

Westech Investment Advisors LLC

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This Brochure provides information about the qualifications and business practices of Westech Investment Advisors LLC. If you have any questions about the contents of this Brochure, please contact Martin Eng, CFO, at 408 (436-8577 X17) or [Martine@westerntech.com](mailto:Martine@westerntech.com). 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.

Westech Investment Advisors LLC is a registered investment adviser and also does business as Western Technology Investment (“WTI”), which was founded in 1980. 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 Westech Investment Advisors LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Since last year's update on March 21, 2011, there have been no material changes from our last annual update.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested free of charge by contacting [Martin Eng, CFO](#), at [650\(234-4308\)](#) or [Martine@westerntech.com](mailto:Martine@westerntech.com). Additional information about Westech Investment Advisors LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 – Advisory Business**

Westech Investment Advisors LLC (also referred to in this Brochure and “WTI” and the “firm”) serves as investment manager for eight companies, two of which are corporations which have elected to be treating as business development companies (“BDCs”) under the Investment Company Act of 1940, and the remaining six of which are not BDCs. The two BDC companies are: Venture Lending & Leasing V, Inc. (“Fund V”); and Venture Lending & Leasing VI, Inc. (“Fund VI”). The non-BDC companies are: VLLI Holdings II, LLC (“Fund II”); Venture Lending & Leasing III, LLC (“Fund III”); Venture Lending & Leasing IV, Inc., (“Fund IV”), Venture Lending & Leasing IV, LLC (“VLL4 LLC”), which owns 100% of the stock of Fund IV; Venture Lending & Leasing V, LLC (“VLL5 LLC”), which owns 100% of the stock of Fund V; and Venture Lending & Leasing VI, LLC (“VLL6 LLC”), which owns 100% of the stock of Fund VI. Together, all of the companies for which WTI serves as investment manager are referred to in this Brochure as the “Funds.” The firm also serves as managing member of Fund II, VLL4 LLC, VLL5, LLC, VLL6, LLC and VLLI Capital, LLC (the managing member of Fund III).

The principal owner of the firm is Westech Investment Management, Inc., a California corporation. The sole shareholders of Westech Investment Management, Inc. are Ronald W. Swenson and Salvador O. Gutierrez.

The firm manages \$913,852,983 client assets on a discretionary basis and \$0 client assets on a non-discretionary basis (both calculated as of December 31, 2011).

#### **Item 5 – Fees and Compensation**

Each of Fund II and Fund III currently pay its managers an advisory fee of 2.5% of total assets, paid quarterly in arrears. Additionally, Fund III allocates to its managers, as an incentive payment, 20% of profits in excess of a preferred return of 8% on unreturned capital. While this allocation is not an expense of the Fund, it can be considered as compensation that the managers receive. Compensation for Fund II and Fund III is shared between the firm and an unaffiliated investment adviser (the “Other Adviser”) that performs specified, primarily administrative, services. The sharing arrangements vary for each such Fund, but in each case the firm retains the majority of the compensation paid.

Currently, both Fund IV and VLL4 LLC pay the manager a fee of 2.5% of total assets under management. Because VLL4 LLC is the sole shareholder of Fund IV, the management fee

that VLL4 LLC pays to the manager is based on total assets less the investment in subsidiary, in order to not double count assets. Additionally, once the hurdle rate of 8% has been reached, the manager is allocated all of the profits until cumulative profits are allocated 80% to members in accordance with their ownership percentages and 20% to the manager. Beyond such allocation, VLL4 LLC allocates to the manager, as an incentive allocation, 20% of profits in excess of a preferred return of 8% on unreturned capital. While these allocations are not an expense of the Fund, they can be considered as compensation that the manager receives. Fund V and VLL5 LLC pay the manager a combined fee of the greater of 2.5% of total assets under management and 1.5% of committed capital to VLL5 LLC as long as consolidated assets are in excess of \$25 million. If assets are less than \$25 million, the combined management fee will be 2.5% of consolidated assets. Because VLL5 LLC is the sole shareholder of Fund V, the management fee that VLL5 LLC pays to the manager is based on total assets less the investment in subsidiary, in order to not double count assets. Additionally, once the hurdle rate of 8% has been reached, the manager is allocated all of the profits until cumulative profits are allocated 80% to members in accordance with their ownership percentages and 20% to the manager. Beyond such allocation, VLL5 LLC allocates to the manager, as an incentive allocation, 20% of profits in excess of a preferred return of 8% on unreturned capital. While these allocations are not an expense of the Fund, they can be considered as compensation that the manager receives.

Fund 6 pays the manager a management fee of 2.5% of the committed capital to VLL6 LLC . No fee is charged to VLL6 LLC for the first two (2) years of the Fund's operations. After the second anniversary is reached, Fund VI and VLL6 LLC will pay a combined fee of the greater of 2.5% of total assets under management and 1.5% of committed capital to VLL6 LLC as long as consolidated assets are in excess of \$25 million. If assets are less than \$25 million, the combined management fee will be 2.5% of consolidated assets. Because VLL6 LLC is the sole shareholder of Fund VI, the management fee that VLL6 LLC pays to the manager is based on total assets less the investment in subsidiary, in order to not double count assets. Additionally, once the hurdle rate of 8% has been reached, the manager is allocated all of the profits until cumulative profits are allocated 80% to Members in accordance with their ownership percentages and 20% to the manager. Beyond such allocation, VLL6 LLC allocates to the manager, as an incentive allocation, 20% of profits in excess of a preferred return of 8% on unreturned capital. While these allocations are not an expense of the Fund, they can be considered as compensation that the managers receive.

The specific manner in which fees are charged by WTI is established in a client's written agreement with WTI. WTI will generally calculate its fees on a quarterly basis in arrears. Management fees are deducted directly from the account. Each quarter, the previous quarter's calculation of management fees is reviewed in case there has been a change (i.e.;

the asset value upon which the management fee calculation was made has changed, etc.) and, if necessary, a “true-up” adjustment is made to the current quarter calculation. Management fees are based on information as of the last day of the quarter and are not prorated for capital contributions and withdrawals made during the applicable calendar quarter. Other than potential over-payments, which are discussed above, there are no prepaid or unearned fees, as management fees are paid in arrears. Management fees which are calculated as a percentage of committed capital are charged as if the capital had been committed as of the first closing of capital.

The firm’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are 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. Such charges, fees and commissions are exclusive of and in addition to WTI’s fee, and the firm does not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that the firm 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**

The firm does not charge any performance-based fees, however as stated above in Item 3, the firm does receive allocations of income after certain hurdle rates have been met. While these are not classified as “Fees”, they can be construed as additional compensation. Furthermore, for Funds which are charged management fees based on assets under management, the compensation structure may provide the firm with an incentive to increase assets as compensation increases with size of the asset base. These fee arrangements may create incentives for the firm to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement, and may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. In the past, the Boards of Directors of Funds making active investments have each adopted a policy that, for so long as they are each making active investments, they will generally invest in the same portfolio companies, with the amount of the investment allocated among them pro rata in accordance with their capital commitments. This policy, which is codified in the firm’s code of ethics, helps ensure that firm clients are treated fairly and equally, and to prevent the potential conflict described above from influencing the allocation of investment opportunities among clients.

## Item 7 – Types of Clients

WTI provides portfolio management services to private investment funds as well as BDCs.

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

The firm follows the investment strategy of each of the Funds, which is to provide debt financing to carefully selected venture capital-backed companies, primarily in the form of secured loans. This investment strategy involves a high degree of risk, including: the illiquidity of portfolio investments; risks of default by borrowers, many of whom have no or little operating profit or cash flow as of the commencement of a financing transaction; interest rate risk; litigation risks; the effect of leveraging a Fund's portfolio; the speculative nature of investments in warrants for stock or directly in stock; and the risks involved in investing in privately-held and emerging companies. **Investing in securities involves risk of loss that clients should be prepared to bear.**

The firm evaluates potential investments on a case by case basis, using both a credit and "venture capital" approach. The initial phase includes the collection of relevant materials such as business plans, financials and pro-forma projections, capitalization tables, management bios, and corporate documents. Additionally, the WTI investment committee visits and meets with the CEO and management team of the prospective investments. Reference checks may be performed by contacting venture capitalists, customers, and competitors. A credit file is built to serve as the foundation to monitor progress of the company against milestones.

The firm typically uses a buy and hold strategy; where investments are held until maturity. All securities are evaluated on a continual basis. On an exception basis, some investments are restructured instead of being held to maturity. The firm typically does not purchase public securities; however, some public securities are acquired through warrant exercises, mergers, acquisitions, and IPOs of the investments that are made. Additionally, in some cases, public securities are issued in conjunction with loans made to public companies. Public securities are monitored on an on-going basis and a variety of factors (trend in stock price, potential for market, etc.) are used to determine when to sell these securities.

The investments made by the Funds are primarily in venture-backed companies. Most of the companies with which the Funds enter into financing transactions will not have achieved profitability. These investments are risky because of the short operating history, emerging company risks, reliance on key employees, potential for global economic

problems, etc. The Funds will often utilize leverage. The use of leverage could lower returns if the cost of leverage exceeds the benefits derived from such use. Since the management fee paid to WTI is typically paid based on assets under management (inclusive of amounts derived from borrowing), management fees will often be higher because of the use of leverage.

#### **Item 9 – Disciplinary Information**

Not applicable.



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

The firm serves as managing member of Fund II, VLL4, LLC (the sole shareholder of Fund IV), VLL5, LLC (the sole shareholder of Fund V), VLL6, LLC (the sole shareholder of Fund VI), and VLLI Capital, LLC (the managing member of Fund III).

The firm's only clients are the Funds. The firm provides statements of account for all investors on a quarterly basis. The firm provides full financial and investment information about the Funds, including financial statements and loan and warrant portfolio and other information, to the Boards of Directors of the Funds (or in case of the Funds which are limited liability companies, to their Advisory Boards), at their quarterly board meetings. Fund III, Fund IV, Fund V, Fund VI, VLL4, LLC, VLL5, LLC, and VLL6, LLC report financial statements, loan portfolio and other information quarterly to their shareholders, including annual audited financial statements. Fund II reports financial statements, loan and other information on an annual basis to its members; however, its financial statements are unaudited. Additionally, custodial account information for Fund II is sent to investors on a quarterly basis directly from the custodial bank.

As described in Item 5 above, a portion of the management fees paid by Fund II and Fund III are shared with the Other Adviser.

## **Item 11 – Code of Ethics**

The firm has adopted a written "Firm Code of Ethics", which applies to every employee of the firm. The Code of Ethics includes provisions relating to avoiding conflicts of interest with the Funds and the firm, protecting the confidential information of the Funds and the firm, and prohibitions on insider trading on material nonpublic information. The Code of Ethics requires employees to report any violations of the Code of Ethics promptly to the firm's Chief Compliance Officer. Employees are provided with a written copy of the Code of Ethics and any amendments, and sign written acknowledgements of their receipt of the Code of Ethics and any such amendments. Clients or prospective clients of the firm may request a copy of the Firm Code of Ethics by contacting Martin Eng at (650) 234-4300 or [Martine@Westerntech.com](mailto:Martine@Westerntech.com).

The Firm Code of Ethics also contains personal securities trading procedures which apply to "access persons" (generally, persons in a control relationship to a Fund or with access to security trading information of a Fund). Access persons are required to disclose to the

Chief Compliance Officer the existence of any interest they have in a company in which a Fund is considering making an investment. The Chief Compliance Officer then reports any such interest to the Board of Directors of the relevant Fund. The Firm Code of Ethics further requires that access persons provide the Chief Compliance Officer with an initial report of their securities holdings, which initial report is required to be updated by quarterly and annual reports. Pre-approval from the Chief Compliance Officer is required before an access person may buy or sell securities in an initial public offering or a private placement, or any security listed on a "restricted list" maintained by the firm. The Chief Compliance Officer provides periodic reports to the Boards of Directors of the Funds on compliance with the securities trading procedures.

## **Item 12 – Brokerage Practices**

Brokers and dealers generally are selected based on their ability to handle transactions involving restricted securities, commission rates or spreads, and breadth of market in particular securities. No soft dollar arrangements are made.

## **Item 13 – Review of Accounts**

On a weekly basis, the entire staff of the firm meets and reviews several documents. A staff person presents a "Low Cash List" at which time portfolio companies with low cash balances are discussed in detail as well as their prospects for additional financing. A staff person provides a delinquency report that shows portfolio companies that have not paid their current payment. This list is reconciled to the general ledger by the controller. One of the investment associates presents a schedule documenting the collections of non-performing accounts. One of the loan processors presents a listing of potential fundings for evaluation and discussion as well as a list of new commitments made during the quarter.

The financial records are kept by the controller. On a monthly basis the controller reconciles all bank accounts (10 - 15 accounts), which are reviewed on a periodic basis by the CFO. Financial statements are prepared by the accounting manager and reviewed by the controller on a quarterly basis. These statements are reviewed by the CFO, CEO and the Board of Directors of the Funds. During the review by the CFO, variances that appear to be out of the ordinary are explained. The financial statements of Fund V and Fund VI are reviewed by the independent auditor on a quarterly basis. On an annual basis, the auditors perform an audit of Fund V, Fund VI, VLL4, LLC, VLL5, LLC, VLL6, LLC and Fund III.

The firm's only clients are the Funds. The firm provides statements of account for all investors on a quarterly basis. The firm provides full financial and investment information about the Funds, including financial statements, loan and warrant portfolios and other information, to the directors (or in case of LLC's, the advisory boards) of the Funds at their quarterly board meetings. VLL3 LLC, Fund V, Fund VI, VLL4, LLC, VLL5, LLC and VLL6, LLC report financial statements, loan portfolio and other information quarterly to their shareholders or members, including annual audited financial statements. Fund II reports unaudited financial statements, loan and other information on an annual basis to its members, and custodian account information is sent to Fund II's investors on a quarterly basis directly from the custodial bank, as are account statements.

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

The firm does not pay or receive any economic benefit from a non-client in connection with giving advice to clients, and does not compensate any person for client referrals.

#### **Item 15 – Custody**

Custodial account information for Fund II is sent to investors on a quarterly basis directly from the custodial bank. The firm urges you to carefully review such statements and compare such official records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

WTI usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such 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, the firm observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, the firm's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

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

The firm has adopted Proxy Voting Policies with respect to the proxies it votes on securities owned by the Funds (the “Proxy Policies”), which set forth the firm’s policies for voting equity securities acquired by the Funds through the exercise of warrants (“Warrant Equities”) and equity securities purchased directly from the issuer (“Direct Equities”). With regard to Warrant Equities, the firm will (i) refrain from voting Warrant Equities unless the amount of such securities exceeds 0.50% of all securities of the issuer entitled to vote at that meeting, and (ii) if such threshold is exceeded, vote the Warrant Equities and report its vote, together with its rationale, to the Board of the relevant Fund. With regard to Direct Equities, (i) if the Direct Equities are in a private company, the Proxy Policies contain guidelines for the firm to consider when voting such equities, and (ii) if the Direct Equities are in a public company, the firm will follow the same guidelines as it follows for Warrant Equities. The foregoing summary of the Proxy Policies is qualified in its entirety by reference to the Proxy Policies, a copy of which will be provided to any client upon written request without charge.

## **Item 18 – Financial Information**

The firm does not have any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.