

FIRM BROCHURE

HOVDE CAPITAL ADVISORS, LLC

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This brochure provides information about the qualifications and business practices of Hovde Capital Advisors, LLC. If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer at (608) 255-5175 and/or jclevers@hovdecapital.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 Hovde Capital Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Being a "registered investment adviser" or describing ourselves as being "registered" does not imply a certain level of skill or training.

THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY.

Item 2. Material Changes

Item 4 - Advisory Business - this Item has been updated to reflect: (i) the Adviser's current assets under management; (ii) information about the winding up and liquidation of funds advised by the Adviser; (iii) conforming changes throughout reflecting the winding up and liquidation of such funds; and (iv) information regarding the eligibility of the Adviser for registration with the Securities Exchange Commission ("SEC"); and (iv) exemption from registration with the Wisconsin Department of Financial Institutions Division of Securities (the "Division").

Item 10 - Other Financial Industry Activities and Affiliations - this Item has been updated to include information about changes in ownership and management of the Adviser and certain affiliates.

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Item 4. Advisory Business

Hovde Capital Advisors, LLC (“HCA” or the “Adviser”), a Delaware limited liability company, founded in 1994, provides investment advisory services to clients on a fully discretionary basis. Such advisory services include, among other things, providing advice regarding asset allocation and the selection of investments. HCA provides advisory services to one private investment fund (i.e., hedge fund): Financial Institution Partners III, L.P., a Delaware limited partnership (“FIP III”).

As of December 31, 2013, the Adviser has regulatory assets under management (“RAUM”) of \$36,419,461, attributable to FIP III.

Prior to December 31, 2012, the Adviser also provided advisory services to Financial Institution Partners Master Fund, LP, a Cayman Islands limited partnership (the “FIP Master Fund”), Financial Institution Partners, L.P., a Delaware limited partnership (FIP LP”), Financial Institution Partners, Ltd., a Cayman Islands exempted company (“FIP Ltd.”), and Financial Institution Partners IV, L.P., a Delaware limited partnership (“FIP IV”). FIP LP and FIP Ltd. were structured as feeder funds in a master feeder structure and invested all of their investable assets in FIP Master Fund. Effective December 31, 2012, it was determined to consolidate (i) the master-feeder structure by winding up and dissolving both FIP Ltd. and FIP Master Fund, continuing only FIP LP as a stand-alone fund. Investors in FIP Ltd. were offered the opportunity to transfer their respective investments in FIP Ltd. to FIP LP, and (ii) FIP IV with FIP III by offering the limited partners in FIP IV the opportunity to transfer their respective investments in FIP IV to FIP III, thereby winding up and dissolving FIP IV.

Hovde Capital I LLC (“HCI”), the general partner of FIP LP, received a sizeable redemption request from a large investor in FIP LP for the June 30, 2013 withdrawal date. As a result, HCI determined that it would be in the best interest of all of FIP LP’s investors and ensure that they would be treated fairly and equally to begin the process of winding down FIP LP and put it into an orderly liquidation pursuant to FIP LP’s Limited Partnership Agreement. The Adviser notified FIP LP’s investors on June 20, 2013 of the decision. FIP LP was fully liquidated as of November 30, 2013.

In December, 2013, Hovde Credit Opportunity Advisers, LLC, the managing member of Hovde Credit Opportunities Master Fund, L.P., a Cayman Islands exempted limited partnership (“HCO Master Fund”), collectively with Hovde Credit Opportunities Fund, L.P., a Delaware limited partnership, and Hovde Credit Opportunities Fund, Ltd., a Cayman Islands exempted company, each of which was a feeder fund to the HCO Master Fund, the “HCO Funds”) determined to liquidate the HCO Funds given the lack of investment opportunities and the unsustainability of the HCO Funds from a capital raising standpoint. Effective December 27, 2013, HCO Funds ceased carrying on the business of a fund and all investors were redeemed.

As a result of the reduction in the Adviser’s RAUM due to the liquidation and winding up of the funds discussed above, as of December 31, 2013, the Adviser is no longer eligible for registration with the SEC as a registered investment adviser. The Adviser intends to file Form ADV-W with the SEC to fully withdraw its registration within 180 days after December 31, 2013, its fiscal year end. The Adviser is exempt from registration as an investment adviser with the Division pursuant to a Final Order Granting Exemption from the Registration Requirements for investment Advisers to Private Funds and Their Investment Adviser Representatives, adopted by the Division on February 17, 2012 (the “Order”), inasmuch as the Adviser only advises FIP III, a Section 3(c)(1) fund under the Investment Company Act of 1940, as amended, and meets the other conditions for exemption set forth in the Order. The Adviser intends to file with the Administrator of the Division each report and amendment thereto that an exempt reporting adviser is required to file with the SEC pursuant to SEC Rule 204-4 and will, among other things,

deliver on an annual basis a copy of audited financial statements for FIP III to each beneficial owner of FIP III.

Effective at the close of business on August 15, 2013, Eric D. Hovde became the sole and principal owner of the Adviser. Mr. Hovde has also relocated the Adviser's business to Madison, WI, where he now resides. Mr. Hovde, along with certain existing employees, will continue to manage FIP III.

On March 8, 2013, Eric Hovde, on his own behalf and on behalf of certain affiliates, entered into certain commitments with the Board of Governors of the Federal Reserve System (the "Federal Reserve") in connection with the approval of a merger (the "Merger Transaction") of an affiliated savings and loan holding company with another bank holding company (the "Commitments"). Among other things, the Commitments require, within 120 days (i.e., August 17, 2013) of the consummation of the Merger Transaction, (i) the banking entities under Mr. Hovde's common control to make applications to the appropriate federal and state banking authorities to consolidate and restructure those banking entities into a single bank holding company¹; (ii) effect the complete separation of the banking companies from all Hovde-related nonbanking companies (i.e., the Fund, including hedge funds previously managed by the Adviser (collectively, the "Funds"), their general partners and the Adviser), such complete separation to include but not be limited to service providers (with certain limited exceptions for nationally known accounting, auditing and law firms), physical location, employees, benefit plans, operations, marketing, and overlapping investors²; provided, however, after August 17, 2013, only Eric Hovde can indefinitely continue to provide services to the banking and nonbanking companies and, for a period of two years from the date of the Commitments, Mr. Perry and Mr. Kashdin can continue to provide services to the banking and nonbanking companies; (iii) after August 17, 2013, (a) in the event Mr. Perry or Mr. Kashdin elect to remain invested in the banking companies, they will no longer be permitted to retain any investment in the nonbanking companies, including the Adviser, the private funds managed by the Adviser or their general partners and (b) Mr. Steven D. Hovde will no longer be permitted to have an investment in any such nonbanking companies. Mr. Perry and Mr. Kashdin have elected to remain invested in the banking companies and, therefore, effective at the close of business on August 15, 2013, they no longer had an investment in the nonbanking companies (except as a creditor of FIP LP pending a distribution through their former interest in HCI and, thus, as a creditor of HCI pending such distribution from HCI) and they have resigned from their respective positions with the nonbanking companies, including the Adviser and the general partners. In addition, no nonbanking company (e.g., FIP III) will be permitted to own, hold, or have power to vote, directly or indirectly, any interest in the banking companies or more than 4.9% of the voting shares and total equity of any bank holding company, savings and loan holding company, or depository institution. The private funds managed by the Adviser do not hold any investments in excess of the foregoing 4.9% threshold.

¹ On January 23, 2014, The Federal Reserve Bank of Richmond, acting under authority delegated by the Federal Reserve, approved the combined notifications on Form FR Y-4 of H Bancorp LLC (currently operating as Western Acquisition Partners LLC) to acquire voting securities of Bay Bancorp, Inc., Lutherville, Maryland, and thereby indirectly acquire a controlling interest in Bay Bank, FSB, Lutherville, Maryland, and FirstAtlantic Financial Holdings, Inc., Jacksonville, Florida, and thereby indirectly acquire a similar interest in FirstAtlantic Bank, Jacksonville, Florida. The entities are in the process of effecting such restructuring.

² The Federal Reserve subsequently agreed to extend the period of time to redeem certain overlapping investors until September 30, 2013, and up to six (6) to nine (9) months for certain overlapping investors in FIP LP. Such overlapping investors have been redeemed as of the date of this Form ADV Updating Amendment.

On March 8, 2012, Eric Donald Hovde announced his candidacy for the United States Senate from the State of Wisconsin. His primary election bid in August 2012 was unsuccessful. Mr. Hovde continues to maintain his significant personal investment in the FIP III and is involved in overseeing the day-to-day operations of the Adviser and the investment decision-making process of the Adviser and continues to provide advice and guidance to the members and employees of the Adviser.

With respect to the FIP III, the Adviser employs an investment strategy that seeks superior returns primarily through long-term capital appreciation of financial services and real estate-related investments, while also attempting to mitigate risk through hedging activities.

A brief description of the investment strategy employed on behalf of FIP III is as follows:

The FIP III will invest in a wide variety of securities and financial instruments of all kinds and descriptions, whether publicly traded or privately placed, including, but not limited to, common and preferred stocks, bonds and other debt securities, convertible securities, publicly traded limited partnership interests, options, warrants, futures contracts, derivatives, various types of collateralized debt obligations (“CDOs”) (e.g., bank and insurance trust preferred CDOs), monetary instruments and cash and cash equivalents.

FIP III primarily invests in equity and equity-related securities of banks, thrifts, investment banks, insurance companies, real estate-related companies (including, but not limited to, homebuilders, real estate developers, building supply companies and other companies owning, leasing, renting, developing and managing real estate) and nonbank financial services companies, including commercial and consumer finance companies, asset management companies, collection companies, technology companies related to, or which derive significant revenue from, the financial services or real estate-related industries, and other companies which derive a significant portion of their revenue or profits from financing and/or real estate-related activities.

FIP III will generally invest at least seventy-five percent (75%) of its assets in the financial services and real estate-related companies described above. While the FIP III invests primarily in securities of companies listed on U.S.-based exchanges, it may, from time to time, also invest in companies that either are listed on a foreign exchange or are domiciled outside of the U.S. Such investments are generally either made directly on foreign exchanges or through American Depositary Receipts (“ADRs”) listed on an U.S. exchange. FIP III’s exposure to such companies will generally not exceed fifteen percent (15%) of FIP III’s assets, and such exposure typically involves companies with a significant presence or operations in the United States. Currency exposure associated with foreign securities may or may not be hedged depending on the circumstances.

The investment strategies, approaches, and techniques discussed herein may evolve over time due to, among other things, market developments and trends, the emergence of new or enhanced investment products, changing industry practice and/or technological innovation. As a result, these investment strategies, approaches, and techniques described above may not reflect the investment strategies, approaches, and techniques actually employed on behalf of the Funds.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and 10 (Other Financial Industry Activities and Affiliations).

Item 5. Fees and Compensation

The Adviser receives from management fees from FIP III of 0.125% per month (equivalent to approximately 1.5% annually) of each investor's share of FIP III's net asset value (including, without limitation, the value of any Side Pocket Accounts (as defined below)). The management fee generally is debited directly from assets of FIP III. The management fee is payable quarterly in arrears and calculated and accrued as of the last day of each month during the relevant quarter. A pro rated management fee will be charged for any amounts permitted to be invested or withdrawn during any quarter and for any quarter in which the Adviser does not act as the Adviser for the entire quarter.

The Adviser may waive, reduce or rebate the management fees paid by FIP III with respect to any investor in FIP III, including, without limitation, any employee, agent or affiliate of the Adviser and/or its affiliates. The Adviser, in its sole and absolute discretion, may also pay a portion of the management fee to certain investors, affiliates or other third parties.

The Adviser has the authority to alter or change the manner and method of calculating and paying the management fee solely for the purpose of ease of administration, provided that no such alteration or change in the method of calculation and payment shall in any way alter or affect the substantive rights of any investor in FIP III.

Subject to the Loss Carryover, as of the end of each fiscal year, increases in the net asset value allocated during such fiscal year to each investor in FIP III will be reallocated so that the general partner of FIP III shall receive an allocation (a "Performance Allocation") equal to twenty percent (20%) of the aggregate increases in FIP III's net asset value allocated to each investor. With respect to Side Pockets, no Performance Allocation shall be made with respect to a Side Pocket Account until the securities or the proceeds thereof held in such Side Pocket are reallocated by FIP III's general partner to the capital accounts of participating investors.

A separate Performance Allocation will be calculated with respect to all funds permitted to be invested by an investor in FIP III during a fiscal year and with respect to all funds permitted to be withdrawn by an investor from FIP III during a fiscal year.

The Performance Allocation is subject to what is commonly known as a "Loss Carryover." That is, if there is a net loss allocated to an investor in any year, this loss will be carried forward, to future years (such amount is referred to as the "Loss Carryover"). Whenever there is a Loss Carryover, a Performance Allocation will not be received for future years until the Loss Carryover amount has been recovered. Once the Loss Carryover has been recovered, the Performance Allocation shall be based on the increase in net asset value in excess of the Loss Carryover, rather than the entire increase in net asset value allocated to an investor.

The Adviser may waive, reduce or rebate the Performance Allocation attributable to any investor in FIP III, including, without limitation, any employee, agent or affiliate of the Adviser. The Adviser may also pay a portion of the Performance Allocation to certain investors and/or other third parties. In addition, the Adviser shall have the authority to alter or change the manner and method of calculating and making the Performance Allocation solely for the purpose of ease of administration, provided that no such alteration or change in the method of calculation and payment shall in any way alter or affect the substantive rights of any investor in such Fund.

The fact that the general partner FIP III, which is affiliated with the Adviser, is eligible to receive performance-based profit allocations from FIP III may create an incentive for the Adviser to make

investments on behalf of FIP III that are riskier or more speculative than would be the case in the absence of such performance-based profit allocations. In addition, the performance-based profit allocations received by the Adviser are calculated on the basis of the unrealized, as well as the realized, gains and losses. As a result, the performance-based profit allocations could be made to the Adviser in respect of unrealized gains of FIP III that may never be realized.

FIP III has incurred and will bear its own Organizational Expenses and will incur Investment Expenses and Administrative Expenses. The term “Organizational Expenses” generally means the expenses incurred by FIP III in connection with its organization. The term “Investment Expenses” means the expenses associated with the investment program of FIP III, which include, without limitation: brokerage expenses, custodial fees, administrative expenses, management fees and the Performance Allocation. The term “Administrative Expenses” means FIP III’s accounting, legal, audit and other operating expenses and all expenses incurred in connection with the offer and sale of interests in FIP III.

Generally, the Adviser initially pays the Organizational Expenses and is reimbursed by the applicable Fund for all such Organizational Expenses. The Fund generally may amortize such Organizational Expenses for accounting purposes over a period of either sixty (60) or one hundred eighty (180) months from the date the applicable Fund commences operations, or such other period of time as determined by Adviser, in its sole and absolute discretion.

The Adviser believes that amortizing such Organizational Expenses is in conformance with industry standards and is more equitable than expensing the entire amount during the first year of operations, as is required by United States generally accepted accounting principles (“GAAP”).

The Adviser shall have the authority to alter or change the manner and method of calculating and charging expenses solely for the purpose of ease of administration, provided that no such alteration or change in the method of calculation and charging of such expenses shall in any way alter or affect the substantive rights of any investor in FIP III.

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

The Adviser currently only manages FIP III, which is charged the Performance Allocations described above.

Please refer to Items 8 & 10 for Risk Factors and Conflicts of Interest.

Item 7. Types of Clients

The Adviser currently provides investment advisory services to FIP III.

Interests in FIP III are generally only offered to “accredited investors” as defined in Regulation D under the U.S. Securities Act of 1933, as amended.

The minimum initial investment in FIP III is \$1,000,000, generally payable only in U.S. Dollars. The Adviser can waive this minimum investment amount at any time for any prospective investor.

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

A description of the investment strategy employed on behalf of FIP III is as follows:

With its industry focus and expertise, the Adviser believes it has developed an in-depth understanding of the markets and how various sectors and individual companies within the financial services and real estate-related industries react to changes in the economy and capital markets, interest rate and market fluctuations, and changes in the overall regulatory environment. The Adviser attempts to utilize its experience and expertise to identify attractive investment opportunities within these industries and seeks to strategically position the client's portfolio to capitalize on changing market and economic trends, in an effort to generate positive returns across various economic and interest rate cycles. In particular, the Adviser attempts to take advantage of this evolving market by seeking investment opportunities in financial services and real estate-related companies based on the following strategies and criteria:

1. Focus on those companies that consistently generate superior investment returns on equity.

The focus in this area will be on well-managed companies that have been able to generate sustainable double-digit quality earnings growth. These companies tend to have positioned themselves in a non-commoditized product line and have established deep customer relationships that are not highly price-sensitive, or have developed a dominant position in a niche product line and/or market which provides superior returns. These companies tend to be less interest-rate and credit-cycle sensitive due to their thorough understanding of their markets and/or products.

2. Invest in companies with strong underlying core franchises which are trading at discounts to their peers on a price-to-earnings or a price-to-book multiple, or, in the case of depository institutions, on a price-to-core deposit premium. The focus in this area will be on those companies which have yet to fully maximize their earnings potential or on previously troubled companies where problems have largely been resolved but which may need additional capital to meet stringent capital adequacy standards. By focusing on these companies, there is a two-fold benefit: first, there is a greater potential for these companies to increase their earnings; and, second, once earnings are fully realized, these companies will trade at comparable multiples to their peers.

3. Select companies that have developed a unique market or product niche. The Adviser will also invest in nonbank financial services and financial technology companies that have developed a particular market or product niche which affords significant appreciation due to rapid revenue growth. Due to the dramatic changes that are occurring in the industry as a result of technology, the use of new marketing techniques and delivery channels have allowed nimble, creative nonbank financial services companies to grow at exponential rates. Many of these financial services companies are fee-based financial services providers and thus have no credit risk. Furthermore, the financial services industry is continuing to rely more extensively on technology and its products. As a result, there are numerous financial technology companies that are experiencing explosive growth by assisting the financial services industry in becoming part of the "new technology-based economy." Many of these companies require capital in order to facilitate their explosive growth.

4. Select banks, thrifts or other companies that are likely takeover candidates. Utilizing the investment criteria described above, the Adviser will also assess the desirability of companies as takeover targets and the resulting potential appreciation that a sale or merger will provide. A company's takeout value is directly linked to the one primary factor that is essential to each of the previous investment criteria: franchise value. Franchise value is the strength and breadth of the relationships the company has with its customers and/or geographic community. In this regard, the Adviser will seek companies that have attributes such as a dominant market position, a competitive market position in a high growth or affluent

region, and/or a unique product capability or operating niche. The ultimate objective is to combine the investment criteria listed above with the potential added appreciation from a sale in order to achieve the client's desired returns.

5. *Select real estate-related companies where there are opportunities to take advantage of the disparity in perceptions between public and private market values.* The Adviser seeks to use proprietary research and analysis to invest in real estate-related companies (including, but not limited to, homebuilders, real estate developers, building supply companies, real estate investment trusts, real estate operating companies and other companies involved in owning, leasing, renting, developing, constructing and managing real estate) that the Adviser believes are trading below their estimated fair market value or at unjustifiable discounts to comparable peer companies. The Adviser seeks to focus on companies that have developed a particular expertise in developing, managing or acquiring real estate assets and that have demonstrated a track record of generating significant value in excess of their cost of capital over time. In addition to the aforementioned qualities, the Adviser generally seeks to focus on companies the Adviser believes have conservatively structured balance sheets and ample liquidity to finance their operations.

6. *Utilize short positions.* Given constantly changing economic and market conditions, the Adviser will utilize short positions in equity securities within the financial services and real estate-related industries, as well as others, as a component of the Adviser's investment strategy, as appropriate, and to hedge the downside risk of the overall portfolio. In identifying potential short opportunities, characteristics the Adviser looks for include the following: (1) companies with fundamental flaws (i.e., deteriorating credit quality, high exposure to certain industries, and/or a poor business model); (2) companies that are overvalued relative to their growth rates and/or in comparison to their peers; (3) companies that will have difficulty meeting earnings and growth projections; and (4) companies that have volatile revenue streams that will be impacted to a greater extent by unfavorable economic and market conditions. The Adviser believes that utilizing such short positions allows for the achievement of speculative gains as well as lowers the client's risk profile and enhances its ability to provide positive returns in either an up or a down market.

In connection with the foregoing, the Adviser generally intends to utilize the following additional investments and/or techniques:

Private Placements. In addition to investing in publicly traded common equities, the Adviser's investment strategy includes investing in privately placed unregistered securities that do not have a readily ascertainable market value or other illiquid securities which may be valued but are not freely transferable (such as privately placed and illiquid securities, collectively, "Illiquid Securities"). As a result, the client's portfolio will not be as liquid as would have been the case had the Adviser invested solely in liquid securities.

Options. The Adviser will use derivative securities, primarily options, as part of its investment strategy. The Adviser intends to purchase and write put and call options that are traded on national securities exchanges or over-the-counter markets as well as on electronic communications networks (ECN's). Options can be used in many ways such as to increase market exposure (i.e., for purposes of leverage), to reduce overall market exposure (i.e., for hedging purposes), to increase the portfolio's current income, or to reduce the cost basis of a new position. The Adviser may also utilize certain options, such as various types of index or "market basket" options and derivatives, in an effort to hedge against certain market-related risks, as the Adviser deems appropriate. The Adviser believes that the use of options and other derivatives may help reduce risk and enhance investment performance.

Fixed Income Securities. The Adviser intends to invest in fixed income securities (e.g. bonds, trust preferred securities and trust preferred securities CDOs) as part of the investment strategy. The Adviser

may take advantage of special investment opportunities in the high yield and convertible segments of the fixed income market. The Adviser considers these investments to be equity substitutes, with the expectation of providing both current income and capital appreciation. The Adviser may also seek opportunities in government issued fixed-income securities as deemed appropriate.

Leverage. To a limited extent, the Adviser intends to increase the number and extent of its “long” positions by borrowing (e.g., by purchasing securities on margin). Entering into short sales also increases the use of leverage. Moreover, the amount of any borrowing may also be limited by regulations imposed by the Federal Reserve or by the availability and cost of credit. At present, the Federal Reserve’s Regulation T permits a broker to lend no more than 50% of the purchase price of “margin stock” bought by a customer.

Other Investments. The Adviser intends to also invest some of the client’s assets in short-term United States Government obligations, certificates of deposit, commercial paper and other money market instruments, including repurchase agreements with respect to such obligations, to enable the Adviser to make investments quickly and to serve as collateral with respect to certain of its investments. If the Adviser believes that a defensive position is appropriate because of expected economic or business conditions or the outlook for security prices, a greater percentage of clients’ assets may be invested in such obligations. The Adviser may also engage in securities lending activities. From time to time, in the sole discretion of the Adviser, cash balances in the clients’ brokerage account may be placed in a money market fund or other cash-equivalent investment.

Serving on Boards of Directors of Portfolio Companies. Although the Adviser generally does not take an active role in the affairs of the companies in which the Adviser or one of the Advisers clients’ has a position, it will be the policy of the Adviser to take such steps as are necessary and appropriate to protect its economic interests, including seeking a role on the board of directors of any company in which the Adviser manages securities on behalf of its clients.

In addition to the foregoing, the Adviser may invest a portion of FIP III’ assets in securities or other financial instruments which the Adviser determines are difficult to value and not readily marketable, or should be held until the resolution of a special event or circumstance (each, a “Side Pocket Investment”). The Adviser may place such Side Pocket Investments in a separate special account (each, a “Side Pocket Account”). In addition, the Adviser may make an investment that it determines is a follow-up investment to a Side Pocket Investment (each, a “Follow-Up Investment”), and may place such Follow-Up Investment in the same Side Pocket Account as the Side Pocket Investment to which it relates. The initial value of such Side Pocket Account shall be the value of the related Side Pocket Investment (as defined below), as determined by the Adviser.

Upon the occurrence of a Realization Event, all (or, if only a portion of the related Side Pocket Account can be withdrawn, a portion) of any increase or decrease in net asset value from such realized Side Pocket Account will be taken into account in determining the Performance Allocation with respect to each investor participating in such Side Pocket Account.

A “Realization Event” occurs when: (i) the Side Pocket Investment and Follow-Up Investments (if any) become liquid (including, without limitation, when there is a public offering of the securities constituting the Side Pocket Investment and Follow-Up Investments (if any) that provides a reasonable value); (ii) the Side Pocket Investment and Follow-Up Investments (if any) are liquidated, sold or otherwise disposed of by the Adviser on behalf of FIP III; or (iii) circumstances otherwise exist that, in the judgment of the Adviser, conclusively establish a value for the Side Pocket Investment and Follow-Up Investments (if any) other than fair value or cost (including, without limitation, when additional securities substantially similar

to the Side Pocket Investment and Follow-Up Investments (if any) have been issued by the issuer of such Side Pocket Investment and Follow-Up Investments (if any)).

The Adviser will not receive a Performance Allocation with respect to a Side Pocket Account until the occurrence of a Realization Event. However, to the extent that any Side Pocket Account generates income (in the form of dividends or otherwise), the income will generally be combined with FIP III's other income and gains and included in the calculation of net asset value for purposes of calculating the Performance Allocation.

There is no limitation on the percentage of net asset value of FIP III or percentage of an investor's interest in such fund that can be held in a Side Pocket Account.

For purposes of calculating the above guidelines, existing Side Pocket Accounts will be valued at the last reported value of the related Side Pocket Investment. Notwithstanding the foregoing, over time, Side Pocket Accounts may comprise more than the respective guidelines described above due to withdrawals, redemptions or other factors.

Development and Risks of Adviser's Trading Strategy. The development of a trading strategy is a continuous process and the Adviser's trading strategy and methods may, therefore, be modified from time to time. The Adviser's trading methods are confidential and the descriptions of them in this brochure are not exhaustive. The Adviser's trading strategies may differ from client to client and/or from time to time. Trading decisions require the exercise of judgment by the Adviser. Such decisions may or may not yield profits or avoid losses. FIP III cannot be assured that the strategies or methods utilized by the Adviser will result in profitable trading for FIP III.

The Adviser's investment program entails substantial risks and there can be no assurance that its investment objectives will be achieved. The practices of options trading, short selling, private placement investing, use of leverage and other investment techniques employed by the Adviser can, in certain circumstances, maximize the adverse impact to which FIP III and investors' investment portfolio may be subject.

The investors' investment involves significant risks not associated with other investment vehicles and is suitable only for persons of adequate financial means who have no need for liquidity in this investment. There can be no assurances or guarantees that (i) the Adviser's investment objectives will prove successful or (ii) investors will not lose all or a portion of their investment.

Investors should consider the investment that the Adviser has discretion over as a supplement to an overall investment program and should only invest if the investor is willing to undertake the risks involved. In addition, investors who are subject to income tax should be aware that an investment in a partnership (i.e., FIP III's business structure) is likely (if the partnership is successful) to create taxable income or tax liabilities in excess of cash distributions to pay such liabilities. Investors should, therefore, bear in mind the following risk factors and conflicts of interest before making such investment.

Risk of Loss. Investments in FIP III are speculative. Investors may incur substantial losses on their investments.

Dependence upon the Adviser. Investors' success will depend on the management of the Adviser and on the skill and acumen of the Founder and possibly other personnel of the Adviser. If the Founder and/or one or more of these other individuals, if any, should die, become disabled or otherwise cease to

participate in the Adviser's business, the Adviser's ability to select attractive investments and manage its portfolio could be severely impaired.

Neither investors nor FIP III have any right or opportunity to select or evaluate any of the Adviser's investments or strategies. Accordingly, investors should not invest in FIP III unless they are willing to entrust all aspects of the management of FIP III and its investments to the discretion of the Adviser. Although the Adviser and its affiliates intend to devote a substantial part of their time to the business of FIP III, they will not devote all of their time.

Limited Liquidity. A portion of FIP III's assets may from time to time be invested in securities and other financial instruments or obligations for which no market exists and/or which are restricted as to their transferability under federal or state securities laws. Because of the absence of any trading market for these investments, it may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by FIP III. Further, companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Concentration of Investments in Financial Services and Real Estate-Related Industries. Due to the nature of FIP III's investment strategy, a significant amount of FIP III's and the investors' equity will be invested in the financial services and real estate-related industries. Therefore, any economic downturn in these industries could have a material adverse effect on FIP III's portfolio.

Investment Expenses. The investment expenses (e.g., expenses related to the investment and custody of FIP III's assets, such as brokerage commissions, custodial fees and other trading and investment charges and fees) as well as other expenses, including investors' pro rata portion of FIP III's expenses (e.g., the Management Fee and operating expenses) may, in the aggregate, constitute a high percentage relative to other investment entities. FIP III will bear these costs regardless of its profitability.

Frequency of Trading. Some of the techniques employed by the Adviser may require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commission may be greater than for other investment entities of similar size.

Performance Allocation. The Performance Allocation creates an incentive for the Adviser to effect transactions in securities that are riskier or more speculative than would be the case in the absence of such an allocation. Since the Performance Allocation is calculated on a basis which includes unrealized appreciation of assets, such allocation may be greater than if it were based solely on realized gains.

Hedging Transactions. Hedging strategies in general are usually intended to limit or reduce investment risk, but can also be expected to limit or reduce the potential for profit. No assurance can be given that any particular hedging strategy will be successful.

Custodial Risks of Brokers. U.S. registered broker-dealers and their affiliates, which may carry the accounts of the Funds, generally segregate all customer funds to be allocated to listed securities trading in compliance with SEC and FINRA regulations. Even given proper segregation, various brokers will trade with the relevant exchange as principal on behalf of FIP III, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of FIP III (for example, transactions the broker has entered into on behalf of FIP III as a principal as well as the margin payments which FIP III provides). In the event of such broker's insolvency, the transactions which the broker has entered into as a principal could, therefore,

default and FIP III's assets could become part of the insolvent broker's estate to the detriment of FIP III. In addition, under certain circumstances, such as the inability of another client of the broker or the broker itself to satisfy substantial deficiencies in such other client's account, a customer (FIP III) may be subject to a risk of loss of its funds on deposit with a broker, even if such funds are properly segregated. In the case of any such bankruptcy or loss, FIP III might recover, even in respect of property specifically traceable to FIP III, only a pro rata share of all property available for distribution to all of the broker's clients. FIP III may trade with or hold accounts at foreign broker-dealers registered under the laws and regulations of other countries. Such brokers and/or dealers may not be subject to the same or similar customer fund regulations (including, without limitation, customer segregation requirements) as those existing in the United States. The financial failure of the parties with which FIP III trades in the over-the-counter markets could also result in substantial losses, as FIP III will deal with such persons as principals, and, furthermore, there is no requirement that such parties segregate counterparty funds held by them in respect of such trading.

Change in Investment Strategies. The investment strategies, approaches and techniques discussed herein may evolve over time due to, among other things, market developments and trends, the emergence of new or enhanced investment products, changes in laws and regulations, changing industry practice and/or technological innovation. As a result, these investment strategies, approaches and techniques may not reflect the investment strategies, approaches and techniques actually employed by the Adviser. Nevertheless, the investments made on behalf of the Funds will be consistent with the Funds' investment objective.

Forward Looking Statements. FIP III's offering documents contain forward-looking statements. These forward-looking statements reflect the view of the Adviser with respect to future events. Actual results could differ materially from those in the forward-looking statements as a result of factors beyond FIP III's control. Prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Other Clients and Funds. The Adviser and/or its respective affiliates will, from time to time, sponsor, organize and/or advise other clients and/or investment vehicles. In connection with the operation of accounts of such clients and/or vehicles, the Adviser and/or its respective affiliates may employ substantially similar investment strategies and/or invest in substantially similar securities to the strategies employed or securities invested in by FIP III. In either case, the Adviser and/or its respective affiliates may receive fees from FIP III or allocations from FIP III and such other clients and/or vehicles.

Competition. The securities industry and the varied strategies and techniques to be engaged in by the Adviser are extremely competitive and each involves a degree of risk. FIP III will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

Market Volatility. The profitability of FIP III substantially depends not only on the Adviser's ability to correctly assess trends in the financial services and real estate-related industries but also upon the Adviser correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. The Adviser cannot guarantee that it will be successful in accurately assessing trends in these industries or in accurately predicting price and interest rate movements.

FIP III's Investment Activities. FIP III's investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by the Adviser. Such factors include a wide range of economic, political, competitive and other conditions, including acts of war or terrorism, which may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which

may adversely affect the ability of FIP III to realize profits. As a result of the nature of FIP III's investing activities, it is possible that the FIP III's financial performance may fluctuate substantially from period to period.

In addition, segments of the financial services and real estate-related industries are subject to extensive regulation and supervision. Any changes in such laws or regulations, or the interpretations thereof by the relevant federal and state authorities, may have a material adverse effect on a particular institution or industry segment which may, in turn, adversely affect FIP III's portfolio.

Accuracy of Public Information. The Adviser selects investments for FIP III, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the Adviser by the issuers or through sources other than the issuers.

Although the Adviser evaluates all such information and data and ordinarily seeks independent corroboration when the Adviser considers it is appropriate and reasonably available, the Adviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

Leverage. When deemed appropriate by the Adviser and subject to applicable regulations, FIP III intends to use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent FIP III purchases securities on margin (that is, by depositing a portion of the price with its broker, who in effect lends the rest of the price to FIP III), then a small change in price may result in a loss for FIP III that exceeds the margin deposited with the broker. To the extent FIP III purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of FIP III. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, FIP III's use of leverage would result in a lower rate of return than if FIP III were not leveraged.

If the amount of borrowings which FIP III may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Funds' portfolios will have disproportionately large effects in relation to FIP III's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of FIP III to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies borrowed fails to cover their cost to FIP III, the net asset value of FIP III will generally decline faster than would otherwise be the case.

Short Sales. FIP III may sell securities short. Short selling involves the sale of a security that FIP III does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, FIP III must borrow securities from a third-party lender. FIP III subsequently returns the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities in the open market. FIP III must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities,

the lender generally pays FIP III a fee for the use of FIP III's cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. FIP III may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Real Estate and Real Estate-Related Risks. Investing in a pooled investment vehicle that invests a significant portion of its assets in real estate and real estate-related securities involves special risks, such as declines in the value of real estate as well as increased susceptibility to adverse economic, political or regulatory developments affecting the industry. Changes in interest rates may also affect the value of FIP III's investments in real estate-related securities. The real estate industry tends to be cyclical and, therefore, such cycles may adversely affect the value of FIP III's portfolio. FIP III may invest in smaller and mid-size companies that are engaged primarily in the real estate industry and certain of these companies may have a relatively small market capitalization, which may tend to increase the volatility of the market price of their securities. Small and mid-size companies often have narrower markets and more limited managerial and financial resources than larger, more established companies.

Options. FIP III may intend to use a number of option strategies. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

With certain exceptions, exchange listed options generally settle by physical delivery of the underlying security or currency although, in the future, cash settlement may become available. Index options are cash settled for the net amount, if any, by which the option is "in-the-money" (i.e., where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option. FIP III's ability to close out its position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Over-the-counter ("OTC") options are purchased from or sold to securities dealers, financial institutions or other parties through direct bilateral agreement with the counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantee, and security, are set by negotiation of the parties. Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with FIP III or fails to make a cash settlement payment due in accordance with the terms of that option, FIP III will lose any premium it paid for the option as well as any anticipated benefit of the transaction.

If a put or call option purchased by FIP III were permitted to expire without being sold or exercised, its premium would be lost by FIP III. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security caused by rising interest rates or other factors. If this

occurred, the option could be exercised and the underlying security would then be sold to FIP III at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying security would then be sold by FIP III at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks.

Foreign Securities. Although FIP III invests largely through the U.S. securities markets, FIP III intends to invest a portion of its assets in securities of companies domiciled or operating in one or more foreign countries. Investing in foreign securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some foreign governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, foreign currency risk, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in foreign securities. Higher expenses may result from investment in foreign securities than would from investment in domestic securities because of the costs that must be incurred in connection with conversion between various currencies and foreign brokerage commissions that may be higher than in the United States. Foreign securities markets also may be less liquid, more volatile and subject to less governmental supervision than in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

Investments in Undervalued Securities. The Adviser may intend to invest FIP III’s capital in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from FIP III’s investments may not adequately compensate for the business and financial risks assumed. FIP III will make certain speculative investments in securities which the Adviser understands to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, FIP III may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of FIP III’s capital would be committed to the securities purchased, thus possibly preventing FIP III from investing in other opportunities.

Event Driven Investments. FIP III may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in, or undergoing, work outs, liquidations, spin offs or other catalytic changes or similar transactions. Investing in the securities of such companies will be subject to so-called “event risk”, i.e., the risk that the transaction in question will simply fail to conclude as contemplated or will be delayed or modified in a manner detrimental to FIP III. Numerous factors, including market or industry developments, economic factors, regulatory clearance requirements and management or workforce issues, can cause an announced transaction to be abandoned, delayed or modified. Where a security to be issued in a proposed merger or exchange offer has been sold short by FIP III in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may force FIP III to cover its short position in the market at a higher price than its short sale, resulting in a loss. These losses can be substantial. If a transaction is delayed significantly, FIP III’s capital may be committed to the transaction during the period of the delay and interest charges may be greater than the profit realized upon the disposition of the

securities, in which case FIP III would realize a loss on the transaction. In addition, “spreads” on some merger opportunities may be initially small or may be impacted in a manner that precludes investment or causes a position to be limited in profitability or become unprofitable. Merger strategies can also be adversely affected by the costs of borrowed funds, hedging issues, including the ability or inability to hedge and the attendant costs, and the strength of competing investors in the marketplace.

Derivative Instruments. FIP III may invest capital with or through third parties through swaps, total return swaps and other derivative instruments. The Adviser may take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with FIP III’s investment objectives and legally permissible. Special risks may apply to instruments that are invested in by FIP III in the future that cannot be determined at this time or until such instruments are developed or invested in by FIP III. Certain swaps, total return swaps and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Futures. FIP III may employ future contracts, or options on such contracts, which may involve the future purchase or sale of securities or other financial instruments or market baskets of securities, such as various securities indices, as part of the Adviser’s hedging strategy, or opportunistically as modest directional investments. Use of futures contracts and options thereon involve the contractual commitment to purchase or sell the underlying instrument at a future date. The eventual price of such instrument may be influenced by a broad variety of market, economic and issuer-specific events and risks, many of which may be difficult to predict or assess. Futures’ trading involves relatively small invested capital relative to risk exposure and, therefore, can increase, perhaps significantly, portfolio volatility and exposure to loss.

Market Dislocation and Liquidity. Events in the sub-prime mortgage, credit, financial and other markets in the United States and elsewhere have caused significant dislocations, illiquidity and volatility and have had repercussions on the global financial markets, including the markets in which FIP III trades and invests, by restricting the availability of credit generally and reducing liquidity levels across virtually all markets globally. Although there are reported indications of an improving economy in the U. S., the foregoing events have led to an overall weakening of the U.S. and global economies, which may adversely affect certain of FIP III’s investments. Such marketplace events also may restrict the ability of FIP III to sell or liquidate investments at favorable times and/or for favorable prices and/or cause FIP III to have limited access to credit. FIP III may be adversely affected by a decrease in market liquidity (e.g., by impairing the Adviser’s ability to adjust positions and risk in response to trading losses or other adverse developments). The size of positions may magnify the effect of a decrease in market liquidity for the instruments traded. Changes in the overall market leverage (e.g., deleveraging or liquidations by other market participants of the same or similar positions) also may adversely affect FIP III’s positions.

Currency Risk. FIP III may make investments denominated in one or more currencies other than U.S. Dollars. The Adviser may, to the degree it deems appropriate, cause FIP III to enter into arrangements in an attempt to profit from, and/or hedge FIP III’s exposure to, significant currency fluctuations between the U.S. Dollar and the applicable currency or currencies. Price movements of currencies, however, are difficult to predict accurately because they are influenced by, among other things, changing supply and demand relationships; governmental, trade, fiscal, monetary and exchange control programs and policies; national and international political and economic events; and changes in interest rates. In addition, governments from time to time intervene in certain markets in order to influence prices directly. The Adviser cannot guarantee that it will be successful in accurately predicting currency price and interest rate movements. There can be no assurance that the hedging arrangements, if any, entered into on behalf of FIP

III will be sufficient to address all currency risks. More particularly, the profitability of FIP III's portfolio depends, in part, upon, and the success of any hedging arrangements is subject to, the ability of the Adviser to correctly hedge against movements in the direction of currency rates. Therefore, while the Adviser may enter into such transactions to seek to reduce currency exchange rate risks, unanticipated changes in currency rates may result in a poorer overall performance for FIP III than if the Adviser had not engaged in any such hedging transaction.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if FIP III purchases a 5-year bond in which it can realize a coupon rate of five percent (5%), but the rate of inflation is six percent (6%), then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, FIP III is exposed to inflation risk because the interest rate the issuer promises to pay is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

Systemic Risk. World events and/or the activities of one or more large participants in the financial markets and/or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. Such events could result in FIP III losing substantial value caused predominantly by liquidity and counterparty issues (as noted above), which could result in FIP III incurring substantial losses.

General Economic Conditions. The success of any investment activity is affected by general economic conditions, which include the level and volatility of interest rates, credit spreads and equity valuations, and the extent and timing of investor participation in the markets for both equities and interest-sensitive instruments. Unexpected volatility or illiquidity in the markets in which a Fund holds positions could cause FIP III to incur losses.

Risk of Default or Bankruptcy of Third Parties. FIP III may intend to engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, FIP III could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, FIP III could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which FIP III does business or to which securities have been entrusted for custodial purposes.

Strategy Restrictions. Certain investors may be restricted from directly utilizing investment strategies of the type in which FIP III or the Adviser may engage. Such investors should consult their own Advisers, counsel and accountants.

Trading Limitations. For all securities listed on a securities exchange, including options listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or continue and subject FIP III to loss. Also, such a suspension could render it impossible for the Adviser to liquidate positions and thereby expose FIP III to potential losses.

Affiliated Companies. From time to time and subject to the information barrier policies and procedures, the Adviser may consult with personnel in other affiliated companies, so long as the identity (or other client specific information) of the investment is not disclosed. Although the personnel of such affiliated companies may, subject to restrictions imposed by applicable law, share certain information or strategies known to them or developed in connection with their own client, proprietary or other activities relating to their areas of primary responsibility within the Adviser, such personnel shall be under no

obligation to share such information with the Adviser. Moreover, certain personnel may be in possession of information not available to all personnel (including the Adviser's personnel or other personnel advising or otherwise providing services to FIP III), and such personnel may act on the basis of such information in ways that have adverse effects on FIP III. The Adviser's compliance, risk and accounting department personnel may be in possession of information in respect of certain securities, commodities or other financial interests and may, but are under no obligation to, share any such information with the Adviser. Also, such departments shall be permitted to use such information for such department's own business purposes, which may conflict with the interests of the Adviser and/or FIP III and/or investors. From time to time, the Adviser may come into possession of material, non-public information or other information that could limit the ability of FIP III to invest or otherwise deal in certain securities, commodities or other financial instruments. In accordance with applicable law, FIP III's investment flexibility may be constrained as a consequence.

Item 9. Disciplinary Information

Not applicable

Item 10. Other Financial Industry Activities and Affiliations

Affiliates

Eric D. Hovde is management and a controlling person of Hovde Capital, Ltd., the general partner of FIP III.

Eric D. Hovde is management and a controlling person of Western Acquisitions, L.L.C., an Illinois limited liability company (“Western Acquisitions”), a top-tier bank holding company for Sunwest Bank, a California corporation engaged in the business of banking, headquartered in Irvine, CA. Western Acquisitions is the manager of Western Acquisition Partners LLC, a Delaware limited liability company (“WAP”), which is the majority owner of Sunwest Bancorp, Inc., a Delaware corporation that is the majority owner of Sunwest Bank. Western Acquisitions, WAP and Sunwest Bancorp, Inc. are registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) as bank holding companies, each of which is a related person to the Adviser.. Additionally, Eric D. Hovde holds an interest in WAP, Sunwest Bancorp, Inc. and Sunwest Bank.

Eric D. Hovde is management and a controlling person of Hovde Private Equity Advisors LLC, a Delaware limited liability company (“HPEA”) and Hovde Acquisition I LLC, a Delaware limited liability company (“HACQ”), a top-tier savings and loan holding company for Bay Bank, FSB, a federal savings bank, headquartered in Lutherville, MD, and wholly owned subsidiary of Bay Bancorp, Inc., a Delaware corporation headquartered in Columbia, MD. HAC Q is the manager of Financial Services Partners Fund I LLC (“FSPF”), the majority owner of Bay Bancorp, Inc. In addition, Eric D. Hovde holds an interest in FSPF. Each of HPEA, FSPF, HACQ and Bay Bancorp, Inc. is registered as a savings and loan holding company with the Federal Reserve System for Bay Bank, FSB.

Each of HPEA, FSPF, HACQ, and Bay Bancorp, Inc. is a related person to the Adviser.

Effective at close of business on August 15, 2013, Eric D. Hovde became the sole owner and President and Chief Executive Officer of HCPM, Inc., a corporation organized under the laws of the State of Delaware. HCPM, Inc. was a professional employer organization that principally provided employment and related benefits and back office support services to the Adviser, its affiliates, and related persons. As of August 16, 2013, HCPM, Inc. no longer provided such services to the Adviser. HCPM, Inc. was dissolved on December 13, 2013.

The Adviser and its affiliates or related persons may be limited in their ability to divulge or act upon certain information in their possession derived from confidential sources.

Conflicts of Interest

General. The Adviser is accountable to FIP III as a fiduciary and, consequently, must exercise good faith and integrity in handling the business of FIP III. Nevertheless, in the conduct of such business, conflicts may arise between the interests of the Adviser and/or its respective affiliates on the one hand, and those of investors, on the other hand.

No Obligation of Full-Time Service. The Adviser is restricted by an agreement not to compete with FIP III. The Adviser and its incumbent managers, members, officers, affiliates and employees engage in other activities or ventures which may result in various conflicts of interest between such persons or entities and FIP III. Neither the Adviser nor its incumbent managers, members, officers, affiliates and employees have any obligation to devote their full time to the business of FIP III. Such persons and entities

are required to devote only such time and attention to the affairs of FIP III as they may deem appropriate in their discretion. Eric Hovde, a principal of the Adviser, also devotes a portion of his time to his responsibilities at affiliates of the Adviser, including other private investment funds managed by him and his affiliates.

Advisory Services to Others. The Adviser and/or certain of its incumbent managers, members, officers, affiliates and employees provide investment advice to other parties and manage other private investment vehicles similar to FIP III. Specifically, in addition to managing FIP III's investments, Eric Hovde, a principal of the Adviser, and his affiliates also provide investment management services to other private investment funds (the "Affiliated Funds"), which employ investment programs and/or strategies substantially similar to that of FIP III.

In connection with such other investment management activities, Eric Hovde, a principal of the Adviser, may decide to invest the funds of one or more of the Affiliated Funds, or recommend the investment of funds by other parties, in a particular security or strategy.

Diverse Limited Partners. The investors are expected to include taxable and tax-exempt entities and persons or entities resident of or organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by the Adviser that may be more beneficial for one type of investor. In making such decisions, the Adviser intends to consider the investment objectives of FIP III as a whole, not the investment objectives of any investor individually.

Lack of Separate Representation. None of the agreements, contracts and arrangements between FIP III, on the one hand, and the Adviser, on the other hand, were or will be the result of arm's-length negotiations. The attorneys, accountants and others who have performed services for FIP III in connection with this offering, and who will perform services for FIP III in the future, have been and will be selected by the Adviser. No independent counsel has been retained to represent the interests of investors, and none of agreements has been reviewed by any attorney on their behalf. Investors are urged to consult their own counsel as to the terms and provisions thereof and all other related documents.

Affiliated Companies. From time to time and subject to the information barrier policies and procedures, the Adviser may consult with personnel in other affiliated companies, so long as the identity (or other client specific information) of the investment is not disclosed. Although the personnel of such affiliated companies may, subject to restrictions imposed by applicable law, share certain information or strategies known to them or developed in connection with their own client, proprietary or other activities relating to their areas of primary responsibility with the Adviser, such personnel shall be under no obligation to share such information with the Adviser. Moreover, certain advisory personnel may be in possession of information not available to all advisory personnel (including the Adviser's personnel or other personnel advising or otherwise providing services to FIP III), and such personnel may act on the basis of such information in ways that have adverse effects on FIP III. The Adviser's, compliance, risk and accounting department personnel may be in possession of information in respect of certain securities, commodities or other financial interests and may, but are under no obligation to, share any such information with the Adviser. Also, such departments shall be permitted to use such information for their own business purposes, which may conflict with the interests of the Adviser and/or the investors. From time to time, the Adviser may come into possession of material, non-public information or other information that could limit the ability of FIP III to invest in or otherwise deal in certain securities, commodities or other financial instruments. In accordance with applicable law, FIP III's investment flexibility may be constrained as a consequence.

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

The Adviser has adopted a code of ethics (the “Code”) pursuant to SEC Rule 204A-1. It is the policy of the Adviser that its operations are to be conducted in compliance with the law and with the highest ethical standards. This policy applies to all employees and others working on behalf of the Adviser wherever located.

The Code confirms the Adviser’s policy and provides a statement of the general standards of conduct required by the Adviser, including such areas as conflicts of interest and confidential information, among others. The Code is available for current and prospective clients and investors to review.

The Code provides that all employees and others working on the Adviser’s behalf act in good faith and in the best interests of the Adviser and its clients. To this end, such persons must not place themselves or the Adviser in a position that would create even the appearance of a conflict of interest. No person may represent the Adviser in any transaction if an outside business interest or personal relationship might compromise or otherwise affect his or her ability to represent the Adviser’s or client interests fairly and impartially.

No employee or other person working on the Adviser’s behalf, individual members of their immediate families or persons living in their households may own, directly or indirectly, any interest in any corporation or other entity if ownership of such an interest could compromise the loyalty or judgment of such employee or person working on the Adviser’s behalf. Whether a particular financial interest constitutes a conflict of interest or the appearance thereof varies depending on the circumstances.

No employee may act as a director, trustee, officer, employee or agent of any other business or institution with which the Adviser has a competitive or significant business relationship, regardless of whether or not payment is received, without the written consent of the Adviser. The Adviser’s policies require its personnel to report to their supervisors any situation in which a member of that person’s immediate household holds a position that is likely to cause the person to have a conflict between the interests of the Adviser, its clients and another institution.

Additionally, the Adviser has trading policies and procedures that protect the interests of the clients and investors. The Adviser monitors personal trading activities of all employees and/or related persons.

Conflicts of interest are brought to the attention of the Adviser’s Chief Compliance Officer immediately for an investigation and review. Non-adherence to the Code by the Adviser and/or its employees subjects such parties to disciplinary action up to and including termination of employment.

Item 12. Brokerage Practices

The Adviser is responsible for the placement of the portfolio transactions of advisory clients and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price. The Adviser generally does not commit to provide any level of brokerage business to any broker. The Adviser may utilize the services of one or more introducing brokers who will execute advisory client's brokerage transactions through the prime broker and custodian who will clear advisory client's transactions.

Securities transactions for advisory clients will also be executed through brokers selected by the Adviser in its sole discretion and without the consent of advisory clients. In placing portfolio transactions, the Adviser will seek to obtain the best execution for advisory clients, generally taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria.

The Adviser is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. The Adviser is not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by the Adviser, and the Adviser's fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by advisory clients may be utilized by the Adviser or its affiliates in connection with its investment services for other clients and, likewise, research services provided by broker-dealers used for transactions of other clients may be utilized by the Adviser in performing its services for advisory clients. Since commission rates in the United States are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

ECNs and individual broker-dealers are chosen by the Adviser for each trade in order to achieve best execution for the individual security being traded. Factors considered by the Adviser when evaluating best execution include:

- Execution and operational capabilities of the broker-dealer (e.g., adequacy of order entry systems; sufficiency of lines of communication; promptness of execution; promptness and accuracy of reports of execution; efficiency in the clearance and settlement of trades; ability and willingness to correct errors, as well as frequency of trade errors; availability of prime brokerage arrangements; and willingness and ability to step-out trades).

- Expertise of the broker-dealer (e.g., to execute trades for the particular type of security; to maintain anonymity for the Adviser; to access various market centers; and to locate liquidity and minimize implementation costs).
- Access to people, products and services through the broker-dealer (e.g., research (if any) provided by the broker-dealer; research analysts and company insiders; initial public offerings (IPOs) for clients; non-transaction fee mutual funds; and third-party managers).
- Financial condition and business reputation of the broker-dealer.
- Trade implementation costs (e.g., market impact; lost opportunities to trade; time-to-market cost; and commission costs or spreads).

The Adviser periodically reviews, but not less than quarterly, client accounts in order to ensure that the Adviser is obtaining best execution for client transactions. The Adviser generally shall review and make determinations relating to:

- the selection of criteria pursuant to which broker-dealers may be evaluated and approved for purposes of executing client transactions;
- the composition of the list of approved broker-dealers through whom the Adviser may execute client transactions (the “Approved Broker List”);
- soft dollar arrangements, if any (to be considering in conjunction with the soft dollar procedures);
- the Adviser’s compliance with its relevant legal and fiduciary obligations, including its obligation to obtain best execution in connection with client transactions;
- the amount of commissions and other fees that each broker-dealer charged the Adviser and/or its clients for transactions (and the volume per trade, if appropriate); and
- Any unusual activity regarding certain brokers or certain transactions that occurred since the last report.

Applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is effected, and the extent to which it is possible to select from among multiple brokers or dealers capable of effecting the transaction.

In selecting broker-dealers to execute transactions, the Adviser does not have an obligation to seek the lowest available transaction cost (e.g., commission cost). The Adviser will make reasonable efforts to keep informed of commission rate structures and prevalent bid/ask spread characteristics of the markets and securities in which transactions entered into on behalf of the Adviser or any client account occur. The Adviser may or may not solicit competitive bids on behalf of the Adviser or any client account based on its judgment of the expected benefit or harm to the execution process for that transaction. In those instances where the Adviser solicits competitive bids where practicable or where required by law, the trader and/or the portfolio manager (or an assistant portfolio manager) will maintain all necessary records to document such process. The Adviser is responsible for monitoring changes in market conditions, the quality of execution of securities transactions, and the availability of new or alternative methods for executing transactions. The Adviser will file an amended Form 13H with the SEC, as applicable, to report changes in broker-dealers.

Establishment of an Approved Broker List:

The Adviser establishes an Approved Broker List based generally upon an evaluation of the criteria set forth above. Broker-dealers may, from time to time, be added or deleted from the Approved Broker List. The Approved Broker List shall be updated as new relationships are established or existing relationships are terminated or modified.

The Adviser monitors all trades to ensure that only those brokers appearing on the Approved Broker List, or that have otherwise been approved in writing, execute trades on behalf of the Adviser and its clients.

Execution of Client Transactions with Broker-Dealers Not on the Approved Broker List:

There may be legitimate reasons at times for the Adviser to deal with a broker-dealer that is not on the Approved Broker List (e.g., if a trade cannot be executed by any of the brokers appearing on the Approved Broker List, or an unapproved broker-dealer offers the best execution). In such instances, the Adviser documents and approves the use of such broker one a case by case basis.

Aggregation of Orders:

The Adviser may aggregate purchase and sale orders of securities held by FIP III with similar orders being made simultaneously for other accounts or entities if, in the Adviser's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to FIP III based on an evaluation that FIP III will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities for FIP III will be affected simultaneously with the purchase or sale of like securities for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions may be determined, at the Adviser's sole discretion, and FIP III may be charged or credited, as the case may be, with the average transaction price. The Adviser shall avoid any action that could result in an unfair or inequitable disadvantage to any client account. The Adviser will conduct a review of client trade allocations periodically, but not less than quarterly, to determine whether, and to what extent, trades have been aggregated, and whether the price received is consistent with the foregoing. The Adviser will maintain appropriate documentation.

Process for Allocating Block Trades:

The Adviser generally allocates all block trades immediately upon the close of the trading day. The pricing for all block trades is calculated using the average price method in order to ensure that no client is given preferential pricing. Prior to purchasing the block, the Adviser will have determined the targeted position for each relevant managed account and communicated this information to the trader. Once the order has been executed, the block of stock is then allocated based on these pre-determined instructions. If the block is to be allocated across numerous accounts, the stock will be allocated equally based upon the amount of capital in each respective account. The allocation of block trades process is also further discussed in FIP III's private placement memorandum.

The Adviser may employ an allocation method other than the foregoing, provided that under the circumstances, such other allocation method is reasonable, employed in good faith and does not result in an unfair or inequitable disadvantage to any client account, the Adviser specifies in writing the reason for the departure on the order ticket/instant message relating to such order, and prior to or contemporaneously with entering into any trade, the trader and/or the portfolio manager (or an assistant portfolio manager) shall

prepare a written allocation statement, specifying (i) the participating client accounts, and (ii) the method of allocation. The Adviser will conduct a review of client trade allocations periodically, but not less than quarterly, to determine whether, and to what extent, block trades have been allocated, and whether the price received is consistent with the foregoing. The Adviser will maintain appropriate documentation of such reviews.

Soft Dollar Arrangements:

The term “soft dollars” refers to the receipt by an investment manager, such as the Adviser, of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of the investment manager’s clients. The Adviser may use “soft dollar” commissions or a rebate by brokerage firms of commissions generated by the Funds’ securities transactions executed through those firms to pay certain expenses that the Adviser might otherwise have to bear or that otherwise provide benefits to the Adviser and its affiliates.

Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), provides a “safe harbor” to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities. The Adviser will pay its own general operating, administrative and overhead type expenses which are part of its day-to-day administration of FIP III and intends to use any “soft dollar” commissions to cover expenses that fall within the scope of the “safe harbor” provided under Section 28(e) of the Exchange Act.

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the Adviser and the advisory clients, including FIP III, because the advisory clients pay for such products and services that are not exclusively for the benefit of the advisory clients and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including management fees paid by the advisory clients), the Adviser’s use of soft dollars would tend to increase the Adviser’s profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for the advisory clients. The investment advisory agreements for the Adviser’s clients and the governing organizational documents for FIP III specifically authorize these practices to the fullest extent permitted by law. Nevertheless, the Adviser will attempt to assure either that the fees and costs for services provided to FIP III by brokers offering these benefits are reasonable in relation to the fees and costs charged by other equally capable brokers not offering such services or that FIP III also will benefit from the services.

The following soft dollar procedures apply to ensure compliance with SEC rules regarding the use of soft dollars.

1. The Adviser’s accounting department will maintain a list of all brokers with a description of all related soft dollar arrangements. Any new soft dollar arrangements must be reviewed and approved by the Adviser’s Chief Compliance Officer prior to execution, as well as receive approval from the relevant broker’s compliance department.
2. To ensure that soft dollars are used only in compliance with SEC rules and the disclosures made to investors in our offering materials and other documents, soft dollars can only be used with the prior written approval of the Adviser’s compliance department. Written requests, which contain

information regarding the proposed use of soft dollars (e.g., research materials, software, information/data feeds), the cost of the purchase (i.e., the amount of soft dollars to be used as payment), and any other information deemed relevant by the requesting party should be submitted in advance to the Adviser's Chief Compliance Officer in either hard copy format or by e-mail.

3. Once a request has been approved by the Adviser's compliance department, a trader may then use soft dollars up to the amount authorized in payment of the approved expenditure.
4. The Adviser's accounting and compliance departments will maintain records detailing each soft dollar payment, the payee/recipient of the soft dollar payment, the date of approval, and the date that a broker is instructed to make the payment.
5. All periodic statements from third parties reflecting soft dollar balances, credits and usage are to be sent to the trader with a concurrent copy to the Adviser's Chief Compliance Officer and its accounting department.
6. A trader and the Adviser's accounting department will verify previous balances, earned credits, soft dollar debits, and ending statement balances to reconcile trading activity subject to soft dollar credits as well as soft dollars expended during the period. Such trader and the Adviser's accounting department should resolve promptly any discrepancies noted in the amount of soft dollars credited, debited or in the beginning and ending balances reflected on the statements with the respective broker. In the event that a discrepancy cannot be resolved by either the trader or the Adviser's accounting department, such discrepancy must be reported to the Adviser's Chief Compliance Officer immediately.

Item 13. Review of Accounts

All accounts managed by the Adviser are reviewed not less than on a monthly basis by Eric D. Hovde to assure conformity with client objectives and guidelines. All accounts are reviewed in light of emerging trends and developments as well as market volatility.

Item 14. Client Referrals and Other Compensation

The Adviser does not currently use any solicitors or pay referral fees. To the extent the Adviser becomes affiliated with a solicitor or pays referral fees, it will develop and implement policies and procedures to ensure compliance with the requirements under the Investment Advisers Act of 1940 (the “Advisers Act”), as well as the applicable rules promulgated thereunder.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Pursuant to investment management agreement and the governing agreement of FIP III, the Adviser and its affiliates have discretionary authority to manage FIP III. These agreements generally include a power of attorney given by FIP III to the Adviser and its affiliates.

There generally are no limitations placed on this authority.

Item 17. Voting Client Securities

The Adviser has established the following policies and procedures for voting proxies:

1. All proxies are to be voted in a timely manner either for, against, or abstain.
2. When received, all proxy materials are to be forwarded to the junior analysts in the Adviser's asset management department.
3. A junior analyst will open proxy materials in a timely manner, review the proxy statement, summarize the terms, and make a preliminary recommendation documented in an Excel file located on the Adviser's local area network.
4. In general, if all matters appear reasonable, the Adviser will vote in favor of the board of directors recommendations.
5. When making a recommendation for management recognition plans, it is the Adviser's general policy to vote against an option plan that authorizes the company to issue options that equate to greater than 12% of the current outstanding shares. If the total options issued are to be greater than 12%, then an investment committee of the Adviser will evaluate the circumstances and make the final decision regarding the vote. A junior analyst will indicate the recognition plan ratio in the "reason" column of the proxy spreadsheet.
6. There may be certain circumstances in which the best interests of the client(s) are served by the Adviser electing to not vote. Any such determination will be made on a case-by-case basis after discussion with the portfolio manager.
7. In the event that there is a proxy matter which presents a material conflict of interest between the Adviser and the client(s), the Adviser will disclose the conflict of interest and obtain the client(s) consent prior to voting the proxy.
8. If proxy votes are pending, or require additional review/evaluation, a junior analyst will vote on a case-by-case basis after discussion with and recommendation from the portfolio manager or assistant portfolio manager.
9. After final approval is given, a junior analyst will execute the vote following the procedures on the proxy card (either via mail with an authorized signature or electronically via the internet).
10. The due date that votes are to be made will be documented in the proxy summary file. For electronic proxies, confirmation e-mails that are received will be stored in a file located on the Adviser's local area network.
11. Proxy statements, annual reports and proxy cards are to be retained in the Adviser's proxy file records or as otherwise permitted by Rule 204-2.
12. Clients of the Adviser can obtain a copy of the Adviser's proxy voting policies and procedures and information on how client proxies were voted by making a written request for such information to:

Hovde Capital Advisors LLC
122 W. Washington Avenue, Suite 350
Madison, WI 53703
Attn: Trader

Item 18. Financial Information

Not Applicable.