

## ITEM 1 – COVER PAGE

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# Villafranco Wealth Management

Investment Adviser Brochure (Form ADV: Part 2A)

SEC File Number 801-57412

July 22, 2011

This brochure provides information about the qualifications and business practices of Villafranco Wealth Management. If you have any questions about the contents of this brochure, please contact us at 201-505-9495. 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.

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

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## ITEM 2 – MATERIAL CHANGES

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In 2010, the United States Securities and Exchange Commission (SEC) amended the disclosure document that investment advisers provide to clients. This brochure, dated July 22, 2011, is a new disclosure document prepared according to the SEC's amendments. This brochure is different in structure and requires new information that our previous brochure did not require.

Villafranco Wealth Management will update this brochure: 1) annually, and 2) promptly when certain information becomes materially inaccurate. In the future, this section will contain a discussion of any material changes to the brochure since the last annual update.

Villafranco Wealth Management will provide its clients with a summary of any material changes to this and subsequent brochures by April 30th of each year. You can request our brochure at any time by contacting Anthony J. LaPeruta, Vice President and Chief Compliance Officer, at 201-307-5026 or [anthony@southwindassociates.com](mailto:anthony@southwindassociates.com).

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## ITEM 4 - ADVISORY BUSINESS

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Southwind Associates of NJ, Inc. (“Southwind”) was founded in 1995 and is wholly owned by William S. Villafranco, President. The entity conducts two primary types of activities: 1) hedge fund marketing and 2) investment management. The hedge fund marketing services provided by Southwind are described in greater detail under Item 10.

Southwind primarily uses its full legal name when providing hedge fund marketing services. Southwind utilizes the name Villafranco Wealth Management (“VWM”) when providing investment management services. Since Southwind and VWM are the same corporate entity, as used herein, Southwind also refers to VWM.

### **Investment Management Services**

VWM tailors its investment management services to the individual needs and objectives of clients. VWM’s investment management services include: 1) assisting clients in determining their investment objectives and goals and 2) determining which general investment strategies should be employed in managing client portfolios to meet such objectives and goals. VWM is also responsible for making specific purchase and sale decisions for clients.

VWM invests its clients’ assets in mutual funds and exchange traded funds (“ETFs”). In addition, VWM invests its clients’ assets in private funds (e.g., hedge funds, private equity funds, etc.) and with third party investment managers. VWM typically limits its investment advice to these types of investments and VWM generally does not invest in individual equity or fixed income securities. However, VWM may monitor investments held in a client’s portfolio at the beginning of the advisory relationship or other investments held by the client but not recommended by VWM. Clients may, but generally do not, impose restrictions on investing in certain securities or types of securities.

As of May 31, 2011, VWM managed \$241,000,000 on a discretionary basis. VWM does not provide its investment management services on a non-discretionary basis.

### **Related Funds**

Mr. Villafranco (and, in one instance, an employee of VWM) owns the investment manager and/or general partner of three private funds (collectively, the “Related Funds”) and provides investment advisory services to such funds in this capacity. VWM may recommend that clients invest in The Related Funds. The Related Funds are described below.

#### Central Partners, L.P. (“Central”)

Northpoint Management LLC (“Northpoint”), wholly owned by Mr. Villafranco, serves as the general partner of Central. Central is a private fund that in turn invests in underlying private funds (this is commonly referred to as a “fund-of-funds”). Mr. Villafranco selects the managers and underlying investment vehicles with which Central will invest. However, since Central is a fund-of-funds, Mr. Villafranco does not select, buy or sell individual securities.

### Insignia Fund (“Insignia”)

Croton LLC (“Croton”) and Croton Management LLC (“Croton Management”), each owned equally by Mr. Villafranco and David M. Aurichio, Portfolio Manager of VWM, serve as the general partner and investment manager, respectively, of Insignia. Insignia is a long short equity hedge fund and Messrs. Villafranco and Aurichio have the authority to select, buy, and sell specific securities for Insignia. Mr. Aurichio has primary responsibility for these investment management activities.

Croton Management also provides investment advisory services to The Abernathy Group Growth Fund LP (the “Abernathy Fund”). The Abernathy Fund is generally managed on a *pari passu* basis with Insignia.

### Cain 5, L.P. (“Cain”)

Westvale Capital Partners, LLC (“Westvale”) and Ridgeport Capital Management, LLC (“Ridgeport”), each wholly owned by Mr. Villafranco, serve as the general partner and investment manager, respectively, of Cain. Cain retains Deltec Asset Management LLC as its sole underlying investment manager.

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## ITEM 5 - FEES AND COMPENSATION

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VWM receives advisory fees for the investment management services it provides to clients. The annual advisory fee ranges from 0.40% to 1.50% of a client’s assets under management and is negotiable. VWM’s advisory fees are payable quarterly, in arrears. VWM may increase or decrease its fees upon 30 days’ written notice to the client, provided that the client does not object in writing before the end of the 30-day period. VWM generally deducts its advisory fees from clients’ assets, but clients may also request to be billed for advisory fees. VWM does not include its clients’ investments in Related Funds for purposes of calculating VWM’s advisory fees.

Upon termination by either party at any time upon 60 days’ prior written notice, transactions in progress will be completed in the normal course of business. Also upon termination, a client is liable for all advisory fees VWM earned but the client has not yet paid. Such advisory fees are calculated from the date of receipt of the written termination notice or other agreed upon date.

### **Additional Fees and Expenses**

In addition to VWM’s fee, clients pay brokerage and other transaction costs (as described in Item 12). Clients also pay charges to financial institutions and other third parties such as custodial fees, mutual fund expenses, charges imposed directly by mutual funds and exchange traded funds, deferred sales charges, wire transfer and electronic fund fees, redemption penalties of mutual funds, margin expenses and other fees and taxes on brokerage accounts and securities transactions.

In addition, clients pay the fees and expenses of third party investment managers and private funds (including Related Funds). Further, VWM's clients also may pay multiple fees that are not readily visible. For example, in a fund-of-funds, the underlying private funds charge fees which are deducted as an expense and affect the net capital appreciation of such underlying private fund. As a result, investors in fund-of-funds will be subject to increased fees. The client should review both the fees charged by these investment products and the fees charged by VWM to fully understand the total amount of fees paid.

Central invests in Insignia and Cain. Since Insignia and Cain pay management and performance fees to entities owned, in whole or in part, by Mr. Villafranco, VWM and Mr. Villafranco have an incentive to invest Central's assets in Insignia and Cain.

### **Related Funds**

All fees and allocations payable/allocable to the investment manager and/or general partner of each Related Fund are fully disclosed in the offering materials that are delivered to potential investors. Below is a summary of such compensation.

#### **Central**

Northpoint receives a management fee of 1% per annum (payable quarterly in advance) of each limited partner's capital account and Croton receives a performance allocation of 10% of the net capital appreciation allocable to each limited partner's capital account, subject to a preferred rate.

#### **Insignia**

Croton Management receives a management fee of 1% per annum (payable quarterly in advance) of each limited partner's capital account and Croton receives a performance allocation of 20% of the net capital appreciation allocable to each limited partner's capital account, subject to a high water mark.

#### **Cain**

Ridgeport receives a management fee of 1.25% per annum (payable quarterly in advance) of each limited partner's capital account and Westvale receives a performance allocation of 25% of the net capital appreciation allocable to each limited partner's capital account, subject to a high water mark.

### **Transaction-Based Compensation**

Mr. Villafranco and Anthony A. Durkin, Chief Operating Officer, are registered representatives of APB Financial Group Inc. ("APB"), a broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA"). Each holds a General Securities Representative License (Series 7) and Uniform Securities Agent License (Series 63). Mr. Villafranco earns 95% of net commissions transacted through APB as a registered representative. Mr. Villafranco is compensated for the sale of securities and other investment products as follows:

- VWM invests client assets in mutual funds, including no-load or load-waived mutual funds. Mr. Villafranco receives asset based sales charges and service fees (e.g., Rule 12b-1 fees, etc.) in connection with clients' mutual fund investments.
- Southwind refers prospective clients and investors to third party investment managers. Such third party investment managers compensate Southwind: 1) with a portion of the advisory fee paid by the referred client or investor, 2) by directing brokerage transactions to APB which are paid to Mr. Villafranco as a registered representative, or 3) by paying for such capital introduction services with soft dollar credits. These hedge fund marketing services are described in greater detail under Item 10.
- Most securities transactions for The Abernathy Fund are effected through APB; fifty percent of the commissions on such transactions are paid to Mr. Villafranco as a registered representative.

VWM does not reduce its client's advisory fees to offset the commissions and fees described above. VWM has policies and procedures that set forth its fiduciary duty to clients and require that VWM make full and fair disclosure of any potential conflicts of interest. The receipt of the above compensation presents a conflict of interest and gives VWM and Mr. Villafranco an incentive to recommend mutual funds, third party investment managers and private funds based on the compensation received, rather than on a client's needs.

## ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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VWM's clients do not pay performance fees, although the Related Funds and the Abernathy Fund pay such fees. VWM has policies and procedures that set forth its fiduciary duty to clients and require that VWM make full and fair disclosure of any potential conflicts of interest. VWM and Mr. Villafranco can potentially receive greater investment advisory fees from an account paying a performance-based fee than from an account paying an asset-based fee. This represents a potential conflict of interest because an incentive exists to favor accounts that pay a performance-based fee or to allocate time, services or functions to accounts that pay a performance-based fee. For example, an incentive exists to direct the best investment ideas to, or allocate or sequence trades in favor of, the accounts that pays the performance fee (i.e., the Related Funds and the Abernathy Fund).

## ITEM 7 - TYPES OF CLIENTS

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VWM provides investment management services to wealthy individuals, high net worth families, private foundations, trusts and investment vehicles for wealthy families such as family limited partnerships or family limited liability companies.

Clients must maintain an ongoing balance of \$250,000 in assets under management. VWM waives this minimum at its discretion. The Related Funds have investment minimums set forth in their offering documents, which are also waived at VWM's discretion.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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VWM invests client assets with third party investment managers and in investment products (i.e., private funds, mutual funds and ETFs) that use a variety of investment strategies, including, without limitation, short sales, futures, options and margin transactions. VWM evaluates investment managers and selects investment products on the basis of various criteria, including (where applicable):

- an analysis of the investment manager's performance during various time periods and market cycles
- the investment manager's reputation, experience and training
- the investment manager's articulation of, and adherence to, its investment philosophy
- the presence of risk management discipline
- on-site interviews of the management team
- the quality and stability of the investment manager's organization, including internal and external professional staff
- whether the investment manager has a substantial personal investment in the investment program

Once an investment decision is made, VWM will continue its oversight of the investment manager or investment product.

### **Risks**

Each type of security has its own unique set of risks that are not always easily identifiable. These risks affect the performance and the volatility of any investment. A client's investment portfolio is affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic recession, changes in laws and national and international political circumstances. Investments are also subject to currency, political and business risks.

Most mutual funds fall into one of three main categories – money market funds, bond funds and stock funds. Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss. Clients should read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks before investing.

Investing in private funds may be considered speculative, illiquid and may involve a significant degree of risk. It is only appropriate for qualified persons who can evaluate the risks associated with an investment in private funds and can bear the financial risks involved. Such an investment is suitable only for a limited portion of the risk segment of an investor's portfolio. Prospective investors should read carefully the private fund's offering documents in their entirety and consider the risk factors discussed therein in evaluating the merits and suitability of an investment in the private fund.

Below are common risks with respect to investing with third party investment managers and in investment products:



- VWM does not control the investment decisions of third party investment managers.
- Investing in multiple investment products could cause a client to hold opposite positions in an investment. This decreases or eliminates the possibility of positive returns from such investment.
- Certain investment products, such as private funds, are illiquid. In addition, these private funds may invest in illiquid securities (such as other private funds). This means that redemptions may not be permitted and could be delayed depending on the nature of the private fund.

Clients should also refer to the disclosure document of the third party investment managers for a full description of the services offered and risks. Investing in securities involves risk of loss that clients should be prepared to bear.

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## ITEM 9 - DISCIPLINARY INFORMATION

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VWM and its employees do not have any legal or disciplinary events to disclose.

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## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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Item 5 contains disclosure with respect to employees of VWM who are registered representatives of APB, the resulting conflicts of interest, and how VWM addresses such conflicts.

### **Hedge Fund Marketing**

As previously mentioned, Southwind refers prospective clients and investors to third party investment managers. Such third party investment managers compensate Southwind: 1) with a portion of the advisory fee paid by the referred client or investor, 2) by directing brokerage transactions to APB which are paid to Mr. Villafranco as a registered representative, or 3) by paying for such capital introduction services with soft dollar credits. These hedge fund marketing services are described below in greater detail.

- Southwind has an agreement to refer prospective clients and investors to Buckingham Capital Management, Inc. (“Buckingham”). Buckingham compensates Southwind with 20% of the advisory fees Buckingham receives with respect to any referred clients and investors. Southwind has also entered into similar solicitation agreements with Van Wagoner Capital Management, Deltec Asset Management, LLC and other third party investment advisers.
- Southwind has a verbal agreement to refer prospective clients and investors to Scoggin Capital (“Scoggin”). Scoggin compensates Southwind at a rate of 35 basis points of the market value of a referred client’s or investor’s investment on January 1 of each year that the client or investor retains Scoggin. Scoggin does not pay this compensation directly to Southwind. Rather, Scoggin executes transactions through APB, which are paid to Mr. Villafranco as a registered representative, until such payments equal the level of

compensation that Scoggin would have paid directly to Southwind for client and investor referrals.

- Southwind has a verbal agreement to refer prospective clients and investors to Wesley Capital (“Wesley”). Wesley compensates Southwind at an annual rate of 50 basis points of the market value of any referred client’s or investor’s investment. Wesley does not pay this compensation directly to Southwind. Rather, Wesley pays for such capital introduction services with soft dollar credits that it generates from commissions on securities transactions.

VWM refers its own advisory clients to the third party investment managers above. In such cases, in addition to the advisory fees that clients pay to VWM for investment management services, VWM is also compensated for such referrals. As a result, VWM has an incentive to invest client assets with or recommend these investment managers. VWM requires that employees always put its clients’ interests above their own interests.

### **Related Funds**

VWM’s principals and employees have a financial interest in the Related Funds directly, as investors, or indirectly, as owners of the general partner or investment manager of the funds. As a result of these interests, an incentive exists to favor the Related Funds. For example, an incentive exists to allocate limited investment opportunities to the Related Funds. In addition, an incentive exists to recommend that clients invest in the Related Funds to increase the general partner or investment managers’ advisory fees. VWM prohibits employees from allocating trades or investment opportunities that favor any particular client, group of clients or affiliated and proprietary accounts. A similar conflict of interest exists with respect to the Abernathy Fund since it is an affiliate of APB and Mr. Villafranco earns 95% of net commissions transacted through APB as a registered representative.

### **Other Activities**

Mr. Villafranco is the founder of The Footprints in the Sand Foundation (the “Footprints Foundation”), a non-profit organization that helps children and their families. Certain of the third party service providers engaged by VWM to provide services to clients or to Related Funds also contribute to the Footprints Foundation (e.g., as board members, event sponsors, etc.). A conflict of interest exists in engaging, initially and on an ongoing basis, such third party service providers since it could appear that the third party service providers were chosen based on contributions to the Footprints Foundation rather than on the best interests of the clients, the Related Funds, or the Abernathy Fund. VWM monitors this potential conflict of interest to ensure that the recommendation of third party service providers is in the clients’ best interests.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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VWM expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. VWM has a Code of Ethics (the “Code”) to which all employees of

VWM must adhere. The Code restricts the receipt of gifts and contains controls to prevent insider trading. The Code also requires that employees give prior notice of, and under certain circumstances receive approval for, any outside activity in which they wish to engage. In addition, VWM limits access to non-public personal information to those persons that need access to such information to provide services to clients.

VWM's employees invest in the same securities or related securities (e.g., warrants, options, or futures) for their own accounts that VWM recommends and invests in for clients. Further, employees can transact in a security for their own accounts at or about the same time that VWM recommends or invests in that same security for a client. VWM prohibits employees from benefiting from transactions placed on behalf of advisory accounts. Certain employees must report their personal investment holdings and securities transactions to VWM. The Chief Compliance Officer reviews these reports for compliance with the firm's policies and procedures and the Code.

VWM's principals and employees have a financial interest in the Related Funds directly, as investors, or indirectly, as owners of the general partner or investment manager of the Related Funds. Conflicts of interest with respect to such interests are disclosed under Item 10.

This summary is qualified in its entirety by the Code. Contact Anthony J. LaPeruta, Chief Compliance Officer at 201-307-5026 or [anthony@southwindassociates.com](mailto:anthony@southwindassociates.com) to request a copy of the Code.

## ITEM 12 - BROKERAGE PRACTICES

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VWM generally requires that clients use the brokerage and custodial services of First Republic Bank ("FRB"). VWM recommends the services of FRB based on all relevant factors, including: 1) the ability of the broker-dealer to provide prompt and efficient execution; 2) the ability and willingness of a broker-dealer to facilitate the transaction by acting as principal and going at risk for its own account; 3) the ability of the broker-dealer to provide accurate and timely settlement of the transaction; 4) VWM's knowledge of the negotiated commission rates currently available and other current transaction costs; 5) the clearance and settlement capabilities of the broker-dealer; 6) VWM's knowledge of the financial condition of the broker-dealer selected; and 7) any other matter VWM believes is relevant to the selection.

Not all investment advisers require their clients to use the brokerage and clearing services of only one firm. FRB's commissions and transaction fees may be higher than what other broker-dealers charge and this practice could cost clients more money. Further, in using only one firm, VWM could be unable to achieve most favorable execution of client transactions.

Client assets may be maintained at other custodians, such as at Goldman Sachs or KeyBank, on a one-off basis.

Item 5 contains disclosure with respect to employees of VWM who are registered representatives of APB, the resulting conflicts of interest, and how VWM addresses such conflicts.

### Benefits

VWM receives benefits from FRB without cost. These benefits do not depend on the amount of brokerage transactions but are dependent on VWM maintaining a threshold dollar amount of client assets at FRB. VWM receives the benefits listed below.

- receipt of duplicate client statements and confirmations
- the ability to aggregate securities transactions for execution and then allocate the shares to client accounts
- the ability to directly deduct advisory fees from client accounts
- assistance with back-office functions, recordkeeping and client reporting

The above products and services assist VWM in managing and administering all client accounts, irrespective of the amount of assets or transactions of a client. These products and services benefit VWM and do not benefit client's accounts. VWM's receipt of these economic benefits creates a potential conflict of interest since VWM has an incentive to select FRB based on its interest in receiving these products or services rather than on the clients' interest in receiving most favorable execution. VWM manages this potential conflict by periodically comparing the fees charged and services offered by these custodians with those offered by other custodians.

### Block Trading

VWM may combine client transactions if it decides to purchase or sell the same securities from or to several clients at approximately the same time (this practice is commonly referred to as "block trading"). VWM combines such orders in an effort to: 1) obtain "best execution", 2) negotiate more favorable commission rates, or 3) allocate differences in prices and commissions or other transaction costs equitably across client accounts. Employee transactions may be combined with client orders. If VWM does not combine transactions when it has the opportunity to do so, clients could pay higher brokerage costs.

## **ITEM 13 - REVIEW OF ACCOUNTS**

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VWM informally reviews all client accounts on a monthly basis. This informal review involves the use of VWM's asset allocation model with respect to each client's account to ensure that the client's risk tolerance is adhered to and the appropriate level of diversification is attained. If an informal review of a client's account indicates that asset allocation should be modified, VWM will make the modification and maintain a record of the reasons therefore.

VWM also conducts detailed performance evaluations of its advisory clients' accounts on a quarterly basis, and at such other times at a client's request. These evaluations typically entail a review of: 1) an advisory client's goals and risk guidelines, 2) monthly market evaluations, 3) similar asset class return, and 4) market and peer group comparisons. VWM typically does not receive specific instructions from clients regarding the level of review desired.

Messrs. Villafranco, LaPeruta, and Durkin conduct reviews of all client accounts.

All advisory clients receive written quarterly account statements which are customized to each advisory client's needs and preferences. VWM provides written monthly reports to advisory clients upon request. Written yearly summaries are provided in the fourth quarter report.

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## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

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The hedge fund marketing services that Southwind provides are described in greater detail under Item 10.

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## ITEM 15 - CUSTODY

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All client assets are held at qualified custodians. The qualified custodians send monthly or quarterly account statements directly to clients. VWM urges clients to carefully review these statements and to compare the account statements they receive from the qualified custodian with those they receive from VWM.

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## ITEM 16 - INVESTMENT DISCRETION

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It is VWM's practice to enter into a written agreement with each client. This agreement describes the terms and conditions of the engagement, the scope of the services to be provided, discretionary authority, compensation, and various representations and warranties and other terms of the relationship. Clients also sign a custodial agreement with FRB or another custodian. Clients may, but generally do not, limit VWM's authority, such as by directing VWM not to invest in securities of particular issuers.

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## ITEM 17 - VOTING CLIENT SECURITIES

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VWM does not have the authority to vote proxies. Clients will receive their proxies or other solicitations directly from their custodian. Clients can contact VWM at 201-505-9495 if they have any questions about a particular proxy solicitation.

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## ITEM 18 - FINANCIAL INFORMATION

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VWM is financially capable of meeting all contractual commitments to clients.