

**PERGAMENT ADVISORS, LLC**

**FORM ADV – PART 2A (FIRM BROCHURE)**

**Item 1 – Identification**

**Principal Business Office Address:**

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New York, New York 10022  
Main Telephone Number: 212-994-6200  
www.pergamentadvisors.com

**Brochure Date: March 31, 2011**

This Brochure provides information about the qualifications and business practices of Pergament Advisors, LLC (“Pergament”). If you have any questions about the contents of this Brochure, please contact us at (212) 994-6200. 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.

Pergament is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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

## **Item 2 – Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) adopted *Amendments to Form ADV* which amends the disclosure document we provide to clients as required by federal regulations. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Brochure is materially different in structure and requires certain new information that our previous disclosure document did not require. Since this is a major format change and new content has been included, we recommend clients and prospective clients review the entire Brochure.

In the future, this Item will discuss only specific material changes that are made to the Brochure and will provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

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 are required to ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year of December 31<sup>st</sup>. We will further provide you with a new Brochure as necessary based on material changes or new information, at any time, without charge upon request.

Our Brochure may be requested by contacting us at 950 Third Avenue, Third Floor, New York, New York 10022, or by phone at (212) 994-6200.

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Brochure Supplement(s) are provided separately to clients.

## **Item 4 – Advisory Business**

### **Section A.**

#### **THE COMPANY**

Pergament Advisors, LLC (“Pergament” or “the Firm” or “we”) is organized as a limited liability company under the laws of the state of New York and is registered as an investment adviser with the SEC. Pergament has been in business since 1999 and has been registered with the SEC since 1999. The Firm is headquartered in New York, New York.

#### **OWNERSHIP**

Pergament is wholly owned (100%) by Arthur J. Pergament.

### **Section B.**

#### **TYPES OF ADVISORY SERVICES**

Pergament provides discretionary investment advisory services regarding securities and non-securities primarily to U.S. and non-U.S. private investment funds, which are organized as domestic limited partnerships, limited liability companies, and offshore corporations, for which Pergament acts, pursuant to a separate investment management agreement as investment manager (collectively, the “Private Funds”). Please refer to Schedule D of the Form ADV Part I for a list of the Private Funds. Pergament also provides discretionary and nondiscretionary investment management services for high-net worth individuals and family trusts and entities, including affiliates (collectively, with the Private Funds, “Clients”).

### **Section C.**

#### **OVERVIEW OF ADVISORY SERVICES**

With regard to its investment advisory services, Pergament’s specialization is primarily, but is not limited to, trading in debt and equity securities a variety of issuers, such as those with large capitalizations, “blue chip” companies, fund-of-funds vehicles, hedge funds and companies selling securities in private transactions to achieve growth and value for clients. Pergament may also trade in other private investment funds and alternative securities.

Client portfolios are managed in accordance with each client’s investment objectives, taking into consideration risk tolerance, time horizon, tax issues, liquidity and cash flow needs, restrictions/constraints, and other relevant guidelines. Pergament may recommend changes to this allocation, in an attempt to take advantage of conditions in the current economic environment, while being sensitive to transaction costs and taxes, as appropriate.

Portfolios for the Private Funds are managed in accordance with each fund’s investment objectives and guidelines, which are set forth in such fund’s offering documents or private placement memoranda (“PPMs”).

### **Section D.**

#### **WRAP FEE PROGRAMS**

Pergament does not participate in wrap fee programs.

### **Section E.**

#### **ASSETS UNDER MANAGEMENT**

As of December 31, 2010, Pergament had approximately \$64,000,000 in assets under management.

## **Item 5 – Fees and Compensation**

### **Private Pooled Investment Vehicles**

Pergament generally receives a management fee ranging from 1% to 2% per annum of assets under management, generally charged monthly in advance in accordance with the Private Funds' PPMs. Fees charged in advance will be refunded for partial periods if the advisory relationship with a Client or an investor in a Private Fund is terminated within a calendar month. If any fees are charged in arrears, they will be prorated for any partial period of investment advisory service.

Limited Partners also pay fees in addition to those fees shown above. For a complete list of potential fees please see the Fund's Private Offering Memorandum. Performance-based fees are discussed further in Item 6.

### **Separate Accounts**

Pergament serves as a discretionary manager on several separately managed accounts for both individuals and family trusts and entities. We typically charge a management fee of 1.5% based on total assets managed. Generally, this fee is charged quarterly in arrears, and thus, such fees will be prorated for any partial period of investment advisory service. Pergament reserves the right to negotiate fees. Certain clients pay more or less than others depending on certain factors, including but not limited to, the type and size of the account, the level and complexity of service provided, and the total amount of assets managed for a single client.

Clients may pay other fees as such as brokerage commissions, transaction fees, custodial fees and transfer taxes, and other fees and taxes charged to brokerage accounts and securities transactions.

All Pergament client assets are held by a "qualified custodian," as that term is defined in Advisers Act Rule 206(4)-2, to the extent required by law, and Pergament will bill such custodians as directed by clients.

***Out-of-Pocket Expenses.*** In addition to fees, clients may be responsible for certain out-of-pocket expenses for reasonable and direct costs incurred by Pergament on the client's behalf. These out-of-pocket expenses may include travel costs and expenses incurred by Pergament in connection with meetings, copying, long-distance telephone calls, facsimile charges, messenger and/or express delivery services, and special research items. Pergament will provide its clients with an invoice containing a detailed description of such expenses.

## **Item 6 – Performance-Based Fees**

Pergament is also compensated for investment advisory services based on a share of the overall account performance of all or a portion of client assets ("performance-based fee"). The terms of any performance-based fee are based upon a negotiated arrangement with the Client or, in the case of Private Funds, based on the PPMs. Pergament anticipates that such client relationships and arrangements will also pay "management fees" calculated on the market value of the assets under management. Pergament's performance-based compensation is equal to 20% of the net profit, before management fees, and is generally

charged annually. For purposes of calculating the performance-based compensation, net profit includes both realized and unrealized gains.

Performance-based compensation is charged by Pergament in conformity with Rule 205-3 under the Investment Advisers Act of 1940, as applicable. For separately managed accounts, Pergament will enter into an incentive fee arrangement only if the Client meets the definition of a qualified client under Section 205-3 of the Investment Advisers Act of 1940, as amended (“Advisers Act”).

Performance-based fee arrangements create conflicts of interests. Pergament may make investments that are riskier than it would otherwise make. In addition, because the performance-based fee is calculated on a basis that includes unrealized appreciation of the Private Fund’s assets, it may be greater than if such allocation was based solely on realized gains. To manage such conflicts, the performance-based fee is subject to a loss carryforward or high watermark so that losses must be recouped before Pergament will be entitled to performance-based compensation.

## **Item 7 – Types of Clients**

Pergament provides directly discretionary and nondiscretionary investment advice to high-net worth individuals, families and their related entities, such as trusts and private foundations, which includes the Pergament family. Additionally, Pergament serves as an adviser to the Private Funds.

Pergament’s basic fee schedules for investment advisory services for separately managed accounts are generally subject to an initial asset base of \$500,000. However, fees and minimum initial set base amounts may be subject to modifications and negotiations to accommodate special client requirements. Each Private Fund has a minimum investment requirement for investors as set forth in the Private Fund’s respective offering documents. Investors also are required to meet certain eligibility standards as set forth in the Private Fund’s respective offering documents.

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

### **Section A. METHODS OF ANALYSIS**

Pergament’s methods of analysis include charting, fundamental, technical and cyclical.

- **Charting** - In this type of technical analysis, charts are used to plot price movements, volume, settlement prices, open interest, and other indicators, in order to anticipate future price movements. Also charts of market, security and economic data are use to help identify the timing of the market moving up or down and to predict how long trends may last and when trends might reverse. A chart is an historical record of price movements. Charting will often reveal patterns that repeat over and over with the same outcome but there is no guarantee in finding these tendencies and patterns or that historical records are an indicator of current or future movements.
- **Fundamental** - Fundamental analysis is using real data to evaluate a security's value. For example, fundamental analysis can be performed on a bond's value by

looking at economic factors, such as interest rates and the overall state of the economy, and information about the bond issuer, such as potential changes in credit ratings. For assessing stocks, this method uses revenues, earnings, future growth, return on equity, profit margins and other data to determine a company's underlying value and potential for future growth. In terms of stocks, fundamental analysis focuses on the financial statements of the company being evaluated. Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating a security.

- **Technical** - This form of value analysis focuses on patterns of volume and price fluctuations for a given stock as compared to the activity of the larger, general market indicators. Securities are evaluated for purchase or sale based on an analysis of market statistics such as volume and prices over time as seen on charts, etc. that are believed to establish relational patterns that can predict future movements in the markets. This relative comparison has little or no concern for any company's fundamental structure, production or worth. Technical analysis assumes that all the market factors are known to and considered by all the market's participants, although the market can act in irrational ways. Technical analysis purports to see repeatable patterns in similar market conditions, but any one of many factors may alter the outcome of an otherwise similar situation.
- **Cyclical** - There are industries in which profits rise and fall on a cyclical basis. As profits of companies follow cyclical patterns, so do their stocks: going up and down, reflecting the current stage of the business cycle. There are a wide variety of industries that can be described as having distinct business cycles: oil and gas, semi-conductors, car-manufacturing, mining, home-building, fertilizer production and many others. Their main feature is that their profits and thus stock prices follow similar rising and falling patterns over the long run. There is no guarantee that historical trends will indicate current cycles.

Further, the Private Funds are subject to the methods of analysis described in their offering documents, which may be different than the methods of analysis explained above. Please see such funds' offering documents for further information.

The main sources of information that Pergament uses includes publicly available sources, such as newspapers, company press releases, timing services, annual reports, trade journals, corporate rating services and contact with outside analysts, as well as Pergament's own assessment of the financial consequences of world events.

## **Section B.**

### **INVESTMENT STRATEGIES USED TO IMPLEMENT INVESTMENT ADVICE**

Any investment advice provided by Pergament to clients is based on a number of factors, including, but not necessarily limited to, the client's investment objectives, risk tolerances, asset-class preferences, time horizons, liquidity needs, expected returns, and an assessment of current economic and market views expressed by economists, analysts, banks, and securities firms.

Generally, investment strategies emphasize long-term investments in a diversified portfolio intended to meet the Client's long-term financial objectives. Nevertheless, investment strategies used to implement investment advice include short-term purchases (securities sold within a year), trading (securities sold within 30 days), long-term purchases (securities held at least a year), short sales, option-writing strategies, including covered options or spreading

strategies, or margin transactions. If permitted, the use of margin in an account generally is described in the investment policy statement.

At present, Pergament seeks capital appreciation through investing through long and short positions in any market globally as opportunities emerge, mainly relying on a macro-economic assessment of markets, trends and events. This strategy includes investing in emerging markets, distressed investments, and simultaneous long the convertible securities and short the underlying securities of the same issuer to "work the spread" between two types of securities and in an attempt to eliminate market risk by equally balancing long and short positions.

The Private Funds may have different investment strategies and are set forth in such funds' offering documents. For more information about the investment strategies of the Private Funds that Pergament manages, please see such funds' offering documents for further information.

### **Section C.** **RISK OF LOSS**

**Investing in securities involves risk of loss that clients should be prepared to bear.** All investments carry the risk of loss and there is no guarantee that any investment strategy will meet its objective. Depending on the type of security, your account may face the following investment risks:

**Equity Risk** - Investments in equity securities generally involves a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. In addition to, or in spite of, the impact of movements in the overall stock market, the value of investments may decline if the particular investments within the portfolio do not perform well in the market. Prices of growth stocks may be more sensitive to changes in current or expected earnings than prices of other stocks. Prices of stocks may fall or fail to appreciate regardless of movements in securities markets.

**Market Risk** - The success of client portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barrier, currency fluctuations and controls, and national and international political circumstances. These factors may affect the level of volatility of securities prices and the liquidity of investments in client portfolios. Such volatility or illiquidity could impair profitability or result in losses.

**Extraordinary Events** - Global terrorist activity and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure.

**Fixed Income Risks** - Investments in fixed income securities represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk. These risks represent the potential for a large amount of price volatility. In general, securities with longer maturities are more sensitive to price changes. Additionally, the prices of high yield, fixed-income securities fluctuate more than high quality debt issues. Prices are especially sensitive to



developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. Developments in the credit market may have a substantial impact on the companies we may invest in and will affect the success of such investments. In the event of a default, the investment may suffer a partial or total loss.

**Increased Regulations** - Events during the past several years and adverse financial results have focused attention upon the necessity to maintain adequate risk controls and compliance procedures. These events have led to increased governmental and self-regulatory authority scrutiny of the financial industry. Various national governments have also expressed concern regarding disruptive effects of speculative trading and the need to regulate the markets in general. Any regulations that restrict the ability to employ, or broker-dealers and counterparties to extend, credit or restrict trading activities could adversely impact profit potential.

**Market Liquidity Risks** - The value of securities held in client accounts and that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, September 2001, and more recently the Flash Crash in May 2010 could lead to violent price swings in securities held within client portfolios and could result in substantial losses.

**Potential Concentration** - Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.

**Small Capitalization Companies** - A substantial portion of assets may be invested in smaller and less established companies. Both debt and equity securities of such issuers tend to be more volatile than larger, more established companies. Such volatility could adversely impact client portfolios.

**Large Company Risk** - Large cap stocks can perform differently from other segments of the equity market of the equity market as a whole. Large capitalization companies may be less flexible in evolving markets or unable to implement change as quickly as smaller capitalization companies.

**Non-U.S. Investments** - We may invest client funds in securities (*debt, equity, currencies, derivatives, etc.*) domiciled outside the United States. Such investments expose the portfolio to a number of risks that may not exist in the domestic market alone. Such risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, possible nationalization of assets or industries, political difficulties, and political instability in foreign nations.

**Short Sales, Leverage and Derivatives** - Short sales, leverage and derivatives all represent substantial risks given their inherent heightened risk of loss. Leverage and derivatives imply borrowing capital. When such borrowing is deployed, losses can escalate

quickly should investments suffer even small losses. Short sales involve a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Short positions are also subject to a “short squeeze” that could lead to accelerating losses for those short that particular security.

**Other Funds** - In addition to the Private Funds, Pergament may invest in other, unaffiliated funds (including, but not limited to, U.S. or offshore unit investment trusts, open-end and closed-end mutual funds and hedge funds, private equity funds, venture capital funds, advisory accounts, real estate investment trusts, ETFs, or other private alternative or other investment funds, regardless of whether any of the foregoing investment vehicles are affiliated with us) (collectively, "Other Funds and Managers"). These Other Funds and Managers will charge their own management and other fees, so that if we invest in them, you will bear an additional level of fees and expenses. Some of these funds may pay fees to Pergament or its affiliates. Also, U.S. mutual funds generally must distribute all gains, including to investors who may not have an economic gain, which can lead to negative tax effects on Investors, particularly non-U.S. persons. Pergament may also invest in exchange traded funds, unit investment trusts, or other similar vehicles designed to track the performance of a specific index or sector. These Other Funds may have unique risks of loss as described in their offering documents.

## **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a client’s or prospective client’s evaluation of Pergament’s advisory business or the integrity of our management.

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

### **Section A.**

#### **BROKER DEALER**

No management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **Section B.**

#### **COMMODITY POOL OPERATOR AND COMMODITY TRADING ADVISER**

Neither Pergament nor any of its management persons is registered as a Commodity Pool Operator or Commodity Trading Advisor.

### **Section C.**

#### **OTHER RELATIONSHIPS AND/OR ARRANGEMENTS MATERIAL TO ADVISORY BUSINESS**

Pergament has been retained by its affiliate, Pergament Fund Management, LLC ("PFM") to serve as the discretionary investment manager for multiple private pooled investment vehicle, the Private Funds. PFM serves as General Partner for the Private Funds. Because PFM shares space, personnel and information with Pergament, a registered investment advisor, PFM will adhere to the provisions of the Investment Advisers Act of 1940. Pergament and PFM are wholly owned by Arthur J. Pergament.

## **Item 11 – Code of Ethics**

### **Section A.**

#### **CODE OF ETHICS**

Pursuant to SEC Rule 204A-1, Pergament has adopted a written Code of Ethics (“Code”) that sets forth standards of conduct and federal securities law requirements applicable to all supervised persons as defined in the Advisers Act. All employees review and acknowledge reviewing the Code annually. Code violations may result in disciplinary action or dismissal. Pergament will provide a copy of its Code to any client or prospective client upon request. Please contact Pergament at the address or phone number listed on the face of this Brochure to request a copy.

### **Section B.**

#### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

Pergament acts as investment manager to numerous clients. Pergament may give advice and take action with respect to any Private Funds or accounts it manages that may differ from action taken by Pergament on behalf of other Private Funds or accounts. Pergament is not obligated to recommend, buy, or sell or to refrain from recommending, buying, or selling any security that Pergament or its access persons, as defined by rules under the Advisers Act and the 1940 Act, may buy or sell for their own accounts or for the accounts of any other client. Pergament is not obligated to refrain from investing in securities held by Private Funds or accounts that it manages except to the extent that such investments violate the Code adopted by Pergament.

Certain Pergament officers, members, and employees (“Related Persons”) are also clients or investors. Pergament may invest client accounts in, among other things, securities in which Pergament or its Related Persons have a financial interest. Pergament or its Related Persons may purchase for themselves securities or other investments which one or more clients own, previously owned, or will own in the future, including units of the Private Funds. As these situations may represent a potential conflict of interest, Pergament has adopted procedures relating to personal securities transactions and insider trading, both of which are described below, that are reasonably designed to prevent actual conflicts of interest.

If it is appropriate to buy or sell a security at the same time for both a client and a Related Person, combined orders may be placed and if any order is not filled at the same price, prices obtained may be allocated among accounts on an average basis. Placing combined orders is not required. There may be times when the sale or purchase of a security for a Related Person may precede, occur at the same time, or follow the sale or purchase of a security for a client, subject to the overriding principle that the interests of clients must come before the interests of Pergament or its Related Persons.

Pergament may manage simultaneously parallel accounts, in some cases with similar objectives, but with differing fees to Pergament, in some cases performance-based fees. Pergament also may similarly manage simultaneously certain accounts that may hold short positions in a security for which other managed accounts are long. Pergament’s policy is to manage each account independently and fairly and recognizes and seeks to control the conflicts of interests inherent in such practices.

As the investment manager of the Private Funds, Pergament participates in the Private Funds’ investments, pro rata, in accordance with its capital accounts. Principal executive officers and other personnel of Pergament may receive annual compensation and bonuses

based, in part, on the performance of certain private equity Private Funds as more fully disclosed in the PPMs for those funds. In addition, certain personnel of Pergament are also permitted to invest in the Private Funds as knowledgeable employees.

### ***Restrictions on Personal Securities Transactions***

To address the conflicts of interest that arise with the personal trading of Pergament employees, the Code prohibits certain types of personal securities transactions. This policy specifies certain permitted personal investments and establishes reporting and preclearance requirements and enforcement procedures. The Code also includes guidelines relating to insider trading and gifts. Employees are permitted to buy and sell the same securities that are held in client accounts only if the trades occur at the same time or after the trades for clients. Employees must submit their brokerage statements quarterly to the Compliance Officer for review and archiving. Employees may purchase and sell securities for their own accounts that have also been recommended to clients. The Code is designed to assure that the personal securities transactions and interests of the employees will not interfere with making decisions in the best interest of clients. Nonetheless, because the Code permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client. Certain security types, such as initial public offerings and private placements, may be prohibited or subject to a pre-clearance requirement.

Access Persons are required to provide a quarterly report to the Chief Compliance Officer, or other designated person, showing investment transactions in their personal accounts, as well as disclosing annually all securities held on their behalf. Certain securities are exempt from reporting based upon the determination that these would not pose any material conflicts. These reports are monitored regularly to seek to reasonably prevent conflicts of interest between Pergament and its Clients. There is an inherent conflict of interest between our fiduciary duty of best execution for our Clients and the apparent self-interest of employees trading in the same securities contemporaneously.

### ***Disclosure of Personal Investments***

Pergament principals and employees maintain personal investments within the Private Funds. They may also maintain personal brokerage accounts subject to the firm's Code. Pergament principals and employees have also invested in numerous private equity investments not suitable for clients.

Pergament personnel may receive or give certain gifts and gratuities or travel/entertainment from or to broker-dealers or other persons with whom Pergament, its affiliate or the Private Funds do business (including the funds' portfolio brokers). This may include such things as tickets to sporting events, or the theater, meals and other entertainment, transportation, attendance at seminars or other educational, training or informational events, logo items and other items of small value, gifts associated with life events such as birthdays, weddings, anniversaries, and other gifts of more substantial value. Receipt of such gifts and gratuities might be viewed as causing a conflict of interest for the Pergament in selecting brokers and dealers and other service providers.

### ***Insider Trading Policy***

Pergament may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell, or hold a security. Under applicable law, Pergament may be prohibited from improperly disclosing or using such information for its personal benefit or for the benefit of any other

person, regardless if such other person is a client. Accordingly, should such persons come into possession of material nonpublic or other confidential information with respect to any company, they may be prohibited from communicating such information to, or using such information for the benefit of, clients and have no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, clients when following policies and procedures designed to comply with law.

The Code also contains a policy, adopted in accordance with Advisers Act Section 204A, which establishes procedures to prevent the misuse of material nonpublic information by supervised persons. Supervised persons are prohibited from trading, either personally or on behalf of others, while in possession of material nonpublic information in violation of the law. Any supervised person who fails to observe the aforementioned policies risks serious sanctions, including dismissal and personal liability.

## **Item 12 – Brokerage Practices**

### **SELECTION CRITERIA FOR BROKERS AND DEALERS**

Pergament has complete discretion to determine the particular securities and amounts of such securities to be bought and sold, subject to restrictions that may be specified in an advisory agreement. Pergament selects broker-dealers who are registered and licensed. In selecting broker-dealers, Pergament may consider various factors including size of the transaction, nature of the transaction, nature of the market, research capability, reliability, knowledge of markets and industries, good and timely delivery and payment, promptness of execution, responsiveness, net price, commission rates, access to sources of supply and demand, financial condition, stability, integrity, confidentiality, broker capital commitment, and other advantages.

### **COMMISSION RATES OR EQUIVALENTS**

It is our policy to seek the best net price and execution for its transactions, taking into account all relevant factors. However, this responsibility shall not obligate Pergament to solicit competitive bids for each transaction or to seek the lowest available commission cost. Pergament has controls in place for monitoring execution in client portfolios in an attempt to ensure best execution in client portfolios. The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based to a large degree on the professional opinions of the persons responsible for the placement and review of such transactions.

### **"SOFT DOLLAR" OR RESEARCH/EXECUTION POLICY**

Pergament may enter into "soft dollar" arrangements with certain broker-dealers. Under these arrangements, the brokerage firms would provide or pay the costs of certain services or other items for the benefit of Pergament. This poses conflicts of interests. The services and other items provided or for which payment is otherwise made using soft dollar and brokerage service arrangements on behalf of Pergament may include, without limitation, prime brokerage services, proprietary (developed by the broker) and third-party research services and products, proxy voting services, software and services used in the management of client portfolios or client portfolio analysis, investment research, consulting fees and charges, fees and charges for news wire, other client investment research, quotation services, periodical subscription fees and similar charges.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay

for the research, products or services. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than our Clients' interest in receiving most favorable execution. We may cause Clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up). We use soft-dollar benefits to service all of our clients' accounts, not only those that paid for the benefits. We do not seek to allocate soft-dollar benefits to client accounts proportionately to the soft-dollar credits the accounts generate. Some products or services do not qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution. In the last fiscal year, Pergament directed client transactions through its internal trading platform, called REDI and operated in part by Goldman Sachs, to generate soft dollars. In the majority of these instances, the commissions paid were equal to or less than other brokers' commissions for the same trade.

### **BROKERAGE FOR CLIENT REFERRALS**

We may consider, in selecting or recommending broker-dealers, whether we receive client referrals from a broker-dealer or third party. This creates conflicts of interest as we may have an incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather than on our clients' interest in receiving most favorable execution. In the last fiscal year, Pergament did not direct client transactions to a particular broker-dealer in return for client referrals.

### **DIRECTED BROKERAGE POLICY**

Clients may limit Pergament's discretionary authority by directing Pergament to use particular broker-dealers to execute portfolio transactions for their accounts, particularly where clients have preexisting relationships with a broker or participate in commission recapture programs. Pergament may accept such client instructions, provided they are in writing.

Where a client directs the use of a particular broker-dealer, or broker-dealers, Pergament may not be in a position where it can negotiate commission rates or spreads or obtain volume discounts; thus, best price may not be achieved. In addition, transactions for a client that directs brokerage may not be aggregated with orders for the same securities for other accounts managed by Pergament. Trades for a client that has directed use of a particular broker or dealer may be placed at the end of aggregated trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving less favorable pricing. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices, including minimum ticket charges, than might be the case if Pergament could negotiate commission rates or spreads freely or select brokers or dealers based on best execution. Pergament may also have a potential conflict of interest if the directed broker has referred the Client or other Clients to Pergament.

### **AGGREGATION**

Aggregation or "blocking" of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges. Not aggregating may increase cost to clients. Pergament does not generally block trade, but on occasion may do so. In such circumstances, block trading will be performed on a case-by-case basis.

## **Item 13 – Review of Accounts**

### **PORTFOLIO REVIEWS**

Pergament's Chief Executive Officer and other senior members of management review client accounts and portfolios periodically depending upon the account needs and conditions of each market. Reviews may be undertaken because of change in market conditions ; change of security positions; request by a Client for a meeting; or changes in a Client's investment objective or policies. Performance of accounts in connection with objectives, security positions and other investment opportunities, commitment to any one industry and commitment to any one security are among the matters that may be discussed.

Regarding the Private Funds, the portfolios are reviewed by the Private Funds' administrator, and are audited yearly by outside parties.

### **CLIENT REPORTS**

Clients receive reports monthly. The report includes a summary of the investment portfolio (quantity held, description, cost, market value, projected annual income and accrued income) as well as performance history month-to-day, year-to-date, and inception-to-date compared with an index as requested by the Client. Clients may also request supplemental schedules showing realized gains and losses and transactions during the month.

This monthly statement is not intended to replace the statement provided by your custodian, which should be considered your official record for all pertinent account information. Pergament's reports are provided in a different format from that of your custodian and may vary in content and scope. Therefore, you should compare the asset information to the statement provided by your custodian.

Investors in the Private Funds generally are provided with unaudited monthly statements and annually receive audited fiscal year-end financial information.

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

Pergament does not receive any economic benefits other than management fees and performance-based fees paid to the firm by its Clients. Pergament employees may benefit from noneconomic benefits from the use of soft-dollar arrangements. Pergament and its representatives do not receive any economic benefits from any third parties with respect to the advisory services offered to Clients. Product sponsors or other third parties may offer Pergament representatives invitations to training sessions, due diligence visits or other meeting or events at the expense of the third party. These invitations are not offered directly as a result of any amount of business placed with the third party, but the volume of business placed with a particular party may be indirectly related.

Pergament may make payments to third parties who recommend potential investors. Pergament may also enter into written agreements with registered broker-dealers and finders pursuant to which they would receive fees with respect to the sale of interests in the Private Funds or participate in management fees and performance-based fees payable to Pergament and the general partner. Pergament currently has no such solicitor arrangements.



### **Item 15 – Custody**

Pergament is not a qualified custodian and does not provide custodial services to its Clients. Clients select banks or registered broker-dealers that are “qualified custodians” to provide custody of client assets. However, under the SEC’s Custody Rule, Pergament is deemed to have custody due to the fact that, (a) Pergament can inform the custodian to remit investment advisory fees directly to Pergament and (b) based on its status as akin to “general partner” of the Private Funds.

Clients should receive quarterly custodial statements directly from your qualified custodian or in the case of the Private Funds, those investors will receive statements directly from the funds’ administrator as well as annual audited financials. We urge you to carefully review those statements and compare the custodial records to the reports we provide you. Comparing reports will allow you to determine whether account transactions, including paying advisory fees, are proper. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

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

Pergament accepts discretionary authority to manage securities accounts on behalf of its clients. In all cases, however, such discretion is exercised, observing investment limitations and restrictions that are outlined in each client’s investment advisory agreement or in the case of the Private Funds, the funds’ offering documents. Clients can place reasonable restrictions on Pergament’s investment discretion. The most common restrictions are set forth in the Private Funds’ offering documents and limit the amount of leverage that Pergament may employ and direct the investment objective of such fund. Such investment guidelines and restrictions, and changes thereto, must be provided to Pergament in writing. Such restrictions may impact performance.

See Item 4 for additional information about Pergament’s discretionary and nondiscretionary services.

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

Pergament accepts authority to vote proxies on behalf of client accounts. Pergament will vote proxies in a manner that it believes will best maintain shareholder value. Votes generally will be with management. To date, Pergament has not identified any conflicts of interest between its client interests and its own interest within its proxy voting process. If a conflict does arise, Pergament’s principals will confer to determine the most appropriate course of action. Pergament does not currently utilize third-party voting services. In the event Pergament does not exercise proxy-voting authority over securities, the obligation to vote proxies rests with the Client. A copy of our complete proxy voting policy and how we have voted can be obtained by contacting our Chief Compliance Officer at 212-994-6200.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Pergament’s financial condition. Pergament has no



financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.