

**Item 1. Cover Page**

**Brochure of**

**Pacifcor, LLC**

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This brochure provides information about the qualifications and business practices of Pacifcor, LLC ("Pacifcor"). If you have any questions about the contents of this brochure, please contact us at 805-962-3570 or info@pacifcor.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.

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

Although Pacifcor is a "registered investment adviser," that registration does not imply a certain level of skill or training."

**Item 2. Material Changes**

Not applicable.

**Item 3. Table of Contents**

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#### **Item 4.           Advisory Business**

Pacifcor is a Delaware limited liability company that has been in business since 2002. From April 2002 through December 2006, the firm was named Core Wealth Management, LLC. Pacifcor currently manages four private investment funds, Pacifcor Insurance Fund LP, Pacifcor Fund LP and Pacifcor Fund II LP, each a Delaware limited partnership (together, the "U.S. Funds"), and Pacifcor Offshore Fund, Ltd., a Cayman Islands exempted company (the "Offshore Fund"). The U.S. Funds, the Offshore Fund and any other private fund(s) that Pacifcor may manage now or in the future are referred to together in this Brochure as the "Funds." Pacifcor also serves as investment adviser to separately managed accounts ("Separate Accounts"). Pacifcor's principal owners are Andrew B. Mitchell and Robert G. Klein, Trustee of the Michael B. Klein Administrative Trust Dated December 23, 2007. Mr. Mitchell also serves as Pacifcor's Chief Executive Officer and Chief Investment Officer. As of December 31, 2012, Pacifcor had total discretionary assets under management of approximately \$134,049,778 and total non-discretionary assets under management of approximately \$52,773,276.

Pacifcor invests principally, but not solely, in high yield bonds and stressed and distressed securities and to a lesser extent, in undervalued equity securities and "special situations," but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of the client's partnership or other account agreement.

The investors in the Funds have no opportunity to select or evaluate any Fund investments or strategies. Pacifcor selects all Fund investments and strategies.

Pacifcor typically does not tailor its services to the individual needs of clients that establish Separate Accounts, but manages each such account according to the strategy selected by the client. Pacifcor's discretionary authority is limited, however, as described in Item 16.

#### **Item 5.           Fees and Compensation**

##### Separate Accounts

Pacifcor's compensation from Separate Accounts is negotiable and varies, but typically it receives an annual advisory fee of up to 1.5% of assets under management, payable in advance in quarterly installments at the beginning of each calendar quarter based on the net asset value of each client's account on the date the fee accrues and becomes payable, plus an annual performance fee up to 20% of the net income of an account based on both realized and unrealized gains.

##### The Funds

Pacifcor's compensation is negotiable and varies, but typically it charges an annual fee of 1.5% of assets under management, which amount is payable in quarterly installments at the beginning of each calendar quarter based on the net asset value of each investor's investment on the date the fee accrues and becomes payable. Pacifcor also typically is allocated from each limited partner's capital account in a U.S. Fund a performance allocation equal to 20% of net income based on both realized and unrealized gains, and receives from the Offshore Fund a performance fee equal to 20% of net income based on both realized and unrealized gains with respect to each

shareholder in that fund. Performance allocations and fees are assessed in arrears on an annual basis, and are only applied to the portion of income that exceeds the cumulative losses previously allocated to or incurred by investors (as adjusted for withdrawals/redemptions).

### General Disclosure

Pacifcor complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations and fees may create an incentive for Pacifcor to make more risky and speculative investments than it would otherwise make.

Pacifcor typically deducts management fees and performance allocations and fees directly from client accounts but may bill a client for such amounts on request.

Pacifcor believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in an investment limited partnership of which Pacifcor is general partner, to use the "alternative reporting option" to report Pacifcor's compensation as "eligible indirect compensation" on the Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

Relationships with Pacifcor's Fund clients are terminable on expiration of a U.S. Fund's term, dissolution of a U.S. Fund, on Pacifcor's withdrawal as general partner of a U.S. Fund, on Pacifcor's resignation as the investment manager of the Offshore Fund or termination of the investment management agreement between Pacifcor and the Offshore Fund. Generally, each investor may withdraw/redeem from a Fund, on 90 days' prior written notice, on the last day of any calendar quarter, provided, however, that if an investor in Pacifcor Fund LP, Pacifcor Fund II LP or the Offshore Fund withdraws/redeems any portion of its investment before the first anniversary of its admission to the Fund, such investor will be charged a fee of 4% of the value of the withdrawn/redeemed amount, which amount will be retained by the applicable Fund. Also, Pacifcor, in its sole discretion, may designate any investment that it purchases for a Fund, a "Designated Investment." Designated Investments are segregated in accounts separate from other investments. If an investor withdraws/redeems its entire investment in a Fund, any Designated Investment held in Designated Investment accounts on behalf of such investor will continue to be held by the Fund and that investor will continue to participate in the Designated Investment until such investment is sold or such investment is no longer deemed by Pacifcor to be a Designated Investment. Pacifcor also may suspend an investor's withdrawal/redemption rights, in whole or in part, upon the occurrence of certain events. This paragraph is only a brief summary of the Funds' liquidity provisions. Potential investors in a Fund should carefully review that Fund's offering memorandum for additional details.

Except as may be otherwise negotiated in particular cases, the holder of a Separate Account may terminate the account by giving 30 days' prior written notice.

In all cases, expenses, the pro rata portion of the management fee and the performance allocation or fee through the date of termination are charged to the account. All prepaid but unearned

advisory fees are refunded on termination of a client's account. An investor who withdraws/redeems from a Fund on a date other than the last day of a quarter, however, does not receive a refund of the management fee previously paid.

Each account is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting, tax preparation and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. Pacifcor bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. All or part of these costs and expenses may be paid, however, by securities brokerage firms that execute clients' securities trades, as discussed in Item 12 below.

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

Pacifcor currently manages only accounts that pay performance-based compensation as described in Item 5. Pacifcor has a conflict of interest if, in any time period, the amount of performance-based compensation received from one client account is higher than the amount received from another client account, because Pacifcor would have an incentive to favor the account that would pay the higher fees. Pacifcor does not manage accounts that do not pay performance-based compensation.

#### **Item 7. Types of Clients**

Pacifcor provides investment advice to the Funds and Separate Accounts. Investors in the Funds are required to invest a minimum of \$1,000,000, but Pacifcor may waive this minimum. Pacifcor generally requires a minimum of \$1,000,000 to open a Separate Account, but may waive this minimum. Pacifcor's Separate Account clients may include high-net-worth individuals, institutions, trusts, endowments and pension plans.

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

##### Investment Strategy

**High Yield Strategy.** Pacifcor manages the Funds and some Separate Accounts using a similar investment strategy (the "High Yield Strategy"). Pacifcor's investment philosophy is to seek to protect principal and achieve above average total returns by investing primarily in publicly-traded and private high yield bonds and stressed and distressed securities, and, to a lesser extent, investing in undervalued equity securities and "special situations" (such as restructurings, recapitalizations and private equity issuances) and short selling debt and equity securities (both hedged and unhedged). Pacifcor generally seeks to create a portfolio of securities that is diversified by sector. However, Pacifcor's investment philosophy primarily emphasizes investing in sectors that present significant undervaluation, which may result in the clients' accounts being more concentrated in certain sectors from time to time. The High Yield Strategy also incorporates the RMBS Strategy (as defined below).

**RMBS Strategy.** Pacifcor also manages Separate Accounts using its Residential Mortgage-Backed Securities ("RMBS") Strategic investment strategy (the "RMBS Strategy"). The RMBS

Strategy provides clients with an opportunity to participate in the real estate market through the use of RMBS securities. These accounts are designed to enter the market at a historically attractive price. RMBS have monthly distributions and the potential for capital appreciation. Pacifcor approaches this investment from the perspective of distressed debt and focuses the analysis on recovery values from distressed assets in addition to cash flow analysis.

### General Information

Pacifcor believes that securities in the high yield and distressed market are frequently undervalued, providing the prospect of greater appreciation in value than the securities of more financially stable issuers. Pacifcor believes that this is often due to limited research coverage, investors misunderstanding the actual risk/return potential of investments in these highly leveraged companies with complex capital structures and regulatory and investment restrictions that prevent some institutions from participating in any non-investment grade sector.

Although Pacifcor primarily focuses on investments in various debt instruments, including high yield and stressed and distressed credits, it may also consider investment opportunities in various other securities within the capital structure of an issuer, including common and preferred stock, convertible securities, and trade claims. Allocation of the portfolio among various security types is a function of the market place and Pacifcor's assessment of investment opportunities available at any given time.

Pacifcor may engage in various types of options and derivative transactions on behalf of its clients (including the Funds), including hedging in equity and index options (both puts and calls) to reduce the risk of both short and long positions. Pacifcor may invest client assets in options when Pacifcor believes that such options present a more favorable risk/reward than directly owning the underlying security. Pacifcor may establish similar positions for its clients by entering into "swaps" or other contracts with a financial institution where by the parties agree that each will be obligated to the other for the amount of relative increase or decrease in the market value of one or more securities. Such contracts may be used for investment or to hedge risk. The Funds may, if permitted by their governing documents, also loan money to third parties from time to time.

In addition to the foregoing, Pacifcor may purchase restricted securities pursuant to Rule 144A under the Securities Act of 1933, as amended, or other privately placed securities, including privately placed bonds and interests in collective investment vehicles that seek to invest in the same types of assets as Pacifcor, on its own behalf or on behalf of clients.

The investment strategies summarized above represent Pacifcor's current intentions, are general in nature and are not exhaustive. There are no limits on the types of securities in which Pacifcor may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Pacifcor may use any trading or investment techniques, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Pacifcor may pursue any objectives or use any techniques that it considers appropriate and in clients' interest.

## Risk Factors

Investing in securities involves risk of loss that clients should be prepared to bear. Below are some of the risks that investors should consider before investing in any account that Pacifcor manages. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a client or investor may encounter. Potential investors in a Fund should review such Fund's offering memorandum carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. The risks described below also generally apply to Separate Accounts. A potential client should discuss with Pacifcor's representatives any questions that such person may have before opening an account.

- Client accounts may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Due to the limitations on withdrawals/redemptions and the fact that interests in the Funds are not transferable, an investment in a Fund is relatively illiquid and involves a high degree of risk.
- Pacifcor may, at any time and in its sole discretion, compel any Fund investor to withdraw/redeem all or any portion of its investment in a Fund. Such mandatory withdrawal/redemption may create adverse economic or tax consequences to the investor depending on the timing of such withdrawal/redemption.
- Investors in the Funds have no right to participate in the management or business of a Fund.
- Pacifcor may make an in-kind distribution to a withdrawing/redeeming Fund investor. In this case, the risk of loss and delay in liquidating the securities needed to make the in-kind distribution will be borne by the investor.
- Pacifcor may enter into a side letter or similar agreement with a new investor. Such agreements may provide certain investors more frequent or detailed reports, special compensation arrangements and withdrawal/redemption rights that it does not provide to other investors.
- Pacifcor determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If Pacifcor's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing/redeeming assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- No client or investor has been represented by separate counsel. The attorneys who represent Pacifcor or its managers do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.

- Pacificor and its affiliates may spend time on activities that compete with a client account without accountability to investors, including investing for other clients and their own accounts. If Pacificor receives better compensation and other benefits from managing other assets or client accounts compared to managing a client account, it has incentive to allocate more time to those other activities. These factors could influence Pacificor not to make investments on a client account's behalf even if such investments would benefit the client account.
- Pacificor's activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- Pacificor's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- The equity interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. Pacificor believes that none of these registrations is required because exemptions are available under applicable law. Investors in the Funds do not have certain regulatory protection that they would have if these registrations were in place.
- Pacificor invests in high-yield and stressed and distressed securities. High-yield securities that are below investment grade or unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. Such investments involve a substantial degree of risk and could result in substantial losses.
- Debt portfolios are subject to credit and interest rate risks. Credit risk is the risk that an issuer will default on its principal or interest payments. Interest rate risk is the risk associated with market changes in interest rates.
- Pacificor may invest a portion of a client account's assets in bonds or other fixed-income securities which are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations and price volatility. A major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities.
- Pacificor may invest in securities of issuers that are involved in bankruptcy or other reorganization proceedings. Such investments involve a substantial degree of risk as many of the events within a bankruptcy proceeding are adversarial and beyond the control of creditors.
- Pacificor invests in residential mortgage backed securities on behalf of its client accounts. The residential mortgage market in the U.S. has experienced a sustained period of extraordinary levels of defaults, credit losses and lack of liquidity. Various financial institutions have suffered severe losses from exposure to the residential mortgage market. These losses have reduced the amount of capital available for lending and have negatively affected investor perception of the risk associated with residential mortgage



backed securities, residential mortgage loans, real estate-related securities and various other asset classes in which the Accounts invest. As a result, values in residential mortgage backed securities, residential mortgage loans, real estate-related securities and various other asset classes in which the Pacifcor invests have been volatile.

- In response to the decline in U.S. housing prices and illiquid credit markets, the U.S. federal government and other governmental and regulatory bodies (federal, state and local) have implemented a variety of programs. These current and future programs could have a substantial economic effect on home prices, the housing market and the securities that Pacifcor may seek to acquire and hold on behalf of its client accounts, and the value at which such bonds may be purchased or sold. The programs also may subject Pacifcor and its client accounts to greater regulatory oversight. Any such actions could adversely affect Pacifcor's clients.
- Pacifcor may invest in mortgage-related securities on behalf of its client accounts. The value of mortgage-related securities is affected by a number of factors. During periods of rising interest rates, a reduction in prepayments may extend the effective life of mortgage-related securities, subjecting them to greater risk of decline in market value in response to rising interest rates. Those clients may not be able to realize the rate of return if Pacifcor inaccurately predicts the life of a mortgage-related security.
- Pacifcor may invest a portion of its client account's assets in subordinated mortgage-related securities. Subordinated mortgage-related securities have additional risks compared to more senior mortgage-related securities. A subordinated mortgage-related security may serve as credit support for senior securities purchased by other investors. In addition, the payments of principal and interest on subordinated securities generally will be made only after payments are made to the holders of securities senior to the subordinated securities. Therefore, if there are defaults on the underlying mortgage loans, the holders of subordinated mortgage-related securities will be less likely to receive payments of principal and interest and will be more likely to suffer a loss.
- Pacifcor may cause client accounts to invest in securities of non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Pacifcor may utilize specialized investment programs to manage client accounts that involve illiquid investments in a wide variety of non-investment grade debt securities, equities and special situations, including restructurings, "distressed securities," recapitalizations and private equity.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect an account's investments.
- Pacifcor may use leverage by borrowing on margin which increases volatility and risk of loss.

- Pacifcor sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Pacifcor may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. Pacifcor is not obligated to hedge a client's portfolio positions, and it frequently may not do so.
- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- Pacifcor may effect transactions in client accounts using "over-the-counter" or "interdealer" markets. Participants in such markets are generally not subject to credit evaluation and regulatory oversight. This exposes Pacifcor's client accounts to the risk that a counterparty to its transaction will not settle a transaction in accordance with its terms and conditions.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- Some of an account's positions may be or become illiquid, in which case Pacifcor may not be able to sell such positions.
- Pacifcor may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if Pacifcor holds a large position in an issuer's securities, it could depress the market for those securities.

The above is only a brief summary of some of the important risks that a client or investor may encounter. Before deciding to invest in a Fund, you should consider carefully all of the risk factors and other information in the Fund's offering memorandum.

#### **Item 9. Disciplinary Information**

Pacifcor may be involved from time to time in other litigations that it does not anticipate will have a material effect on its ability to meet its contractual commitments to clients.

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

Not Applicable.

#### **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pacifcor has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, that establishes standards of conduct for Pacifcor's supervised persons. The Code of Ethics includes general requirements that Pacifcor's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to Steve Roth, Pacifcor's Chief Compliance Officer (the "CCO"), and requires the CCO to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the CCO. Each supervised person of Pacifcor receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Quarterly, each supervised person must certify that he or she complied with the Code of Ethics during the preceding quarter. Clients and prospective clients may obtain a copy of Pacifcor's Code of Ethics by contacting the CCO via email at [sr@pacifcor.com](mailto:sr@pacifcor.com) or phone at (805) 962-3571.

Under Pacifcor's Code of Ethics, Pacifcor and each managing member, member, officer and employee may personally invest in securities of the same classes as Pacifcor purchases for clients and may own securities of issuers whose securities that Pacifcor subsequently purchases for clients. This practice creates a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a client account to profit personally by the market effect of such transactions and recommendations. To address this conflict, except as described in Item 12 regarding aggregating securities transactions, Pacifcor and each managing member, member, officer and employee must obtain the prior written approval of the CCO before effecting any securities transactions in their personal accounts. Prior approval is not required, however, for certain transactions, such as transactions in U.S. treasuries, certificates of deposit and high quality short-term debt instruments, transactions which are non-volitional and transactions pursuant to an automatic dividend reinvestment plan or employee stock purchase plan. To monitor compliance with these pre-approval requirements, Pacifcor requires each managing member, member, officer and employee to arrange for duplicate account statements to be sent to the CCO and to report personal securities holdings and accounts on a regular basis.

Pacifcor solicits investors who may or may not be Pacifcor's clients to invest in the Funds. Pacifcor has an incentive to cause a client to invest in a Fund instead of a Separate Account because of the reduced expenses and administrative burdens of managing a Fund compared to a Separate Account, Pacifcor's performance compensation from a Fund receives more favorable tax treatment than that from a Separate Account and limited partners have less transparency and liquidity than Separate Account clients. In addition, if a Fund investor also has a Separate Account with Pacifcor that uses an investment strategy that is similar to that of the Fund, the investor may use knowledge of the other account's portfolio to decide if and when to make an additional investment or withdraw or redeem assets from the Fund at times when other Fund investors would have made similar decisions had they had similar transparency. Pacifcor discloses these conflicts of interest to clients and investors.

Because Pacifcor manages more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all

accounts that it manages. For example, Pacificor selects investments for each client based solely on investment considerations for that client. Different clients have differing investment strategies and expected levels of trading. Pacificor may buy or sell a security for one type of client but not for another, or may buy (or sell) a security for one type of client while simultaneously selling (or buying) the same security for another type of client. Pacificor attempts to resolve all such conflicts in a manner that is generally fair to all of its clients. Pacificor may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client so long as it is Pacificor's policy, to the extent practicable, to allocate investment opportunities to its clients fairly and equitably over time. Pacificor is not obligated to acquire for any account any security that Pacificor or a managing member, member, officer and employee may acquire for its or their own accounts or for any other client, if in Pacificor's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

#### **Item 12. Brokerage Practices**

Pacificor has complete discretion in selecting the broker that it uses for client transactions and the commission rates that clients pay such brokers. In selecting a broker for any transaction or series of transactions, Pacificor's primary consideration is to obtain execution in the most effective manner possible. Pacificor also takes into account a variety of other factors, including, for example:

- financial strength, integrity and stability of the broker;
- quality, comprehensiveness and frequency of available research;
- written information and analyses concerning specific securities, companies or sectors;
- market, financial and economic studies and forecasts;
- statistics and pricing or appraisal services;
- discussion with research personnel;
- special execution capabilities;
- order of call; and
- the availability of stocks to borrow for short trades.

Pacificor may pay to a broker commissions and mark-ups that exceed those that another broker might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker provides. Accordingly, Pacificor's clients may be deemed to be paying for research and other products and services with "soft" or commission dollars. Pacificor anticipates that the use of commissions or "soft" dollars to pay for research products or services will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934.

Citigroup Global Markets, Inc. ("Citi") serves as the prime broker for the Funds and clears and settles each Fund's securities transactions which are effected through other brokerage firms. J.P.Morgan Chase Bank N.A. ("JPM") serves as the custodian to Separate Accounts. Settlement functions normally include, among other things, arranging for (a) the receipt and delivery of securities purchased, sold, borrowed and loaned, (b) the making and receiving of payments, (c) custody of securities fully paid for or not fully paid for and, therefore, compliance with margin

and maintenance requirements, (d) custody of all cash, dividends and exchanges, distributions and rights accruing to a Fund's account and (e) tendering securities in connection with cash tender offers, exchange offers, mergers or other corporate reorganizations. A Fund or Separate Account is not committed to continue its relationship with Citi or JPM for any minimum period and Pacifcor, may in its sole discretion, select other brokers to act as prime broker to the Funds or custodian to Separate Accounts. Citi will generally maintain custody of a Fund's securities, although in certain instances other brokers that execute transactions for a Fund will maintain custody of that Fund's assets. If Pacifcor uses commission dollars to pay for any such products or services that provide administrative or other nonresearch assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Pacifcor determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Pacifcor's overall fiduciary duty to its clients. An account may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Pacifcor's brokerage relationships benefit Pacifcor's operations as a whole and all accounts that it manages, including those that do not generate the soft dollars that pay for such research and other benefits and accounts of clients that direct Pacifcor to use a broker that does not provide Pacifcor with soft dollar services. Pacifcor does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate.

Pacifcor may allocate the costs of certain computer equipment and software used for both research and non-research purposes between their research and non-research uses, and use soft dollars to pay only for the portion that Pacifcor allocates to research uses.

Pacifcor's relationships with brokers that provide soft dollar services influence Pacifcor's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not and in allocating the costs of mixed-use products between their research and non-research uses. Pacifcor has an incentive to select or recommend a broker based on Pacifcor's interest in receiving soft dollar services rather than clients' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Pacifcor uses soft dollars to pay expenses it would otherwise be required to pay itself.

Pacifcor addresses these conflicts of interest by annually evaluating the trade execution services that Pacifcor receives from the brokers that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers. Pacifcor considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers, increasing or decreasing targets for each broker and the appropriate level of commission rates.

The CCO is responsible for annually reviewing the soft dollar arrangements with each broker. In such review the CCO shall consider, among other things, (a) the cost of obtaining the applicable research product and service independently, (b) whether any research products and services may have mixed uses, together with the appropriate allocation for such products and services between

soft dollars and hard dollars, (c) the amount of transactions directed to the broker providing the research products and services during the previous year and (d) whether any soft dollar arrangements should be modified.

During Pacifcor's last fiscal year, it received research from various vendors but did not acquire any products and services with client brokerage commissions or markups.

**Trade Aggregation.** Pacifcor generally expects to make similar purchases and sales of securities on behalf of clients with similar investment strategies and to aggregate ("bunch") orders for those client accounts ("block trades"). When bunching orders for block trades, it may not be possible for Pacifcor to acquire a sufficiently large portion of the security for all clients that are to participate in such trade. Pacifcor has adopted procedures so that buy and sell opportunities are allocated fairly among clients and that, over time, all clients are treated equitably. Pacifcor will receive no additional compensation or remuneration of any kind as a result of the use of these procedures.

Pursuant to the trade aggregation and allocation procedures that Pacifcor has adopted, prior to executing a block trade for any security, Pacifcor establishes a target amount (expressed as a percentage of the value of each client's portfolio assets under management with Pacifcor) to be purchased or sold on behalf of that client, provided that Pacifcor may establish a separate target amount for client accounts that are permitted to engage in margin transactions. Based on the target amount established, for each client account the trader will approximate the aggregate number of securities that need to be purchased or sold and shall enter the aggregate number into Pacifcor's trading software system in order to generate a suggested trade allocation for each such client pro rata in accordance with each client's aggregate portfolio value. The trader then:

(a) Reviews the suggested trade allocation against client investment restriction information to confirm that the transaction is appropriate for each client for which a target amount has been established (and in the event of a purchase of restricted securities pursuant to Rule 144A under the Securities Act or other type of privately placed securities, to determine if the client is eligible to participate), and if not, the trader removes such client from the trade allocation.

(b) In the event of a purchase, reviews whether each client account has sufficient cash or cash equivalents available to purchase the amount indicated in the suggested trade allocation. If a client does not have sufficient cash or cash equivalents, the trader decreases the suggested trade allocation with respect to such client so as to utilize all of the client's available cash or cash equivalents.

(c) In the event of a purchase, reviews whether each client account has any current holdings in the security to be purchased, and if so, the trader reduces the allocation as appropriate for such client, so that such client does not exceed the target amount for that security.

(d) In the event of a purchase or sale for a client, governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), reviews any applicable "parties in interest" lists to determine if the transaction is appropriate.

(e) After the adjustments to the allocations have been made, reviews the aggregate amount of securities to be traded to determine if the number should be adjusted to meet the target amounts and to preserve even lot trade orders.

The Chief Investment Officer may permit that (a) a trade may be made on behalf of a single client or a particular sub-set of clients or (b) a modification to a trade allocation method described above, after consultation with the CCO when the Chief Investment Officer believes that:

- (i) the investment is only appropriate for one or more clients; or
- (ii) circumstances warrant that strict adherence to the usual allocation is impractical or leads to undesirable or inequitable results.

Any such modification and the rationale for any such modification will be documented in Pacificor's records.

If an aggregated trade is not completed within a given day, the portion of the order filled on that day will be allocated at the close of business that day on a pro rata basis (determined as described below and at the average price, if applicable) among all clients participating in the trade allocation. In a partial fill situation, the amount to be allocated for each trade is determined pro rata based on the amount of securities to be acquired for each client. Generally, this is equal to pro rata based upon the value of such client's portfolio assets under management with Pacificor. In the case of certain adjustments because of limited cash or previous holdings or limits on certain client exposures, the pro rata allocation of securities to be acquired for each client may not be equivalent to a pro rata allocation based on the value of such client's portfolio assets under management with Pacificor.

If an order for an aggregated trade is filled (in a full or partial fill) at several different prices, through multiple trades at the same broker, then the broker generally calculates an average price for all trades on that trading day, and all clients participating in the trade allocation will receive the average price and will share the transaction costs on a pro rata basis. If the broker does not calculate an average price, clients will participate based on the actual price for, and will bear its pro rata portion of the transaction cost related to, the trades of such broker that are allocated to such client.

If an order for an aggregated trade is filled (in a full or partial fill) at several different prices, through multiple trades at different brokers (or in the event that a broker does not calculate an average price as described above), clients will participate based on the actual price for, and will bear its pro rata portion of the transaction cost related to, the trades of each broker that are allocated to such client.

***Directed Brokerage.*** If a client directs Pacificor to use a specific broker, Pacificor has not negotiated the terms and conditions (including, among others, commission rates) relating to the services provided by such broker. Pacificor is not responsible for obtaining from any such broker the best prices or particular commission rates. A client that directs Pacificor to use a specific broker may not be able to participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable pricing and execution. The client

may pay higher commissions and mark-ups than it would pay if Pacifcor had discretion to select broker-dealers other than those that the client chooses.

### **Item 13. Review of Accounts**

Pacifcor's Credit Committee, which is comprised of the Chief Investment Officer, Senior Credit Analyst and a supporting credit analyst, regularly monitors the securities held in client accounts. The Credit Committee monitors changes in the business or financial risk profile of the issuers of those securities, and in the case of RMBS, for changes in the regulatory or economic environment, or credit performance of the underlying mortgages. The Credit Committee meets regularly to review, debate and analyze the relative attractiveness of certain investment decisions. In addition, the Credit Committee conducts weekly reviews to determine whether particular securities have the potential for superior total returns either through high current income, substantial price appreciation, or both. After securities are purchased, the members of the Credit Committee regularly monitor those positions throughout the security's holding period. In addition, all accounts are reviewed monthly by the Chief Investment Officer and are reconciled by the CFO and supporting analyst.

Clients receive monthly statements and annual reports from third party custodians and/or administrators. In addition, Pacifcor forwards individual updates on holdings quarterly, reports monthly composite performance, and issues general investment strategy and market outlook information quarterly. Investors in each Fund generally receive monthly statements of performance detailing such the Fund's unaudited performance and any important information regarding that Fund.

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

With the approval of the President and the CCO, Pacifcor may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and Pacifcor complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

Pacifcor has entered into placement agency agreements with certain firms with respect to the solicitation of investors in Pacifcor Fund LP, Pacifcor Fund II LP, the Offshore Fund and the solicitation of clients for Separate Accounts.

***Kaieteur Investments, LLC.*** Independent, third-party marketer hired to assist in raising assets for Separate Accounts. Compensation is 20% of Pacifcor's combined management fee and performance-based fee which is attributable to clients that the firm referred to Pacifcor.

***Bhargava Wealth Management, LLC.*** Independent, third-party marketer hired to assist in raising assets for the Funds. Compensation is 10% of Pacifcor's combined management fee and performance-based fee or allocation which is attributable to investors that the firm referred to Pacifcor. The firm is no longer soliciting clients for the Funds but is still receiving compensation from prior referrals.



### **Item 15. Custody**

The custodian of each Separate Account sends account statements at least quarterly to the client. Each client should carefully review those statements.

### **Item 16. Investment Discretion**

Pacifcor has discretionary authority to manage investment accounts on behalf of clients pursuant to a grant of authority in each Fund's limited partnership agreement or a limited power of attorney in each client's account agreement. Except for Pacifcor's limited partnership clients, such discretion is limited by the requirement that clients advise Pacifcor of:

- the investment objectives of the account;
- any changes or modifications to those objectives; and
- any specific investment restrictions relating to the account.

A client must promptly notify Pacifcor in writing if the client considers any investments recommended or made for the account to violate such objectives or restrictions. A client may at any time direct Pacifcor to sell any securities or take such other lawful actions as the client may specify to cause the account to comply with the client's investment objectives. In addition, a client may notify Pacifcor at any time not to invest any funds in the client's account in specific securities or specific categories of securities.

### **Item 17. Voting Client Securities**

Pacifcor acts as discretionary investment adviser for various clients, including the Funds and clients governed by ERISA. Unless a client specifically reserves the right to vote its own proxies, Pacifcor will vote all proxies as part of its full discretionary authority over the assets.

When voting proxies for clients, Pacifcor's primary concern is that all decisions be made solely in the best interest of the client. Pacifcor will act in a manner it deems prudent and diligent and which is intended to enhance the economic value of the assets in the account.

Each proxy issue will be considered individually. The following guidelines are a partial list to be used in voting on proposals often contained in proxy statements. The voting policies below are subject to modification by Pacifcor in certain circumstances and will be reexamined from time to time. With respect to matters that do not fit in the categories stated below, Pacifcor will exercise its best judgment as a fiduciary to vote in the manner which will most enhance shareholder value.

#### **Routine Management Proposals**

The majority of votes presented to shareholders are proposals made by management, which have been approved and recommended by its board of directors. Generally, in the absence of any unusual or non-routine information, the following items are likely to be supported:

- ratification of appointment of independent auditors;
- general updating/corrective amendments to charter;
- stock option plans that are incentive based and not excessive;
- election of directors; and
- directors' liability and indemnity proposals.

### Non-Routine Management Proposals

The following items will always require company specific and case-by-case review and analysis when submitted by management to a shareholder vote:

- executive compensation plans;
- mergers, acquisitions and other restructurings submitted to a shareholder vote;
- super majority or dual class voting provisions; and
- changes in capitalization.

Anti-take over and related provisions are generally opposed by Pacifcor in the absence of any unusual or non-routine information.

### Shareholder Proposals Generally

Under ERISA standards, it is inappropriate to use (vote) plan assets to carry out social agendas or purposes. Thus, shareholder proposals are examined closely for their relationship to the best interest of beneficiaries, and economic impact.

### Common Supported Shareholder Proposals

Generally, in the absence of any unusual or non-routine information, shareholder proposals related to the following items are likely to be supported:

- confidential voting;
- by-law and charter amendments only with shareholder approval; and
- majority of independent directors on a board.

### Common Unsupported Shareholder Proposals

Generally, shareholder proposals related to the following items are not supported:

- cumulative voting;
- restrictions related to social, political, or special interest issues that impact the ability of the company to do business or be competitive and that have a significant financial or vested interest impact; and
- reports which are costly to provide or expenditures which are of a non-business nature or would provide no pertinent information from the perspective of shareholders.

## Conflicts of Interest

Due to the nature of Pacificor's business and its small size, it is unlikely that conflicts of interest will arise in voting proxies of public companies. However, if a potential conflict of interest did arise it would typically be a proxy for a company that is also Pacificor's client. The Chief Compliance Officer will review votes in which there may be a potential conflict of interest to make sure that Pacificor's proposed votes are consistent with the established guidelines and not prompted by any conflict of interest.

A client can obtain a copy of Pacificor's proxy voting policy and a record of votes cast by Pacificor on behalf of that client by contacting the CCO via email: [sr@pacificor.com](mailto:sr@pacificor.com) or phone: (805) 962-3571.

### **Item 18. Financial Information**

Not Applicable.

### **Item 19. Requirements for State-Registered Advisers**

Not Applicable.

## **Privacy Policy**

Pacificor collects and maintains nonpublic personal information about the Funds and Separate Account clients as follows:

- Information that Pacificor receives in subscription agreements, investor questionnaires and other forms which a Fund or Separate Account client completes and submits to Pacificor, such as names, addresses, phone numbers, social security numbers, and employment, asset, income and other household information;
- Information that Pacificor receives and maintains relating to the net asset value of a Fund or Separate Account client's account or investment in a Fund, as applicable;
- Information that Pacificor receives and maintains relating to a Fund or Separate Account client's new issue and other securities transactions with and through Pacificor and its affiliates; and
- Information that Pacificor receives about a Fund or Separate Account client from such client's purchaser representative, financial advisor, investment consultant or other financial institution with whom Pacificor has a relationship and/or whom a Fund or Separate Account clients may have authorized to provide such information to Pacificor.

Pacificor does not disclose any nonpublic personal information about its Advisory Clients or former Advisory Clients except as may be required or permitted by law. Pacificor may also disclose information about an Advisory Client to its affiliates, and to the following types of third parties:

- Financial service providers to the Funds;
- Legal representatives of Pacifcor or a Fund, such as our counsel, accountants and auditors;
- Certain non-affiliated parties who perform marketing services for a Fund or with whom Pacifcor has entered into joint marketing agreements; and
- Persons acting in a fiduciary or representative capacity on behalf of an individual client of a Fund or Separate Account, such as an IRA custodian or trustee of a grantor trust.

On all occasions when it is necessary for Pacifcor to share a Fund or Separate Account client's personal information with non-affiliated companies, Pacifcor will require that such information only be used for the limited purpose for which it is shared and will advise these companies not to further share such information with others except to fulfill that limited purpose.

Pacifcor takes its responsibility to protect the privacy and confidentiality of its Fund and Separate Account clients' information very seriously. Pacifcor maintains appropriate physical, electronic and procedural safeguards to guard its Fund and Separate Account clients' nonpublic personal information. If Pacifcor changes its privacy policies to permit it or its affiliates to share additional information Pacifcor has about its Fund and Separate Account clients or to permit disclosures to additional types of parties, the Fund and Separate Account clients will be notified in advance, and, if required by law, will be given the opportunity to opt out of such additional disclosure and to direct Pacifcor not to share such information with such parties.

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