

Part 2A of Form ADV: *Firm Brochure*

Proprietary Capital, LLC

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03/15/2011

This brochure provides information about the qualifications and business practices of Proprietary Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 303-575-8944 or hburroughs@prop-cap.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 Proprietary Capital, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 801-61781.

Item 2 Material Changes

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 03/15/2011, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

Item 3 Table of Contents

Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	5
Item 6	Performance-Based Fees and Side-By-Side Management	6
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	7
Item 9	Disciplinary Information	9
Item 10	Other Financial Industry Activities and Affiliations	9
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	9
Item 12	Brokerage Practices	11
Item 13	Review of Accounts	12
Item 14	Client Referrals and Other Compensation	12
Item 15	Custody	13
Item 16	Investment Discretion	13
Item 17	Voting Client Securities	14
Item 18	Financial Information	14

Item 4 Advisory Business

Proprietary Capital, LLC is a SEC-registered investment adviser with its principal place of business located in Colorado. Proprietary Capital, LLC began conducting business in 1997.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Craig A Cohen, Managing Partner
- Bryan C Roche, Managing Partner

Proprietary Capital, LLC offers the following advisory services to our clients:

INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT

Our firm provides continuous advice to clients, namely pooled investment vehicles, regarding the investment of client funds based on the individual needs of the client. In managing client funds, we generally offer a few types of portfolios through which we implement varied investment strategies. The portfolios focus on investing primarily in mortgage-related securities, their derivatives and financial instruments linked to mortgage-related securities. As set forth in the agreements between Proprietary Capital LLC and its clients, we shall create and manage portfolios based on the agreed upon investment strategies.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the stated objectives in the governing investment management agreement or offering documents.

Our investment recommendations are limited by these agreements and may generally include advice regarding one or more of the following securities:

- Mortgage-related securities
- United States governmental securities
- Swap contracts on securities
- Futures contracts on intangibles
- Other derivatives as may be appropriate

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

AMOUNT OF MANAGED ASSETS

As of 1/31/2011, we were actively managing \$625,000,000 of clients' assets on a

discretionary basis.

Item 5 Fees and Compensation

INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT FEES

On a case-by-case basis, Proprietary Capital, LLC determines an appropriate fee structure based on the size, complexity and investment objectives of the client's account. Fee arrangements include a combination of a management fee and incentive fee. The terms and conditions of the fee structure are mutually agreed upon prior to entering into an advisory agreement. These fees are debited directly from the clients' accounts.

Account Management Fees: Proprietary Capital, LLC typically charges a fee for account management that is calculated and paid as a percentage of the assets under management. The Account Management Fee is calculated at an annual rate not to exceed 1.0%. Fees are calculated on either a monthly or quarterly basis, and are payable, either in advance or in arrears based on the value of the account(s) as of the beginning of each billing period. The Account Management Fee is prorated for periods less than a full billing cycle and adjusted to cover any additional contributions made during that period.

Account Incentive Fees: Proprietary Capital, LLC typically receives a performance-based compensation ("Incentive Fee"). The Incentive Fee is calculated based on a percentage of the net profits of the accounts on an annual basis.

Proprietary Capital, LLC's incentive fees range between 10% and 20% of the net profits above the account's previous "high water mark". To the extent that the amount of account appreciation is less than the high water mark, there is a loss carryforward allocation that must be recouped before Proprietary Capital, LLC is entitled to a performance-based fee. For certain accounts, prior to calculating the performance allocation, the total return amount is further adjusted to reflect the positive return in excess of a benchmark return.

Advisory clients should recognize that such fee arrangements create an investment conflict as it creates an incentive to allocate profitable investments to such a client thereby enabling us to recognize increased compensation for our management services.

Clients who elect to terminate their contracts will be charged a performance-based fee based on the performance of the account for the measuring period going back from the termination date and pro-rated from the date on which the performance-based fee was last assessed.

In measuring the client's assets for the calculation of performance-based fees, Proprietary Capital, LLC includes the realized capital losses and unrealized capital losses of securities over the period and the unrealized capital depreciation of securities over the period. As such, we may receive increased compensation with regard to unrealized appreciation as well as unrealized gains in the client's account.

The client must understand the performance-based fee method of compensation and its risks

prior to entering into a management contract with us.

PERFORMANCE-BASED FEES WILL ONLY BE CHARGED IN ACCORDANCE WITH THE PROVISIONS OF REG. 205-3 OF THE INVESTMENT ADVISERS ACT OF 1940 AND/OR APPLICABLE STATE REGULATIONS. THE FEES WILL NOT BE OFFERED TO ANY CLIENT RESIDING IN A STATE IN WHICH SUCH FEES ARE PROHIBITED.

Generally, a minimum of \$1,000,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. Proprietary Capital, LLC may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

In its sole discretion, Proprietary Capital, LLC, may assess a higher or lower management fee or rate of performance-based compensation with respect to certain investors in the pooled investment vehicles it advises.

GENERAL INFORMATION

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of advance written notice. Notice may vary depending on the client's advisory agreement. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Grandfathering of Minimum Account Requirements: Pre-existing advisory clients are subject to Proprietary Capital, LLC's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

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

PERFORMANCE-BASED FEES

As we disclosed in Item 5 of this Brochure, our firm accepts a performance-based fee from the client. Such a performance-based fee is calculated based on a share of capital gains on

or capital appreciation of the assets of the client. To qualify for a performance-based fee arrangement, a client (or Fund investor, as applicable) must either demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management immediately after entering into a management agreement with us.

Clients should be aware that performance-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Item 7 Types of Clients

Proprietary Capital, LLC provides advisory services to the following types of clients:

- Other pooled investment vehicles (e.g., hedge funds)
- Corporations or other businesses not listed above

As previously disclosed in Item 5, our firm has established certain minimum account requirements to maintain an account, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

Fundamental Analysis. We attempt 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.

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

Cyclical Analysis. In this type of technical analysis, we measure 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.

Other: Proprietary Capital has access to various databases of regional price indices, which are used to monitor regional housing trends. In addition, we maintain an extensive database

of historical prepayment statistics. We use these databases when constructing and monitoring a portfolio of mortgage-related securities.

We 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 our analysis may be compromised by inaccurate or misleading information.

INVESTMENT STRATEGIES

In pursuing clients' investment strategies, Proprietary Capital commonly utilizes fixed income securities known as mortgage-related securities. These securities directly or indirectly represent interests in mortgage loans secured by real property. These securities may be 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, or they may be issued by private issuers that represent an interest in or are collateralized by other mortgage-related securities. Mortgage-related securities include pass-through certificates, collateralized mortgage obligations, and stripped mortgage-backed securities. These securities may be held for greater than one year (long-term purchases) or less than one year (short-term purchases), depending on numerous factors, including the client's objective.

In employing investment strategies, Proprietary Capital may 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 may be used when employing these hedging strategies include various derivative instruments, such as options, futures, interest rate swaps, interest rate caps and other derivative securities. In the event Proprietary Capital does attempt to partially or fully hedge a portfolio, certain hedging techniques may not be successful and may cause the portfolio to incur a loss.

Many of the mortgage-related securities in which Proprietary Capital invests may not be readily marketable, and may be deemed illiquid. In the absence of an established trading market, Proprietary Capital will value such investments in good faith at each time the net asset value of a client's portfolio is determined. Accordingly, if a client's portfolio 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 with reference to comparable securities.

The investment strategy is designed with the potential to produce investor returns under a wide range of economic scenarios. However, there is no assurance that this objective will be achieved or that significant losses will not be incurred. There are various substantial risks associated with this investment strategy. There are many market-related 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 the Fund unless he is fully able, financially and otherwise, to bear such a loss, and unless he has the background and experience to understand thoroughly the risks of his investment.

Item 9 Disciplinary Information

We are 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 our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Clients should be aware that the receipt of additional compensation by Proprietary Capital, LLC and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Proprietary Capital, LLC endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Proprietary Capital, LLC and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and quarterly securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of any mortgage-related securities acquisition or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping

Part 2B of Form ADV: *Brochure Supplement*

Craig A Cohen
Bryan C. Roche

Proprietary Capital, LLC
1225 17th Street, Suite 1500
Denver, CO 80202

03/15/2011

This brochure supplement provides information about Craig A Cohen that supplements the Proprietary Capital, LLC brochure. You should have received a copy of that brochure. Please contact Heide Burroughs if you did not receive Proprietary Capital, LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about Craig A Cohen is available on the SEC's website at www.adviserinfo.sec.gov

Item 2 Educational, Background and Business Experience

Full Legal Name: Craig A Cohen

Born: 1961

Education

- University of Florida; BS, BUSINESS ADMINISTRATION; 1983

Business Experience

- Proprietary Capital, LLC; Managing Member; from 5/97 to present
- Piper Jaffray; Senior Vice President; from 8/96 to 5/97
- Everen Securities; Senior Vice President; from 2/95 to 7/96
- Oppenheimer & Co.; Senior Vice President; from 2/90 to 2/95

Designations

Craig A Cohen has earned the following designation(s) and is in good standing with the granting authority:

- SERIES 3,7,8,24,28; NASD; 1995

Item 3 Disciplinary Information

Craig A Cohen has no reportable disciplinary history.

Item 4 Other Business Activities

A. Investment-Related Activities

1. Craig A Cohen is also engaged in the following investment-related activities:

- Registered representative of a broker-dealer
- Craig Cohen is licensed with a broker dealer that is not associated with Proprietary Capital. Mr. Cohen maintains only personal, immediate family and close friends' accounts.

- Due to the nature and size of Proprietary Capital's clients, a conflict of interest would be extremely unlikely. However, if a conflict did occur, an outside account could not purchase a security at a price lower than a client of Proprietary Capital.
- Mr. Cohen is compensated on a per transaction commission basis. This compensation is typically less than one percent of Mr. Cohen's income.
- Other investment-related business
 - Mr. Cohen serves as a board member for the board of directors of Arco Capital Corporation. While Mr. Cohen does receive compensation for his services, the duties are centered around corporate governance matters and are not involved in asset management in any matter. Therefore, a conflict of interest between Mr. Cohen's duties for Proprietary Capital and his board responsibilities for Arco Capital do not present a conflict. In the event that a conflict did arise, Mr. Cohen would recuse himself from his board responsibilities.
 - Mr. Cohen receives annual compensation of \$50,000 for his duties as an Arco Capital board member.

2. Craig A Cohen receives commissions, bonuses or other compensation on the sale of securities or other investment products.

B. Non Investment-Related Activities

Craig A Cohen is not engaged in any other business or occupation that provides substantial compensation or involves a substantial amount of his or her time.

Item 5 Additional Compensation

Craig A Cohen does not receive any other economic benefit from a non-advisory client for the provision of advisory services.

Item 6 Supervision

Supervisor: Bryan Roche

Title: Managing Member

Phone Number: 303-575-9084

Mr. Roche provides supervisory oversight of Mr. Cohen's advisory activities as outlined in Proprietary Capital's compliance manual.

Item 2 Educational, Background and Business Experience

Full Legal Name: Bryan C Roche

Born: 1960

Education

- University of Colorado; BA, ECONOMICS; 1982

Business Experience

- Proprietary Capital LLC; Managing Member; from 1997 to present
- Piper Jaffray; Managing Director; from 1995 to 1997
- Summitview Capital; Founder/Majority Owner; from 1991 to 1995
- Boettcher & Co; Senior Vice President; from 1987 to 1991
- Kidder Peabody & Co; Fixed Income Trader; from 1982 to 1987

Designations

Bryan C Roche has earned the following designation(s) and is in good standing with the granting authority:

SERIES 3,7,8,24,28; NASD; 1995

Item 3 Disciplinary Information

Bryan C Roche has no reportable disciplinary history.

Item 4 Other Business Activities

A. Investment-Related Activities

1. Bryan C Roche is also engaged in the following investment-related activities:

- Registered representative of a broker-dealer
- Bryan C Roche is licensed with a broker dealer that is not associated with Proprietary Capital. Mr. Roche maintains only personal and immediate family accounts.
- Due to the nature and size of Proprietary Capital's clients, a conflict of interest would be extremely unlikely. However, if a conflict did occur an outside account could not purchase a security at a price lower than a client of Proprietary Capital.
- Mr. Roche is compensated on a per transaction commission basis. This compensation is typically less than one percent of Mr. Roche's income.

2. Bryan C Roche does receive commissions, bonuses or other compensation on the sale of securities or other investment products.

B. Non Investment-Related Activities

Bryan C Roche is not engaged in any other business or occupation that provides substantial compensation or involves a substantial amount of his or her time.

Item 5 Additional Compensation

Bryan C Roche does not receive any other economic benefit from a non-advisory client for the provision of advisory services other than commissions stated in Item 4.A.1.

Item 6 Supervision

Supervisor: Craig Cohen

Title: Managing Member

Phone Number: 303-575-9084

Mr. Cohen provides supervisory oversight of Mr. Roche's advisory activities as outlined in Proprietary Capital's compliance manual.