suitability standards and have minimum investment requirements, and therefore, investment in these alternative investment products may not be suitable for all investors.

# MCCABE CAPITAL MANAGERS, LTD.

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

### **Overall Investment Strategy**

The Investment Committee meets to discuss economic developments and inflection points. Based on that discussion, the market factors and asset classes that are poised for major movements are analyzed. Specific key factors include: equity markets, credit spreads, durations, and commodity prices. Based on the analysis of macro-economic factors, the committee then identifies any over/under-weight asset classes and any risk factors relative to the index.

### **Asset Allocation Advice**

When determining the optimal portfolio for the client, McCabe uses either a Black-Litterman process which focuses upon tilts away from the market equilibrium asset mix to avoid extreme and counterintuitive allocations, or a more traditional mean-variance optimization approach.

McCabe develops a target allocation range for each asset class, type of risk, manager, and investment type, that, when viewed in the context of historical performance and current market valuations, is consistent with the client's mandated performance and volatility objectives. McCabe's goal is to find an allocation that will perform reasonably well under many different conditions, not the one that performs the best under the most likely set of conditions.

In addition, McCabe helps clients determine how their current asset allocation may affect long-term wealth accumulation and the likely achievement of financial objectives. This analysis takes into account client specific tax rates, cash flow, liquidity needs, as well as stochastic return inputs. McCabe uses Monte-Carlo simulation techniques to estimate whole distributions of future wealth levels associated with initial asset mixes. To accomplish this, McCabe randomly samples values from estimated distributions for the uncertain variables (asset class returns).

McCabe allocates across sectors based on the overall industry. Within sectors McCabe identifies strategies with favorable risk/reward profiles and identifies intra-strategy diversification approaches. McCabe employs factor analysis to develop efficient allocation goals.

McCabe tries to include private equity, hedge funds, international stocks, real estate and commodities in a client's asset allocation, where possible, to tilt a client's portfolio away from traditional asset classes (U.S. stocks and bonds) toward a more balanced portfolio to improve a portfolio's risk/return tradeoff.

# MCCABE CAPITAL MANAGERS, LTD.

Analysis of certain alternative investments such as private equity and hedge funds are difficult to evaluate. Here McCabe attempts to determine on an ongoing basis the degree of financial risk for McCabe's clients by examining leverage ratios and potential tail risk or exposure to specific events.

## **Private Investment Funds and Manager Analysis**

McCabe selects private investment funds on the basis of, among other things, the investment strategies utilized by these investment funds, quantitative measures and qualitative analysis.

On the quantitative side, McCabe looks for strong relative performance, adherence to a distinct and repeatable style, and an acceptable level of risk. McCabe observes outsized positive or negative returns, as well as all monthly returns, to determine whether they have the expected correlations with certain benchmarks. McCabe carefully evaluates a hedge fund manager's reported value added (alpha).

On the qualitative side McCabe looks for an organization with stability, depth, and coherent investment philosophies and risk control processes. McCabe may invest client assets in partnerships interests investing in hedge funds with strategies in publicly traded securities.

McCabe selects active managers within an asset class who have a compelling investment philosophy, are innovative due to a deep knowledge of company fundamentals, have a limited number of holdings, and who follow a disciplined repeatable process for achieving their objectives.

If the manager appears to be an appropriate candidate on a stand-alone basis, an analysis of the impact the manager's inclusion will have on the portfolio as a whole is performed.

McCabe conducts ongoing due diligence and monitoring and performs intensive qualitative and quantitative analysis on individual managers and funds.

The Investment Committee, the Compliance Officer and the McCabe's Consultants discuss the qualitative and quantitative due diligence performed on each manager or fund to identify problems that may exist beneath the surface, and assess whether the competitive edge that the manager has demonstrated is a sustainable one. The Investment Committee identifies potential new managers for a given asset class in addition to reviewing and revising a manager watch list.

## **Portfolio Construction and Analysis**

The portfolio construction process is handled by McCabe's investment committee. After a manager, fund or security has been approved for inclusion in the portfolio, the discussion

# MCCABE CAPITAL MANAGERS, LTD.

turns to the weighting within the portfolio. The factors that contribute to that decision include an analysis of sector weightings within the portfolio, the marginal contribution to value-at-risk that a new manager, fund or security represents, and a level of comfort with it relative to its volatility and perceived stability.

McCabe aggregates positions based on risk and detailed exposure reports. McCabe considers marginal value-at-risk figures for indications of weighting imbalances. McCabe conducts detailed analysis of liquidity and leverage at the portfolio and at the manager level. McCabe reviews manager leverage in three ways: on an absolute basis, relative to its peer group, and relative to other strategies. Understanding the underlying securities and investments the fund holds is the key to reviewing absolute leverage. Many securities and strategies have varying forms of embedded leverage present; however, these may not be evident in a standard analysis. For peer group analysis, McCabe concentrates on identifying whether the manager consistently deploys more or less leverage than other managers executing similar strategies.

At the portfolio level, McCabe models every manager's gross and net exposures, both on a stand-alone basis and as it impacts the gross and net exposure of the portfolio as a whole.

In addition, McCabe performs stress testing to gauge potential behavioral patterns of the portfolio in periods of market difficulty. McCabe's risk control process focuses on non-traditional risks such as spread, yield curve slope, convergence, and commodity exposures.

Factor analysis is conducted on managers in the portfolio and for the portfolio as a whole. The aim is to decompose the beta exposure to various factors, thus isolating true sources of manager alpha.

## **Direct Management**

### **Exchange Traded Fund and Mutual Fund Strategy**

In the passively managed part of a portfolio, McCabe uses fundamentally weighted or unweighted index funds, as well as capitalization-weighted indices where possible.

### **Equity Strategy and Analysis**

The main principle governing direct equity management is to invest at prices below McCabe's estimate of intrinsic value in businesses with the following characteristics:

- Substantial free cash flow generation.
- A strong management team that allocates capital well, has a consistent operating history and whose interests are aligned with shareholders.
- An outstanding franchise with pricing power, substantial and/or market share, recurring revenue streams and high return on invested capital.
- A favorable long-term outlook, including predictable growth, long product life cycles and favorable demographic trends.

# MCCABE CAPITAL MANAGERS, LTD.

- Long-term structural and competitive advantage.
- Market capitalization in excess of \$1 billion.

## Fixed Income Strategy and Analysis

- Enhance portfolio value in a declining interest rate environment
- Protect principal in a rising interest rate environment
- Provide income commensurate to each individual client's needs
- Provide each client with a reduced risk profile
  - Monitored risks include credit risk, interest rate (price) risk, sector risk, reinvestment (call) risk

The decision criteria involved include a thorough analysis of interest rate direction, coupon selection, yield curve positioning (maturity management), and sector selection (yield spread analysis).

McCabe employs the following strategies as a part of its process:

- Yield spread analysis
- Index benchmarking
- Maturity management
- Bullet strategy
- Barbell strategy
- Ladder strategy

## Municipal Fixed Income Analysis

McCabe focuses on high quality, smaller issues with an illiquidity discount and a pricing anomaly.

## Taxable Accounts Strategy

In taxable accounts, McCabe has the sub-portfolio managed to closely track an index but at the same time enhance after-tax return through systematic tax loss selling.

McCabe uses a core/satellite structure in certain taxable accounts. This is the combination of a large diversified portfolio managed with a tax-sensitive strategy plus one or more concentrated and actively managed portfolios or in some cases, more diversified portfolios with a high active share (portion of portfolio holdings that differ from benchmark).

## **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear and there is no guarantee that any investment strategy will meet its objective. Depending on the types of securities you invest in, you may face the following investment risks:

# MCCABE CAPITAL MANAGERS, LTD.

*Market Risk.* The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events. In other words, the prices of securities can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. There is also a risk that the investments will underperform either the securities markets generally or particular segments of the securities markets.

*Portfolio Turnover Risk.* Portfolio turnover refers to the rate at which investments are replaced. The higher the rate, the higher the transactional and brokerage costs associated with the turnover which may reduce the return, unless the securities traded can be bought and sold without corresponding commission costs. Active trading of securities may also increase your realized capital gains or losses, which may affect the taxes you pay.

*Business Risk.* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

*Issuer-Specific Risk.* The value of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.

*Inflation Risk.* When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

*Reinvestment Risk.* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.

*Mutual Fund & Exchange Traded Fund Risk.* There are specific risks involved in the management of mutual funds and Exchange Traded Funds which are described in detail in their prospectus. In general, ETFs and Mutual funds expose the investor to the strategy-specific risk of the fund.

*Small and Medium-Size Company Risk.* Small and medium size companies may have narrower markets and more limited managerial and financial resources than do larger, more established companies. As a result, their performances can be more volatile and they may face a greater risk of business failure.

# MCCABE CAPITAL MANAGERS, LTD.

*Foreign Securities.* Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some foreign governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in foreign securities.

Higher expenses may result from investment in foreign securities than would from investment in domestic securities because of the costs that must be incurred in connection with conversions between various currencies and foreign brokerage commissions that may be higher than in the United States. Foreign securities markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in foreign countries could be affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

*Emerging Markets.* Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of securities markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (ix) less extensive regulation of the securities markets; and (x) longer settlement periods for securities transactions and less reliable clearance and custody arrangements.

*Currency Risks.* Investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. This is also referred to as exchange rate risk.

*Fixed income Risks.* Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from



# MCCABE CAPITAL MANAGERS, LTD.

fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.

*Interest-rate Risk.* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

*Credit Risk.* Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

*Structured Products Risk.* These products often involve a significant amount of risk and should only be offered to Clients who have carefully read and considered the product's offering documents, as they are often times based on derivatives. Structured products are intended to be "buy and hold" investments and are not liquid instruments.

## Specific Risks Relating to Privately Held Funds

The following risks relate to investments in a privately held fund ("Fund"). They do not represent a complete picture of the risks that may be associated with investment in private funds. Please refer to the offering memoranda or other document that you received that sets out a more detailed discussion of risks.

*Lack of Operating History.* The Funds may invest in companies or funds with no prior operating history for prospective investors to evaluate. Similarly, the managers of such newly formed funds may lack discrete investment track records. The fund's investment program should be evaluated on the basis that there can be no assurance that it will achieve its investment objective or that there will be a return of all or any portion of an investor's capital.

*Futures, Options and Derivative Instruments.* Investments in futures and options are considered "derivative" investments. A small investment in derivatives could have a potentially large impact on performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that the hedging technique will fail if changes in the value of a derivative held do not correlate with the portfolio securities being hedged.

*Put and Call Options Risk.* There are risks associated with the sale and purchase of call and put options. A seller (writer) of a covered call option, assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the option is uncovered, and the Seller must

## MCCABE CAPITAL MANAGERS, LTD.

purchase the security at the current market price because the option is exercised, the loss could be significant. The buyer of a put or call option risks losing the entire premium invested in the option if they do not exercise the option.

*Short Sales.* Investment strategies of certain Funds require them to engage in short sale transactions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. Selling securities short, while often utilized to hedge investments, does run the risk of losing an amount far greater than the initial investment therein in a relatively short period of time.

*Leverage.* A Fund may choose to use leverage as part of its investment program. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A Fund may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the Fund's net asset value to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the cost of borrowings, the Fund's net asset value could also decrease faster than if there had been no borrowings.

The use of short-term margin borrowings subjects an investment portfolio to additional risks, including the possibility of a "margin call," pursuant to which the Fund must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to pay off its margin debt. This could result in the forced liquidation of assets of the Fund at substantially depressed prices. Such might also occur during a period where there is an overall decline in the securities market which might reduce overall liquidity in such market and thus further accelerate a decline in the sales price of assets of the Fund.

*Hedging Transactions.* Funds may utilize financial instruments such as forward contracts, currency options and interest rate swaps, caps and floors to seek to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates and market interest rates. The Fund may also engage in hedging transactions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for the Fund to hedge against an exchange rate,

## MCCABE CAPITAL MANAGERS, LTD.

interest rate or security price fluctuation that is so generally anticipated by the market that such Fund is not able to enter into hedging transactions at a price sufficient to protect the Fund's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations.

The success of the Fund's hedging transactions is subject to each individual Fund's ability to correctly predict movements in the direction of currency and interest rates. Therefore, while the Fund may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency or interest rates may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Moreover, for a variety of reasons, the Fund may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Fund's portfolio holdings.

*Counterparty Credit.* Certain of the markets in which the Fund effects their transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. To the extent a Fund invests in swaps, derivative or other over-the-counter transactions in these markets, such Fund may take a credit risk with regard to parties with whom it trades and also may bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections. This exposes a Fund to the risk that counterparties will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing such Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement.

*Concentration of Investments.* Funds may invest substantially all of their assets in other privately offered funds. There can be no assurance that no more than one Fund will take a substantial position in the same security at the same time. Concentration of investments may result in greater volatility than would occur with greater diversification, with the result that a loss in any such position could have a material adverse impact on the investor's capital. Because these Funds may invest wholly independently of one another and may hold economically offsetting positions, each Fund as a whole may not achieve a gain or loss with respect to such positions despite incurring fees and expenses associated with taking such positions.

# MCCABE CAPITAL MANAGERS, LTD.

*Illiquidity.* Because of the limitation on withdrawal rights and the fact that an interest in a Fund is not tradable, an investment in a Fund is an illiquid investment and involves a high degree of risk. An investor in a Fund must be able to afford a loss of all or a substantial part of such investment. It is possible the Fund may not be able to provide sufficient time to liquidate its investments in the amounts necessary to satisfy investor withdrawals in a timely manner. A Fund will likely have restrictions on withdrawals, including, without limitation, long lock-up periods, gating provisions and suspension of withdrawal rights, in whole or in part, when there exists in the opinion of the Fund a state of affairs where disposal of a Fund's assets, or the determination of the value of an investor's capital account, would not be reasonably practicable or would be seriously prejudicial to the non-withdrawing investors. Such limitations on liquidity may result in loss of any and all amounts invested.

Further, when investing in Fund of Funds such restrictions on withdrawals may not allow the Fund of Fund to liquidate its investments in the underlying funds in the amounts necessary to satisfy its investor withdrawal requests. Substantial withdrawals by investors could require liquidation of the Fund of Fund more rapidly than is desirable, possibly reducing the value of the Fund of Fund's assets or disrupting the its investment strategy.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of McCabe or the integrity of McCabe's management. McCabe has no information applicable to this Item.

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

McCabe has arrangements that you may consider material.

McCabe is related by common ownership to The Haverford Trust Company ("Haverford Trust"). Clients of Haverford Trust may receive advice from McCabe in the selection and monitoring of investments or in the active management of assets.

McCabe and Haverford Trust are wholly owned by Drexel Morgan & Co. ("Drexel Morgan"), a financial holding company and federally registered investment advisor. George Connell, Sr. is the sole owner of Drexel Morgan and Haverford Financial Services, Inc. ("Haverford Financial"), a federally registered investment advisor. Haverford Trust owns Haverford Trust Securities, Inc. ("HTS"), a broker-dealer. Mr. Connell acts as President to Drexel Morgan and as Vice Chairman to Haverford Trust, HTS and Haverford Financial.

## MCCABE CAPITAL MANAGERS, LTD.

McCabe does not anticipate recommending clients to any of these companies and does not make recommendations to its clients to maintain assets with or contract with an Affiliate for investment services. Clients, at their own discretion, may contract directly with Affiliates.

Haverford Trust and HTS provide fiduciary, trust and custody services to some of McCabe's clients at the client's discretion. In order to avoid the appearance that McCabe has incentive to invest client assets with an affiliate based on additional compensation received, McCabe will not charge its clients an advisory fee on the assets that its Affiliate charges an investment management fee.

Haverford Financial is the investment adviser to a mutual fund family that offers separate investment portfolios. McCabe does not make recommendations to clients to purchase such funds however clients may, at their own discretion, invest in shares of the investment companies in which Haverford Financial or its related persons advise or provide other services and from which Haverford Financial receives fees. In such cases, McCabe will not assess an advisory fee against that portion of client assets invested in such products or services.

McCabe, Drexel Morgan and Haverford Trust share management personnel who are also registered representatives of HTS which may pose a conflict of interest between the interests of McCabe's Clients and the interests of McCabe. McCabe does not anticipate that this will be a conflict of interest as no McCabe client transactions will be effected through the broker-dealer. The Compliance Officer of each entity monitors client trading to monitor the conflicts that may exist with regard to any employee sharing arrangements with its affiliates.

McCabe advises an SEC registered investment advisor who provides specialized investment funds and socially responsible funds to institutional clients. Investments are available only to insurance company investors on behalf of certain of their segregated separate accounts for owners of variable life insurance and variable annuity contracts. If appropriate, McCabe may recommend investment in these funds to its clients.

In addition, McCabe acts as investment advisor to a privately offered fund, The Siebels Multifund (Cayman), Ltd (the Fund). The Manager of the Fund, Green Cay Asset Management Ltd. (the "Manager"), is an SEC registered investment advisor. James L. McCabe is a shareholder and Director of the Manager. If appropriate, McCabe may recommend investment in the Fund to its clients. Generally, however, clients are not solicited to invest in this Fund.

James L. McCabe is a Director and shareholder of Green Cay Private Client Ltd ("GCPC"). GCPC is an international business company organized under the laws of the Bahamas that provides investment advice to non-US high net worth investors. GCPC is an affiliate of

# MCCABE CAPITAL MANAGERS, LTD.

Green Cay Asset Management Ltd. James L. McCabe does not provide investment advice to GCPC. McCabe does not recommend that its clients invest in Green Cay Private Client Ltd.

McCabe is also affiliated with a privately offered fund, the International Allocation Fund (“the Fund”), an interest in Glamorgan Partners, L.P. (“the Partnership”), a Delaware limited partnership. James L. McCabe serves as both Director and President of McCabe and as sole member of the Fund’s general partner, Red Wing Management II, LLC. McCabe acts as advisor to the Fund and receives a fee for its management services. If appropriate, McCabe may recommend investment in the Partnership to its clients. McCabe may elect to invest all or a significant portion of a client’s assets in the Fund, in which case this fee is waived for any limited partnership interest subject to a management fee by McCabe under a separate investment management agreement.

This practice presents a conflict of interest because it gives McCabe an incentive to invest client assets in a fund based on additional compensation received, rather than client needs. McCabe addresses this conflict by offsetting, against its regular advisory fee, any amounts earned as an investment management fee from the funds, such that its compensation will not be increased by use of the funds. McCabe employs this procedure to ensure its compensation remains level.

McCabe provides consultation services in financial areas not involving investment advice, as defined by the Investment Advisors Act of 1940, including, but not limited to, recommendations concerning bank custodians, analyses of overseas economic prospects, valuations of closely held securities, and evaluations of income producing real estate and other direct business holdings. From time to time, McCabe may subcontract with outside consultants who have expertise in these areas.

## **Item 11 – Code of Ethics**

The companies affiliated with Drexel Morgan, which include (as previously described in Item 10) McCabe, Haverford Trust, HFS, and HTS have adopted a Code of Ethics (“the Code”). The Code includes provisions relating to the handling of all proprietary and confidential information, a prohibition on insider trading, restrictions on initial public offering and private offerings, acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and procedures for personal securities transactions of directors, officers and employees (together “supervised persons”), among other things.

The Code is designed so that all acts, practices and courses of business engaged in by McCabe’s supervised persons are conducted in accordance with the highest possible standards and to prevent abuses or even the appearance of abuses by supervised persons relating to their personal trading and other business activity. The Code was designed to detect and prevent conflicts of interest.

# MCCABE CAPITAL MANAGERS, LTD.

McCabe has procedures to avoid conflicts of interest when McCabe's supervised persons, buy or sell securities, including non-public securities, also owned by, or bought or sold for clients. In addition, supervised persons' personal securities transactions are monitored by McCabe's Compliance Officer.

Each officer, director and employee is required to certify annually that he or she has read and understands the Code of Ethics. The Code of Ethics is available in its entirety to clients or prospects upon request.

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

As noted in Item 10, above, McCabe is the investment adviser to the International Allocation Fund ("the Fund").

If appropriate, McCabe may recommend investment in the Fund to its clients. McCabe may elect to invest all or a significant portion of a client's assets in the Fund. This practice presents a conflict of interest because it gives McCabe an incentive to invest client assets in a fund based on additional compensation received, rather than client needs. McCabe addresses this conflict by offsetting, against its regular advisory fee, any amounts earned as an investment management fee from the Funds, such that McCabe's compensation will not be increased by use of the Funds. McCabe employs this procedure to ensure McCabe's compensation remains level.

Additionally, McCabe provides advice as adviser to the McCabe Multi-Manager Insurance Fund, Genspring-McCabe Insurance Fund, McCabe/Natural Investments SRI Insurance Fund, The Siebels Multifund (Cayman), Ltd (together "the Funds"). Should a client choose to purchase these Funds, McCabe will not assess an advisory fee against that portion of client assets invested in such products assets.

McCabe permits its supervised persons to engage in personal securities transactions. Personal securities transactions by employees may raise potential conflicts of interests when such persons trade in a security that is owned or considered for purchase or sale by a client.

McCabe anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which McCabe has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which McCabe, its affiliates and/or clients, directly or indirectly, have a position of interest. McCabe's employees and persons associated with McCabe are required to follow McCabe's Code of Ethics.

## MCCABE CAPITAL MANAGERS, LTD.

Subject to satisfying the provisions of the Code and applicable laws, officers, directors and employees of McCabe and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for McCabe's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of McCabe will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of McCabe's clients.

The supervised persons will be permitted to invest in securities that are also recommended to clients, with the requirement that all client transactions shall receive priority. McCabe employees may take investment actions that differ from the advice given or the timing or nature of action with respect to any one client account. Subject to the aforementioned restrictions, McCabe and its supervised persons may at any time hold, acquire, increase, decrease, dispose of, or otherwise deal with positions in investments in which a client account may have an interest from time to time. McCabe has no obligation to acquire for a client account a position in any investment which it, acting on behalf of another client, or a supervised person, may acquire, and the client accounts shall not have first refusal, co-investment or other rights in respect of any such investment. McCabe recommends transactions to clients based solely on investment considerations, including whether the investment are suitable for the client and meet the client's investment guidelines. In any such case or where McCabe or a supervised person is contemplating taking a position in a recommended security, McCabe or any of McCabe's supervised persons will refrain from engaging in any security transaction inconsistent with McCabe's Code and fiduciary responsibility to McCabe's clients. Neither McCabe nor any supervised person will affect the market in a security McCabe recommends that a client buy or sell.

In the case of new client accounts, uninvested cash in existing client accounts, or a change in investment objective of an existing client account, the fact that supervised persons hold positions in specific securities shall not preclude the purchase of such securities for such client accounts. New clients will be advised that significant portions of their account will be invested in securities presently held by supervised persons, if such is the case.

Because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between McCabe and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with McCabe's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and



# MCCABE CAPITAL MANAGERS, LTD.

receive securities at a total average price. McCabe will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

It is McCabe's policy that it will not affect any principal or agency cross securities transactions for client accounts. McCabe will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

It is McCabe's policy, consistent with investment considerations, to seek the most favorable price and execution ("best execution") for brokerage orders. When selecting a brokerage firm, McCabe considers the execution capabilities and financial stability of the brokerage firm, as well as delivery and the ability to obtain best price execution.

McCabe attempts to negotiate the most competitive commission rates. When placing small orders where there is little difficulty of execution, commission rates can be a major factor in achieving most favorable price and execution. McCabe generally compares the commission rate of an executing broker to the rates offered by the other brokerage firms providing similar services.

In some cases, clients have relationships with particular brokers, and all transactions for those clients are executed through those directed brokers. When a client selects a particular brokerage firm, the commissions to be paid by the client through such brokerage account may be negotiated by the client directly with the broker, or McCabe will negotiate the commission rates if requested. It is possible that the commission rates negotiated by McCabe may be lower than the rates obtainable by the client directly. However, McCabe may not be able to freely negotiate commission rates or select brokers on the basis of best

## MCCABE CAPITAL MANAGERS, LTD.

price and execution for such transactions. In addition, transactions directed in this manner may not be batched for execution with transactions in the same securities for other clients. As a result, the client may pay higher commissions or receive less favorable net prices and execution than if McCabe were authorized to choose the broker through which to execute transactions for the client's account.

A client who directs McCabe to use a particular broker-dealer, including a client who directs use of a broker-dealer as custodian of the client's assets, should consider whether such a designation may result in certain costs or disadvantages to the client. Accordingly the client should satisfy itself that the broker-dealer can provide adequate price and execution of most transactions.

Consistent with its policy of obtaining best execution for its Clients when selecting broker-dealers, McCabe may consider the brokerage firms research capabilities, including the reputation and standing of their analysts, and their investment strategies, timing, accuracy of statistical information and idea generation. For clients who do not direct brokerage, McCabe selects the broker based primarily on the commissions charged by the broker and the quality of research services provided to McCabe by the broker. In doing so, McCabe receives a benefit because McCabe does not have to produce or pay for the research. Therefore, McCabe may have an incentive to select or recommend a broker based on its interest in receiving the research, rather than on the client's interest in receiving the best execution. McCabe will suggest brokers or dealers to clients only at the client's request. In recommending a broker or dealer, or directing client transactions, McCabe will suggest only those firms that provide quality execution and reasonable commissions.

McCabe will often recommend Charles Schwab ("Schwab") in cases where clients, with smaller accounts, are in need of a custodian at low cost. Schwab maintains different commission rates for its clients. For example, clients who agree to receive electronic confirmations and statements directly from Schwab receive lower commission rates than clients who receive paper statements. In addition, a trade away fee of \$25 per trade applies for trade executions not placed through Schwab.

McCabe does not direct client transactions through HTS, McCabe's affiliated broker-dealer. However, as previously noted, McCabe may also recommend firms that have the ability to provide research that may help McCabe in providing investment management to its clients. However, no client is under any obligation to affect trades through any recommended broker. All clients are free to select any broker or dealer of his or her choice.

McCabe receives research products or services that fall within the "safe harbor" established by Section 28(e) of the Securities Exchange Act of 1934, in connection with its allocation of portfolio brokerage. The services received include Bloomberg Financial Markets, Telemet America, Hub Data, Inc. and Thomson Financial. McCabe has established soft dollar policies and procedures to effectuate and monitor such soft dollar arrangements.

## MCCABE CAPITAL MANAGERS, LTD.

The research services received aid McCabe in fulfilling McCabe's investment decision making responsibilities, and include research reports or oral advice from brokers and dealers regarding particular companies, industries or general economic conditions. The reports and analyses relate to particular securities, classes of securities and securities markets.

McCabe also effects transactions with brokers which pay for research services provided by third parties in accordance with Section 28(e) of the 1934 Act. Research services provided by third parties include security pricing services and on-line research products.

In some cases, clients have made arrangements directly with a broker by which a portion of commissions paid on trades from their accounts are rebated to the client and used for research and services pertaining specifically to their accounts.

The soft dollar benefits are not limited to those clients who may have generated a particular benefit. Research services provided or arranged by brokers through which McCabe effects securities transactions may be used in servicing all of McCabe's accounts and may not be used in connection with any particular account which may have paid commission to the brokers providing such services. Soft dollar credits generated by the President's personal trading account may also be used to obtain research services or products for use with client accounts. Commissions paid to brokers providing research services may be higher than those charged by brokers not providing services.

If a research product or service has both research and non-research uses (such as the management information system), McCabe will make a reasonable allocation of the cost of the item between the research and non-research functions, with the portion allocable to research being paid with client brokerage commission dollars, and the non-research portion being paid by McCabe.

Whenever possible, McCabe aggregates orders for clients and trades in larger blocks with the intent of achieving better execution and lower commission rates. Trades are not aggregated unless McCabe believes that aggregation would benefit each client's account. Each client that participates in a block trade will participate at the average share price for all of the transactions in that order. Those clients participating in aggregated trades are selected based on client objectives, the nature of the advisory agreement, and the client's custodian.

More than one broker often will be used when placing block trades due, in part, to custodial relationships. McCabe rotates the placement of the orders between brokers over time so that no client in a block trading group will be favored over any client in another group. Orders may be aggregated and allocated on a basis different from that described here only

# MCCABE CAPITAL MANAGERS, LTD.

if all clients receive equitable treatment and that the reason for the divergence is explained in accordance with McCabe's Aggregation and Allocation Policy and Procedures.

## **Item 13 – Review of Accounts**

McCabe's management team regularly reviews all accounts. Accounts are reviewed at least quarterly for, but not limited to, performance, sector and asset allocation, adherence to McCabe's investment policies and strategies and specific security ownership, all within the context of specific client guidelines and objectives. Whenever there is a major change in the tax law, economic conditions, or the performance of a specific security, a review is also initiated.

Clients are provided reports of transactions, portfolio valuations and summaries of portfolio changes quarterly or at other intervals negotiated with the client. Additionally, McCabe meets with clients as frequently as quarterly or as infrequently as annually (as agreed with the client) to discuss the performance of the client's account, its management of the client's account, and any other issues of concern to the client. McCabe may, if requested by client, provide additional reports or information at these meetings or otherwise. Limitations on McCabe's authority may vary depending upon the desires of each individual client.

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

McCabe does not compensate third parties for client referrals.

## **Item 15 – Custody**

Under government regulations, McCabe is deemed to have custody of your assets as a result of the below noted arrangements:

McCabe has the ability to deduct advisory fees directly from client accounts.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. They will be sent to the email or postal mailing address you provided the custodian. McCabe urges you to carefully review such statements and compare such official custodial records to the account statements that McCabe may provide to you. McCabe's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

# MCCABE CAPITAL MANAGERS, LTD.

## A principal of McCabe serves as the trustee or co-trustee on client accounts

Each appointment is reviewed on a case-by-case basis. McCabe limits the principal's authority under these types of accounts to require the prior written consent of all of its co-trustee(s) to move, transfer, or withdraw assets of the trust.

## A related person of McCabe acts as qualified custodian to client accounts.

McCabe has contracted by written agreement with an independent public accountant who is registered and subject to regular inspection by the Public Company Accounting Oversight Board ("PCAOB"), to perform an independent verification of the assets annually. In addition, McCabe requires its related person to provide it with an internal control report annually that is written by an independent public accountant who is registered with, and subject to regular inspection by the PCAOB.

## McCabe acts as Investment Adviser to a Limited Liability Company ("LLC").

The securities of the Limited Liability Company are privately offered securities that are subject to an annual audit by an independent public account who is PCAOB registered and subject to their inspection as appointed by McCabe. The LLC will distribute the audited financial statements to all beneficial owners.

### **Item 16 – Investment Discretion**

As mentioned in Item 4 above, McCabe manages investments on a discretionary and non-discretionary basis.

McCabe usually receives its authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Such authority is generally documented in the client agreement. Clients are required to execute an investment advisory agreement and limited power of attorney that, among other things, grants McCabe authority to manage their assets on a discretionary basis, meaning McCabe has the authority to select the identity and amount of securities to be bought or sold in the clients' account. In all cases, however, discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, McCabe observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to McCabe in writing.

# MCCABE CAPITAL MANAGERS, LTD.

## **Item 17 – Voting *Client* Securities**

### Summary of Proxy Voting Procedures

McCabe will vote proxies in the best interests of McCabe's clients in a manner consistent with the objective of maximizing long-term investment returns. As a matter of McCabe policy and practice, McCabe does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. McCabe may provide advice to clients regarding the clients' voting of proxies. McCabe will not vote proxies if the investment management agreement does not authorize McCabe to vote proxies or is silent. McCabe will vote proxies in connection with investments made on behalf of Glamorgan Partners, L.P. ("the Fund").

McCabe has adopted Proxy Voting policies that address generally the guidelines McCabe expects to follow in the exercise of its voting authority over client proxies. McCabe votes proxies on a case-by-case basis. McCabe determines how to vote on each proxy proposal based on its analysis of the information it has received and its proxy voting guidelines. In certain cases, McCabe may refrain from voting where it determines that the costs associated with voting certain proxies outweigh any benefits to its clients. The Proxy Policy includes provisions for appropriately resolving any material conflicts of interest that may arise in voting proxies. The policy provides procedures for identifying and dealing with the potential conflicts of interest that may exist between clients and McCabe or McCabe's employees. If an actual conflict exists, McCabe will determine whether voting in accordance with the policy is in the best interests of its clients or take other action as it deems appropriate to address the conflict.

For a complete copy of the McCabe's proxy voting policies and procedures, or to obtain specific information regarding how proxies were voted, please contact McCabe at (610) 277-8890.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about McCabe's financial condition. McCabe has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.