

**Part 2A of Form ADV: *Firm Brochure***

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This brochure provides information about the qualifications and business practices of Proprietary Capital, LLC (“Proprietary Capital” or “Firm”). If you have any questions about the contents of this brochure, please contact us at 303-575-9084 or hburroughs@prop-cap.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

This brochure does not constitute an offer to sell or the solicitation of any offer to buy any securities of any entities described herein. Registration as an investment adviser does not imply a certain level of skill or training.

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

## Item 2    Material Changes

Proprietary Capital has made certain to the prior version of this brochure dated March 28, 2013. The material changes are summarized as follows:

1. **Item 4B (Advisory Business).** A new private fund has been added.
2. **Item 11C and 11D (Code of Ethics).** A change in the Firm's Code of Ethics is described. The new policy prohibits employees or certain related persons from trading in securities held by the Hedge Funds or the Advisory Accounts.
3. **Item 12C (Brokerage Practices).** Information about trade allocation policies is now described. In general, the Firm has also adopted a trade allocation policy designed to treat accounts equitably over time. In allocating any particular purchase or sale, the Firm may consider a wide range of characteristics of an account, including available cash, current holdings, and the investment strategies of each client account. If a particular security is eligible for allocation to more than one account, but the security is not available in an amount that permits allocation to more than one account, the Firm will use a rotational allocation policy. Non-fee-paying accounts trade after fee-paying accounts, but follow a similar allocation policy.

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## Item 4    **Advisory Business**

### *A.      Firm Information*

Proprietary Capital, LLC (“Proprietary Capital” or the “Firm”) is registered as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”). Proprietary Capital, which was founded in 1997, has its principal place of business in Denver, Colorado.

The Firm is currently managed by co-founder and managing partner, Craig A. Cohen, who is also the principal owner of the Firm.

### *B.      Description of Advisory Services*

Proprietary Capital manages private investment funds (“Hedge Funds” or “Funds”) and individually managed accounts (“Advisory Accounts”). Proprietary Capital’s investment activities focus primarily on investing in mortgage-related securities, their derivatives and other financial instruments linked to mortgage-related securities. The Firm may also invest in instruments whose value is correlated with the value of mortgage-related instruments. Information about each Hedge Fund may be found in its offering document. Investment instruments include, without limitation:

- Residential mortgage-backed securities (“RMBS”)
- Derivatives of RMBS
- Collateralized mortgage obligations
- Options
- United States government securities
- Futures contracts on intangibles
- Swaps

References to “client” in this brochure include only Hedge Funds and owners of the Advisory Accounts, but do not include investors in the Hedge Fund. Copies of this brochure, however, will be voluntarily provided to Hedge Fund investors. The term “account” is used in this brochure to refer to Advisory Accounts and the accounts of investors in the Hedge Funds.

Proprietary Capital currently manages the following Hedge Funds:

#### The Lynx Funds

The Lynx Fund I (Master Fund), L.P. (offshore master fund)

The Lynx Fund I, L.P. (onshore feeder fund)

The Lynx Fund I (Offshore), Ltd. (offshore feeder fund)

#### Lynx Plus Funds

The Lynx Plus Master Fund SP (offshore master fund)

The Lynx Plus Fund (a series of the Proprietary Capital Macro Series Fund, LLC) (onshore feeder fund)

The Lynx Plus Offshore Fund SP (offshore feeder fund)

### Lynx Rising Rate Funds

The Lynx Rising Rate Master Fund SP

The Lynx Rising Rate Fund (a series of the Proprietary Capital Macro Series Fund, LLC) (onshore feeder fund)

The Lynx Rising Rate Offshore Fund SP (offshore feeder fund)

### Proprietary Capital Macro Series Fund, LLC – Series C

Proprietary Capital Macro Series Fund, LLC – Series C (master and direct issuer)

Proprietary Capital Macro Series Fund, LLC – Series M1 (onshore feeder fund)

Proprietary Capital Macro Series Fund, LLC – Series M2 (onshore feeder fund)

Proprietary Capital also provides customized management services to Advisory Accounts. The Firm manages these Advisory Accounts on a discretionary basis. Advisory Account supervision is guided by the stated objectives in the governing investment management agreements.

#### *C. Availability of Tailored Services*

The Firm tailors its advisory services to the individual needs of Advisory Account clients. Advisory Account clients may place limitations on the types of instruments that may be purchased for their accounts. However, the Firm does not tailor its advisory services to the individual needs of investors in the Hedge Funds. Because some types of investments involve certain additional degrees of risk, they will only be purchased for a client when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

#### *D. Wrap Fee Program*

Proprietary Capital does not participate in wrap fee programs.

#### *E. Assets Under Management*

As of February 28, 2014, Proprietary Capital managed \$530,000,000 of client assets on a discretionary basis and no assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

#### *A. Advisory Fees and Compensation*

Fee arrangements for Hedge Funds and Advisory Accounts include a combination of a management fee ("Management Fee") and performance-based compensation ("Incentive Fee"). The terms and conditions of the fee structure for Advisory Accounts are mutually agreed upon prior to entering into an investment management agreement. Fees for each of the Hedge Funds are governed in accordance with such Hedge Fund's offering memorandum.

The standard Management Fee for Hedge Funds and Advisory Accounts is calculated at an annual rate of 1.0% of assets under management. At times, an Advisory Account may be charged a fixed Management Fee not strictly based on assets under management. Incentive Fees range from 15% to 30% of the net profits above a "high water mark". To the extent that the amount of an account's net profits is less than the high water mark, there is a loss carryforward allocation that must be recouped before Proprietary Capital is entitled to an Incentive Fee. In some cases, prior to calculating the performance allocation, net profits are further adjusted to reflect the positive return in excess of a minimum return. For certain Hedge Funds, an investor's account may be charged up to a 5% withdrawal fee on withdrawals for a period of up to two years of investment.

If amounts are withdrawn from an account prior to the end of a calendar year, an Incentive Fee, if applicable, will be assessed as of the date of withdrawal.

The compensation each Hedge Fund pays Proprietary Capital is set forth in each Fund's offering documents. Fees payable by investors in the Hedge Funds are generally not negotiable. However, Proprietary Capital reserves the right to waive any fees or compensation payable to it by an investor in a Hedge Fund at any time, in accordance with the terms of the offering memorandum of the respective Fund. Any variation or waiver in fees will generally require the approval of a Hedge Fund's board of directors (or similar oversight board). No Fees will be assessed against accounts of the Firm or any of its members or any employees.

Certain of the fees payable to Proprietary Capital are based on the value and performance of the assets in a Hedge Fund or an Advisory Account. With respect to each Advisory Account, the final value of assets is determined by a client's administrator or custodian, as applicable. With respect to the Hedge Funds, the value of assets in each Hedge Fund is determined pursuant to that Hedge Fund's valuation policy. For liquid investments with readily ascertainable prices, those prices are used. When readily ascertainable prices are not available, the Firm uses a variety of methods to value the investments.

Proprietary Capital assigns values to the assets held in client accounts. Proprietary Capital faces a conflict of interest in valuing the assets that lack a readily ascertainable market value because the assigned value generally affects the fees payable to Proprietary Capital, as well as reported investment performance. With respect to these investments, Proprietary Capital uses various valuation methodologies based on the nature of the assets, as set forth in the applicable valuation policies. These methodologies are inherently subjective and capable of producing a range of values that may be considered reasonable to different parties and that may be different than valuations assigned by others applying their own judgment. To help increase the level of independence applied to the valuation process, the Hedge Funds have adopted valuation policies that require a Hedge Fund's administrator to review the values assigned by Proprietary Capital. A Hedge Fund's administrator may use pricing information that it obtains independently from sources other than Proprietary Capital in order to confirm the value of an investment.

There is no assurance that the valuations determined by Proprietary Capital represent values that can or will be realized in a sale or exchange of investments. Proprietary Capital documents its valuation decisions and reviews them on a periodic basis and a "Pricing and

Allocation Committee” composed of certain Proprietary Capital employees reviews the Firm’s compliance with valuation policies on a quarterly basis.

#### B. *Payment of Fees*

For the Hedge Funds, all fees are deducted directly from the assets held in each Hedge Fund. For the Advisory Accounts, clients receive an invoice for fees to be paid to Proprietary Capital.

Management Fees are payable quarterly in arrears or in advance, and are calculated based on the value of assets under management in the client account (including an investor’s account in a Hedge Fund) as of the beginning of each month or quarter, as appropriate. If an investor in a Hedge Fund makes a contribution to an account during a billing period, the Management Fee will be prorated. For clients that pay Management Fees in advance, if an investment management or similar agreement is terminated early, Proprietary Capital will refund the Management Fee, pro-rated based on fraction of the billing period during which the assets were managed.

A client agreement may be canceled, by either party, for any reason upon receipt of written notice in accordance with the terms of the respective investment advisory agreement. Advisory Account clients that terminate their advisory contracts prior to the end of a fiscal year will be charged an Incentive Fee, if applicable, based on the performance of the Advisory Account through the termination date. Similarly, for investors in the Hedge Funds who withdraw money from their account in a Hedge Fund other than at year-end, such investors’ accounts will be charged an Incentive Fee, if applicable, based on the performance of the investor’s account through the termination date.

#### *Other Fees and Expenses*

Each Hedge Fund will pay, or reimburse Proprietary Capital for, certain organizational, operational and other permissible expenses as described in the offering documents for each Hedge Fund. These permissible expenses generally include broker’s commissions, all trading and analytics expenses, organization costs, directors’ fees, insurance, regulatory and filing expenses, research, custody, legal, audit and accounting fees and other expenses. From time-to-time, Proprietary Capital may pay for certain of these expenses out of its own assets. Proprietary Capital generally seeks reimbursement of these expenses directly from the Hedge Funds on a cost reimbursement basis only. The Hedge Funds pay no interest or carrying charges associated with expense payments made on their behalf by Proprietary Capital. Certain trade errors may also be allocated to a client account.

In addition to management and other fees charged by the Firm, Advisory Account clients are responsible for the fees and expenses charged by custodians and imposed by broker dealers, brokerage commissions and related transaction costs. Please refer to the "Brokerage Practices" section (Item 12) for additional information.

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

Each Hedge Fund and Advisory Account provides for the payment of performance compensation to Proprietary Capital. However, the performance compensation arrangements for the Hedge Funds and Advisory Accounts vary. For example, Proprietary Capital receives performance-based fees at different rates for certain of the Hedge Funds and Advisory Accounts.

Performance-based fee arrangements may create an incentive for Proprietary Capital to recommend investments that may be riskier or more speculative than those that would be recommended under different fee arrangements. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts that use a similar investment strategy, but charge a lower performance-based fee (known as “side-by-side management”). This incentive could cause an investment adviser to allocate the “best” investment opportunities and the better-executed trades to the higher-fee account.

Proprietary Capital has adopted policies and procedures intended to address conflicts of interest relating to the management of multiple accounts and the allocation of investment opportunities across these accounts. Such policies and procedures are intended to help ensure that all clients are treated fairly over time. The Firm believes that these conflicts are mitigated by its trade allocation policy. In addition, the Firm has created a “Pricing and Allocation Committee” that meets quarterly to review accounts for evidence of favoritism.

## **Item 7     Types of Clients**

Proprietary Capital provides investment advice to private funds (i.e., the Hedge Funds) and to separately managed accounts whose beneficial owners may be, for example, pension plans, trusts or other types of institutions. The minimum initial investment in a Hedge Fund ranges from \$500,000 to \$1,000,000, subject to waiver, reduction, or increase by the Firm or by a Hedge Fund’s board of the directors (or oversight board), as the case may be. Potential investors must meet the specific requirements set forth in the respective Hedge Fund’s subscription document in order to invest in the Hedge Fund.

Generally, a minimum initial investment of \$50,000,000 is required for an Advisory Account. As an accommodation to certain persons affiliated with the Firm, Proprietary Capital also provides investment management to certain smaller separate accounts.

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

### **A.     *Methods of Analysis***

Proprietary Capital uses the following methods of analysis in formulating its investment advice and/or managing client assets:

*Fundamental Analysis.* Proprietary Capital attempts to measure the intrinsic value of a security by looking at economic and financial factors such as prepayment rates (an unscheduled repayment of principal by the homeowner), interest rates, the housing market



and other economic factors affecting the mortgage industry.

*Cyclical Analysis.* In this type of technical analysis, the Firm measures the movements of the mortgage-related securities market against the overall market in an attempt to predict the price movement and yield of the security. Proprietary Capital relies on various in-house analytical tools to forecast prepayment levels in analyzing mortgage-related securities and also uses a model designed to assess the impact of future interest rate changes on securities prices.

*Market Research.* Proprietary Capital has access to various databases of regional price indices, which are used to monitor regional housing trends. In addition, the Firm maintains an extensive database of historical prepayment statistics. The Firm uses these databases when constructing and monitoring a portfolio of mortgage-related securities.

*B, C. Material Risks of the Firm's Investment Strategies, Methods of Analysis and Types of Securities*

Fundamental analysis does not attempt to anticipate market movements. This presents a risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

Cyclical analysis relies heavily on historical patterns and relationships. There is a risk that the movement of various securities and their relationships will differ from what has been previously experienced. There is also a risk that the Firm's models will be inaccurate.

Proprietary Capital must continually evaluate a significant number of factors when constructing and monitoring a portfolio, such as economic and interest rate trends, the condition of the housing market, and changes in prepayment rates. There is always a risk that the Firm's analysis (and market research) may be compromised by inaccurate or imperfect information.

In pursuing clients' investment strategies, Proprietary Capital mainly utilizes fixed income securities known as residential mortgage-backed securities ("RMBS"). These securities directly or indirectly represent interests in mortgage loans secured by real property. "Agency RMBS" are issued or guaranteed by the United States government or one of its agencies or instrumentalities, such as Government National Mortgage Association, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation. "Non-Agency RMBS" are issued by private issuers that represent an interest in or are collateralized by other mortgage-related securities. There are a wide variety of types of mortgage-related securities, including pass-through certificates, collateralized mortgage obligations, and stripped mortgage-backed securities. Depending upon the client's objective and other factors, these securities may be held for greater than one year (long-term purchases) or less than one year (short-term purchases).

In employing investment strategies, Proprietary Capital can employ certain hedging strategies in an attempt to "hedge" or "neutralize" the market risk associated with positions in a client's portfolio. The instruments that are used when employing these strategies include various derivative instruments, such as options, futures, interest rate swaps, interest rate caps and

other derivative securities. The Firm's hedging techniques could be unsuccessful and cause the portfolio to incur a loss.

Many of the mortgage-related securities in which Proprietary Capital invests are not readily marketable, and are deemed illiquid. In the absence of an established trading market, valuing such securities is difficult and it is possible that Proprietary Capital may pay too much for a security or will be unable to sell a security for the amount Proprietary Capital believes it is worth. Accordingly, if a client account includes investments where reasonable prices are not readily available through third party pricing, the net asset value of the portfolio will be based in significant part on the valuations placed on portfolio assets by Proprietary Capital (or a third party administrator) with reference to comparable securities. Further information regarding valuation policies is set forth in Item 5.

The Firm's investment strategies are intended to permit the Firm to achieve positive investor returns under a wide range of economic scenarios. However, there is no assurance that the investment strategies will be achieved or that significant losses will not be incurred. There are various substantial risks associated with these investment strategies. There are many market-related risks and other factors--some of which cannot be anticipated--that could cause the loss of a major portion of an investment. No person should invest in securities unless the investor is fully able, financially and otherwise, to bear such a loss, and unless the investor has the background and experience to understand thoroughly the risks of his investment.

The returns realized under the Firm's investment strategies will be affected by many factors, including the following:

*Volatility of Securities Markets.* Agency and non-agency derivative RMBS are credit sensitive and may become out-of-favor or experience a significant supply-demand imbalance if economic, interest-rate or technical factors emerge. A significant supply-demand imbalance generally affects bid-to-offer spreads, as well as increased market volatility.

*No Guarantee of Investment Performance.* Proprietary Capital cannot guarantee that its stated investment objectives will be achieved or that positive or competitive investment returns will be achieved. The Firm cannot control market, regulatory, and other factors which affect performance. Investors bear the risk that they could lose all of their investment.

*Non-Diversification and Sector Concentration.* Investments, at times, are concentrated in those investment sectors that exhibit the most favorable risk-return characteristics and, as a result, an account will maintain high exposure to applicable risk factors.

*Complex and Derivative Securities.* Investments include Agency RMBS and Non-Agency RMBS. Non-Agency mortgage-backed securities are, by nature, illiquid and difficult to value in declining markets. Proprietary Capital may employ leverage in the purchasing of mortgage-backed derivatives. Additionally, the instruments themselves may be inherently leveraged. For mortgage derivatives and structured securities that have imbedded leverage features, small changes in interest or prepayment rates may cause large and sudden price movements.

*Credit Risk.* The U.S. government does not provide a guarantee on non-agency securities. Without any government guarantee as to the timely payment of interest and principal for investors, these mortgage-related securities may experience a principal write-down due to the insufficient recovery of principal balance when a delinquent loan becomes liquidated. With default rates at significantly higher levels since the crisis that began in 2008, and loss severity at cycle highs, even the highest rated non-agency security (“Super Senior”) may experience a loss over its life.

*Derivative Securities.* The Firm may purchase for client accounts derivative tranches of RMBS resecuritizations from both the agency and non-agency sectors. Derivative securities primarily maintain an imbedded levered response to floating rate index and or prepayment rates. Thus, derivative securities may exhibit significantly more volatile pricing than non-derivative RMBS, as small changes in interest or prepayment rates may cause large and sudden price movements.

*Duration and Prepayment Risk.* Duration is the primary measure of risk within fixed-income securities. Duration measures the approximate price sensitivity of a security to a one percent (1%) rise or fall in interest rates. For example, all else being equal, if interest rates rise by 1%, a security with a duration of 3 would expect its share price to decline by about 3%; conversely, if interest rates fall by 1%, a security with a duration of 3 would expect to see about a 3% rise in price. The duration of many of the securities in which the Firm invests can be significantly longer than traditional fixed income securities. Proprietary Capital seeks to manage duration risk; however, changing conditions and perceptions, including market fluctuations, may modify an obligation’s duration and, independently, have other effects on the value of a security.

Prices of fixed income securities with longer effective maturities are more sensitive to interest rate changes than those with shorter effective maturities. Although the stated maturity of a mortgage-backed security is typically 30 years, current prepayment rates are critical in determining such security’s interest rate risk. As a result, Proprietary Capital relies upon analytical techniques, such as modeling monthly principal and interest payments based upon historical experience or comparing the mortgage rates underlying the security to prevailing market rates to determine a security’s “effective duration.” The determination of effective duration typically will involve the Firm’s judgments and assumptions of future prepayments. Such judgments and assumptions may change, sometimes materially, with changes in market interest rates.

Because mortgage prepayments generally increase when interest rates are declining, mortgage-backed securities may have more or less potential for capital appreciation in periods of falling interest rates than other fixed income securities of comparable duration, although these securities have comparable risks of decline in market value in periods of rising interest rates. To the extent that mortgage-backed securities are purchased at a premium by a client account, an increase in mortgage prepayments may result in some loss of principal investment to the extent of the premium paid and to the extent of the opportunity lost on the higher interest income.

*Capital Risk.* The Firm invests in interest-only securities (“IOs”). IOs receive payments of interest only on the remaining balance of a security and do not receive payments of principal. Therefore, there is the possibility that the original investment price of an IO will not be returned by the time the security expires. The longer the period of time in which the underlying bond has principal outstanding, the longer the security continues to pay interest. If interest rates fall significantly, there is the potential that the remaining balance will decrease at a pace at which the initial investment will not be recouped. Proprietary Capital seeks to manage interest-only risk by combining securities with offsetting/complementary characteristics.

*Interest Rate Risk.* The value of fixed-income securities generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise so that the value of fixed-income instruments will fall. Interest rate risk may be greater with respect to higher quality bonds, such as U.S. government bonds, than on lower quality bonds.

*Economic Risk.* Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can affect substantially and adversely a client’s performance results.

*Investment Competition.* The market for some types of securities is highly competitive. The Firm will be competing for investment opportunities with a significant number of financial institutions, other private funds as well as various institutional investors. Many of these competitors are larger and have greater financial, human and other resources than Proprietary Capital and may, in certain circumstances, have a competitive advantage over the Firm. As a result of this competition, Proprietary Capital may find fewer attractively priced investment opportunities, which could have an adverse impact on the Firm’s ability to meet an investment objective.

*Borrowing and Leverage.* Accounts may borrow money to invest in additional securities. This practice significantly increases market exposure and risk. When money is borrowed money for leverage and investments increase or decrease in value, a client account’s net asset value will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed at such time) than if it had not borrowed money. In addition, the interest that must be paid on borrowed money will reduce the amount of any potential gains or increase any losses.

*Illiquid Securities.* The Firm may purchase for client accounts securities that are not readily marketable. As such, the Firm may find it difficult to readily dispose of illiquid investments in the ordinary course of business. In addition, a premature or forced liquidation of a client’s holdings is likely to depress the value of many of these securities. Illiquid investments may not have an established trading market. In the absence of an established trading market, Proprietary Capital will, in its sole discretion, value such investments in good faith at each time a client account’s net asset value is determined. Accordingly, if a significant amount of client assets are invested in illiquid investments, their net asset value will be based in significant part on the valuations determined by Proprietary Capital without reference to an established market for such investments.

*Futures Contracts.* Proprietary Capital may invest in futures contracts on behalf of a client account and may use such futures for investment or hedging purposes. Futures contracts are exchange-traded contracts that provide for the future delivery of various commodities, currencies or financial instruments at a specified time and place. Futures contracts are customarily bought and sold on margins that may be as low as less than two percent of the purchase price of the contract being traded. Because of these low margin rates, prices, profits and losses can be extremely volatile. If futures are used for hedging purposes, client accounts may experience losses if the values of futures positions are poorly correlated with the relevant positions.

*Swaps.* Client accounts may enter into swap agreements. Swap agreements are typically contracts entered into by institutional investors for short to long-term periods. The Fund will not have any direct ownership of the underlying investment. In a standard “swap” transaction, parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments or indices. Certain swap transactions may be highly illiquid. Moreover, a client account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty with respect to swaps that are not cleared on an exchange. A Fund’s ability to terminate swaps, trade swaps, or realize amounts to be received under swaps could be affected by new regulation.

## **Item 9    Disciplinary Information**

Proprietary Capital is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of the Firm’s management. Proprietary Capital has no disclosures to make in this regard with respect to the Firm or any management persons or other personnel.

## **Item 10   Conflicts of Interest and Other Financial Industry Activities and Affiliations**

Proprietary Capital is registered with the Commodity Futures Trading Commission as a “commodity pool operator.” The Firm is also a “swaps only” member of the National Futures Association.

Craig Cohen and three other employees serve as discretionary trustees (“Trustees”) to a qualified retirement plan offered to employees of Proprietary Capital (“401(k) Plan”). As discretionary trustees, the Trustees determine which investments will be included as investments and how the assets in the 401(k) Plan will be invested. Currently, assets in the 401(k) Plan are invested in two of the Hedge Funds. Discretionary trustees to a 401(k) plan have a variety of duties, including a duty to limit the risk of losses of a plan by diversifying assets in which plan assets are invested. A Trustee must also administer the plan for the exclusive benefit of plan participants. These duties as trustees may come into conflict with the Trustees’ concurrent duty, as employees of the Firm, to exercise due care with regard to the Hedge Funds.

Certain conflicts of interest related to Proprietary Capital’s management of the Hedge Funds

are addressed in Item 6.

Proprietary Capital has procedures addressing the allocation of investment opportunities and the execution of client trades that are designed and implemented to ensure that all clients are treated fairly and equally over time and that no client is systematically disadvantaged. Such procedures are generally described in Item 12.

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

### **A. Code of Ethics.**

Proprietary Capital has adopted a Code of Ethics (the “Code”) that sets forth high ethical standards of business conduct for all of the Firm’s employees. The Code, which includes the Firm’s policies relating to conflicts of interest, confidentiality, the receipt of gifts and entertainment, personal trading and reporting, and insider trading, is intended to assist employees in carrying out their duties as fiduciaries to clients. Employees must report any violations of the Code to the Chief Compliance Officer. The Code also describes sanctions that may be applied to employees who violate the Code.

A copy of the Firm’s Code of Ethics is available to clients and prospective clients. The Code may be requested by email sent to [hburroughs@prop-cap.com](mailto:hburroughs@prop-cap.com) or by calling the Firm at 303-575-9084.

### **B. Transactions in Securities in which the Firm has a Material Financial Interest**

Neither the Firm nor any of its related persons recommends to clients, or buys or sells for clients, securities in which the Firm has a material financial interest, except that the principal of the Firm and certain employees (including an employee retirement plan of which the Firm is sponsor) may maintain substantial investments in the Hedge Funds. As a result, the Firm may be considered to be recommending securities in which it does have a material financial interest.

### **C, D. Investing in Securities Recommended to Clients; Contemporaneous Trading**

The Firm does not maintain a proprietary trading account and, therefore, does not invest in the same (or related) securities that client accounts purchase. The Firm has adopted the procedures in its Code of Ethics to address potential conflicts of interest arising from personal account trading. Pursuant to the Code of Ethics, the Firm does not permit its employees (or related persons) to invest in the same securities or in related securities (e.g., warrants, options or futures on the securities) that client accounts hold. However, the Firm permits its employees and their affiliates to engage in the trading of securities for their personal accounts, including the same categories of securities in which client accounts invest (such as RMBS). In order to address this conflict of interest, the Firm maintains policies and procedures that require, among other things, that employees “pre-clear” trades in mortgage-related securities. The Code of Ethics is designed to ensure that the personal securities

transactions, activities and interests of the employees of the Adviser will not interfere with making decisions in the best interest of advisory Clients. Employee trading is monitored on a monthly basis to ensure compliance with the Code of Ethics.

Proprietary Capital and its employees are prohibited from engaging in all trading with client accounts.

## **Item 12 Brokerage Practices**

### *A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Trades*

The Firm has no obligation to deal with any particular broker-dealer in the execution of trades for client accounts. In placing orders with broker-dealers for client accounts, Proprietary Capital's primary objective is the ability of the broker-dealer, in the Firm's opinion, to secure prompt execution on favorable terms, including the reasonableness of the commission and considering the state of the market at the time. While Proprietary Capital generally seeks reasonably competitive commission rates, it does not necessarily pay the lowest commission or mark-up.

In placing client trades, the Firm considers a broker-dealer's trading costs, the nature of the security being traded, the size of the trade, the desired timing of the trade, the activities existing and expected in the market for the particular security, the financial stability of the broker-dealer, and the execution, clearance and settlement capabilities of the broker-dealer.

### *Research and Soft Dollars*

The Firm does not have any soft-dollar arrangements and does not receive any soft-dollar benefits. During the past fiscal year, Proprietary Capital did not acquire any products or services using client brokerage commissions (or markups or markdowns). However, note that research reports and discussions with research analysts were acquired from various broker-dealers that the Firm utilizes to execute client trades. These products and services were not provided with "soft dollar" credits generated by specific trades, but rather were provided by the broker-dealer because of the Firm's ongoing relationship with the broker-dealer.

### *B. Brokerage for Client Referrals*

The Firm does not select broker-dealers based on client referrals.

### *C. Directed Brokerage*

The Firm does not routinely recommend, request or require that a client direct the Firm to execute transactions through a specified broker-dealer. However, the Firm has required the accounts of clients that are affiliated with the Firm (non-fee-paying clients) to be held at Charles Schwab & Co.

## *Trade Aggregation*

Proprietary Capital may, but is not required to, aggregate (or “bunch”) client trades. Trades may be aggregated only when Proprietary Capital believes that such aggregation is consistent with its duty to seek best execution and is otherwise permitted by client investment guidelines (or similar). The Firm will not aggregate trades if it does not believe that clients will receive a benefit from such aggregation. When the Firm aggregates trades, transactions costs may be spread over multiple clients, reducing average costs to each client.

The Firm has also adopted a trade allocation policy designed to treat accounts equitably over time. In allocating any particular purchase or sale, the Firm may consider a wide range of characteristics of an account, including available cash, current holdings, and the investment strategies of each client account. If a particular security is eligible for allocation to more than one account, but the security is not available in an amount that permits allocation to more than one account, the Firm will use a rotational allocation policy. Non-fee-paying accounts trade after fee-paying accounts, but follow a similar allocation policy. Allocations are reviewed by the Pricing and Allocation Committee on a quarterly basis.

## **Item 13    Review of Accounts**

### *A, B. Frequency and Nature of Review; Factors Prompting a Non-Periodic Review of Accounts*

The securities within each client’s account are continually monitored. In addition, client accounts are reviewed at least monthly. Client accounts are reviewed in the context of each client’s stated investment objectives and guidelines. More extensive review of particular securities in client accounts is performed on a daily to weekly basis, depending upon the nature of the investment and the status of various factors that are used by the Proprietary Capital to monitor, rebalance and effect transactions in client accounts.

Accounts are reviewed by Craig Cohen, the firm’s managing partner, and Nick Childs, Senior Trader.

### *C. Content and Frequency of Regular Account Reports.*

Advisory Accounts receive monthly custodial statements and confirmations of trades directly from the prime broker (i.e., a “qualified custodian”). On a monthly basis, Advisory Account clients receive from Proprietary Capital an estimated profit and loss statement and detailed security portfolio listing. Proprietary Capital works with each Advisory Account client’s prime broker or third party administrator throughout the month to assist with trade breaks, valuation issues, and other accounting issues to accurately produce monthly financials and NAV calculations.

Investors in the Hedge Funds receive either unaudited monthly or quarterly account statements directly from the third-party administrator for such Hedge Fund. Investors also receive monthly estimated performance from Proprietary Capital. Hedge Fund investors receive annual audited financial statements and individual account statements prepared by



the fund's auditor.

All statements and reports referenced above are in writing, although clients may also be provided with verbal reports.

Owners of the Advisory Accounts receive statements from their administrators or custodians on a frequency based upon an agreement between those parties.

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

### *A. Economic Benefit from Non-Clients for Services to Clients*

Proprietary Capital has no arrangements whereby a party who is not a client is compensated or otherwise provides an economic benefit to the Firm for providing services to clients.

### *B. Compensation to Non-Supervised Persons for Client Referrals*

Pursuant to written agreements, Proprietary Capital compensates certain third parties for referral of investors to its Hedge Funds. Such third parties generally receive a portion of the Management Fee attributable to the assets invested in a Hedge Fund by referred investors, as well as a portion of an incentive fee, if any.

## **Item 15 Custody**

Proprietary Capital does not serve as the qualified custodian of assets of the Hedge Funds and does not maintain physical custody of such funds' assets. Proprietary Capital is deemed by the applicable regulatory rules to have constructive custody of the assets of the Hedge Funds. It satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that the Hedge Funds are subject to an annual audit by an independent, Public Company Accounting Oversight Board (PCAOB) –registered and examined accounting firm, and that such audited financial statements are provided to investors within 120 days of a Hedge Fund's fiscal year end.

Proprietary Capital does not have custody of Advisory Account assets, which are held by qualified custodians.

## **Item 16 Investment Discretion**

The Firm manages client assets on a discretionary basis. This means that the Firm has the authority to make buy and sell decisions without first getting client approval for each transaction.

Any investment discretion exercised is subject to an Advisory Account's investment management agreement or a Hedge Fund's offering documents, including any applicable

investment guidelines. Advisory Account clients may amend or change such limitations by providing the Firm with written instructions. Advisory Account clients may amend or change their guidelines by providing us with written instructions.

## **Item 17 Voting Client Securities**

Although Proprietary Capital does not typically invest client assets in securities that carry voting rights, it has implicit authority to vote client securities by virtue of its discretionary authority and may, under certain circumstances, need to exercise voting authority for its clients. Therefore, as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, the Firm has adopted “Proxy Voting Policies” pursuant to which it has undertaken to vote all proxies or other beneficial interest in an equity security prudently and solely in the best long-term economic interest of the Firm’s clients and their beneficiaries, considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote.

Proprietary Capital will make its best efforts to avoid conflicts of interest in the voting of proxies. Where conflicts of interest arise, Proprietary Capital is committed to resolving the conflict in the clients’ best interests. In situations where the Firm perceives a material conflict of interest, the Firm may disclose the conflict to the relevant clients and obtain their consent before voting; defer to the voting recommendation of the relevant clients or an independent third party provider of proxy services; send the proxy directly to the relevant clients for a voting decision; vote the proxy based on the voting guidelines set forth in the Proxy Voting Policies if the application of the guidelines to the matter presented involves little discretion on the Firm’s part; or take such other action in good faith that would protect the interest of clients.

Clients of Proprietary Capital may obtain a copy of the Proxy Voting Policies or a record of the Firm’s proxy votes free of charge by calling (303) 575-9084 or by writing Proprietary Capital at 1225 Seventeenth Street, Suite 1500, Denver, Colorado 80202.

## **Item 18 Financial Information**

Under no circumstances does the Firm require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, the Firm is not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, Proprietary Capital is also required to disclose any financial condition that is reasonable likely to impair its ability to meet its contractual obligations. Proprietary Capital has no such financial condition to report.

Proprietary Capital has not been the subject of a bankruptcy petition at any time during the past ten years.