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March 1, 2014

This brochure provides information about the qualifications and business practices of Pacifica Capital Investors, LLC (“PCI” or the “Company”). If you have any questions about the contents of this brochure, please contact us at 858-759-6800 or [*www.pacificacapital.net*](http://www.pacificacapital.net). The information contained in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

PCI is registered as an investment adviser with the SEC. The firm’s registration does not imply a certain level of skill or training.

Additional information about PCI also is available at [*www.adviserinfo.sec.gov*](http://www.adviserinfo.sec.gov). Select “Investment Adviser Search” on the left navigation panel and select “Investment Adviser Firm” on the Investment Adviser Search page to begin your search.

The information included in this brochure is intended to provide you with information that may be useful to you in evaluating the services that we provide and to compare our services with those of other advisory firms.

MATERIAL CHANGES

This section includes information on all material changes made to PCI's brochure since the last annual update of PCI's brochure dated March 14, 2013. Such material changes consist of the following:

- Pacifica Real Estate II, LLC, Pacifica Encinatas Beach, LLC, SR14 2727 Kurtz Street, LLC and SR10 2611 Business Park Drive, LLC, have been added to the list of certain entities for which Steven Leonard serves as a manager or partner, and in which PCI's clients may be solicited to invest.

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ITEM 4. ADVISORY BUSINESS

Steve Leonard formed PCI in 1998 and has served as its sole managing member since that time. He also serves as the Company's chief investment officer, and is primarily responsible for providing investment advisory services for the Company. Until 2014, he also served as the Company's Chief Compliance Officer.

Individually Managed Accounts

PCI provides investment advisory services to individuals (including high net worth individuals), pension and profit sharing plans, charitable organizations, and corporations. The Company's investment advisory services primarily are with respect to:

- Equity securities traded on national securities exchanges (generally the New York and American Stock Exchanges) and the NASDAQ Stock Market; and
- On occasion, non-listed securities.

PCI focuses on businesses and industries in which it tries to have a thorough understanding, and limits the number of positions in an account to typically less than 15. PCI's investment strategy is to concentrate investments in specific industries and companies in which PCI strives to have both in-depth knowledge and confidence in their future results. This focused investment approach may result in more volatility and risk in portfolios.

Client accounts generally are managed in a similar manner, but PCI tailors its advisory services to the individual needs of clients by considering such factors as the type of account (i.e., taxable vs. not taxable) and specifics provided by the client. Clients may impose reasonable restrictions on investing in certain securities or types of securities, such as by industry or based on social criteria.

In addition, PCI participates in the Independently Managed Advisory Program ("IMA") offered by Wedbush Morgan Securities, Inc. PCI provides investment management services to client accounts participating in the IMA program, and receives fees from such clients as discussed below in the section entitled "Fees and Compensation." PCI manages its IMA account clients in the same manner it manages other individual client accounts.

Partnership

PCI also serves as the general partner and investment adviser of Pacifica Capital Fund, L.P. (referred to herein as the "Partnership"), a private investment company. PCI manages the Partnership in accordance with its investment objectives, which are discussed further below. PCI provides investment advice to, and places discretionary trades for, the Partnership.

As of December 31, 2013, PCI managed \$329,377,866 on a discretionary basis, including Leonard family accounts. PCI does not manage client assets on a non-discretionary basis.

ITEM 5. FEES AND COMPENSATION

Individually Managed Accounts

PCI's clients that meet the definition of a "Qualified Client" in Rule 205-3 under the Investment Advisers Act of 1940 generally are charged a Base Management Fee and a Performance Fee. "Qualified Clients" generally include those with:

- A net worth of \$2 million or more; and/or
- At least \$1,000,000 under PCI's management.

The annual Base Management Fee for Qualified Clients is up to 1.0% of the value of a client's account. Accounts are valued as of the end of each calendar year for purposes of calculating the Base Management Fee.

The annual Performance Fee will not exceed 20% of the annual increase in the value of the client's account in excess of the "Minimum Annual Return" (which is explained further below). Clients do not pay a Performance Fee except to the extent that the actual cumulative return on the client's account from its inception exceeds the cumulative Minimum Annual Return on that account for the same period of time.

The "Minimum Annual Return" is a hypothetical amount that results from application of the "Minimum Annual Rate of Return" to the client's account. The "Minimum Annual Rate of Return" is the yield on the ten-year United States Treasury bond as of the first day of each calendar year, effective for all of that year.

Clients that do not meet the definition of "qualified client" are charged only the Base Management Fee, which ranges from .25% to 2% annually, depending upon the factors discussed below.

All fees charged by PCI, including those charged to "Qualified Clients," may be negotiated and vary among clients depending on the following factors:

- Size of the account;
- Likelihood of the size of the account increasing over time;
- Client's relationship to PCI and/or Steve Leonard; and
- Other subjective factors.

The Base Management Fee is charged annually in arrears. Fees are pro rated with respect to accounts that have been opened or closed during the year. Fees also are pro rated for capital contributions to or withdrawals from accounts at any time other than on the first or last day of any calendar year.

At the end of each fiscal year, PCI sends each client an invoice requesting payment of all fees. If PCI does not receive payment within 30 days of sending its invoice, PCI deducts its fees from the client's account. Thus, by choosing whether to submit payment in response to PCI's invoice or

permit PCI to deduct its fees from their accounts, clients select the method by which they make payment each year.

In addition to the Base Management Fee and Performance Fee, client accounts are assessed brokerage and transaction charges with respect to trades placed for the account. These charges are paid to the account custodian (generally, Schwab Institutional) for effecting transactions, and may be higher or lower than transaction charges or commissions the client may pay at other broker-dealers. Please refer to the section below entitled, “Brokerage Practices” for additional information.

For PCI’s client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

PCI clients participating in the IMA program pay to PCI a Quarterly Fee and an annual Performance Fee. The Quarterly Fee is payable in advance and is generally equal to 1.0% (on an annual basis) of the value of the client’s account. Accounts are valued on the last trading day of the previous quarter. The Performance Fee is equal to 20% of the excess of the annual performance of the client account, subject to High Water Mark and Hurdle provisions. The Performance Fee is payable in arrears at the end of each calendar year. The Quarterly Fee and Performance Fees are shared with WMS as a solicitor.

PCI clients participating in the IMA program also pay certain fees to WMS. Such fees are equal in amount to the fees payable to PCI by clients participating in the IMA program and are calculated and payable in the same manner as those payable to PCI. Participation in such program thus could cost clients more than if brokerage and investment advisory services were provided separately. However, clients participating in the IMA program do not pay separate transaction costs, including brokerage commissions, on trades executed through WMS as the broker. As a result, the potential cost benefit of participating in the program will to some extent be dependent upon the level of trading activity in a participating client’s account.

All fees payable to PCI and WMS in connection with the IMA program are automatically debited from client accounts. Unearned fees paid by a client are refunded pro rata if, during a year, the account is terminated or capital is withdrawn from the account.

Although PCI prefers an account minimum of \$250,000 or higher for each client account, amounts may be negotiated on a case-by-case basis. Clients whose accounts are below this minimum amount on the first day of a calendar year pay PCI an annual Maintenance Fee. Such Fee is payable annually in advance and ranges from \$100 to \$150, depending upon the value of the account.

Partnership

Limited Partners of Pacifica Capital Fund, L.P. (referred to herein as the “Partnership”) pay PCI a quarterly Management Fee. Such Management Fee is paid in advance, as set forth below.

The Partnership has two different “classes” of Limited Partners. Class A Limited Partners consist of “Qualified Clients” (as defined above) as well as persons who are not U.S. residents. Class B Limited Partners consist of U.S. residents who are not “Qualified Clients.” Special Limited Partners consist of those Class A or Class B Limited Partners who, in PCI’s discretion, are admitted as a Limited Partner and who will not be charged with all or a portion of its proportionate share of the Management Fee or Incentive Allocation.

Class A Limited Partners (except Special Limited Partners) pay PCI a Management Fee in advance each quarter. The Management Fee is one quarter of 1% of the net asset value of the Class A Limited Partner’s capital account. This amounts to 1% on an annual basis. Class B Limited Partners (except Special Limited Partners) also pay PCI a Management Fee in advance each quarter. Such Management Fee is one quarter of 2% of the net asset value of the Class B Limited Partner’s capital account. This amounts to 2% on an annual basis.

The Management Fee is prorated to take into account any capital contributions made during the quarter. PCI has discretion to waive all or a portion of the Management Fee with respect to certain Limited Partners.

Withdrawals from Pacifica Capital Fund are permitted only at the end of each calendar year, and as a result refunds are not necessary because fees are not paid in advance.

PCI also serves as the General Partner of the Partnership. As the General Partner, PCI receives a performance-based Incentive Allocation from the capital accounts of Class A Limited Partners of the Partnership. This incentive allocation is equal to 15% of net profits (or as otherwise agreed upon), and is subject to “High Water Mark” and “Hurdle” provisions.

In general, a High Water Mark provision requires a manager to make up for prior years’ losses before becoming entitled to a current year performance allocation, and typically is implemented by tracking gains and losses on an investor-by-investor basis. PCI’s Incentive Allocation also is subject to a “Hurdle” which, in general, requires that the Partnership’s performance exceed a certain minimum rate of return in order for PCI to receive the Incentive Allocation. Additional information regarding calculation of the Incentive Allocation, as well as the High Water Mark and Hurdle provisions, is provided in the Partnership’s offering documents.

ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As discussed in the prior Section entitled “Fees and Compensation,” PCI receives from certain clients a “performance-based” fee. These clients include “Qualified Clients,” as well as the accounts of certain investors in the Partnership. PCI also manages the accounts of clients from whom PCI does not receive performance-based compensation.

PCI faces certain conflicts of interest by managing both types of accounts at the same time. These conflicts include having an incentive to favor the accounts of those clients who are charged a performance-based fee over the accounts of other clients. Such conflicts arise because PCI can potentially receive greater fees from accounts paying a performance-based fee than from other accounts. As a result, PCI may have an incentive to direct the best investment ideas to, or allocate or sequence trades in favor of, such client accounts.

In order to address these conflicts of interest, PCI has adopted a Trade Allocation Policy which prohibits favoritism of accounts. The Policy also establishes certain procedures to be followed by PCI in connection with placing trades for client accounts, including the accounts of those clients paying a performance-based fee. The Policy requires that PCI regularly review the accounts of all of its clients to determine whether any securities purchases or sales should be placed.

PCI currently does not engage in “block” transactions for its clients, including the Partnership. “Block” transactions are purchases or sales of securities entered into as a single transaction on behalf of more than one client account. Once a block trade is completed, the manager then “allocates” the trade (including amount of the security purchased or sold, and the transaction costs associated with the trade) among participating client accounts. PCI does not engage in “block” transactions because PCI enters purchase orders for each of its clients, including the Partnership, on a “good until cancelled” or market order basis. This means that PCI determines the price at which a security for a particular client should be purchased (or sold) and places an order with a broker-dealer which provides that should the security achieve the target price, the security should be purchased (or sold) on behalf of such client. These orders remain “open” until cancelled by PCI or the orders expire.

When determining whether to place a trade for a client account, PCI takes into account certain factors, including size of the account, the relative size of the positions in the account (or the lack of positions in an account), tax considerations and the client’s investment goals. Fees payable to PCI are not a factor to be considered when determining to place trades for clients. In addition, in order to determine whether in the aggregate each client account was treated fairly over time with respect to the trades placed for clients, PCI reviews its trades at the end of each fiscal year. If such review reveals that PCI’s policy with respect to placing client trades did not result in the fair treatment of all its clients, PCI will revise its Trade Allocation Policy in order to attempt to prevent any such further unfairness.

ITEM 7. TYPES OF CLIENTS

PCI generally provides investment advice to individuals (including high net worth individuals), charitable organizations, corporations and the Partnership.

Although PCI does not have any minimum required investment, it generally does not manage accounts with initial deposits less than \$250,000. In addition, the Partnership has a minimum investment requirement of \$250,000. PCI may, however, waive this requirement.

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis. PCI utilizes fundamental and cyclical analysis to provide investment advisory services to its clients. PCI generally invests in:

- Equity securities (such as exchange-listed securities, securities traded over-the counter and foreign issuers);
- Interests in partnerships investing in real estate; and
- Investments in the Partnership.

At times, a portion of a client's account may be held in a money market fund that invests in municipal securities and U.S. government securities.

Steve Leonard is a manager or partner of certain limited liability companies or limited partnerships that own real estate investments in Colorado and Southern California. Mr. Leonard is also an equity owner in these entities, and in certain cases may be compensated for services provided to an entity in which one of these entities invests. Most of these entities are single purpose entities formed to own one real estate asset or an operating business investment. In addition, Mr. Leonard serves as a Director of a privately-held bank located in Denver, Colorado, and is an investor in such bank. PCI and certain of its clients maintain accounts at such bank. PCI clients may be, or may have been, solicited to invest in one or more of these entities, including the privately-held bank (collectively referred to herein as "Private Investment Vehicles"), which consist of the following:

- Ward Pacifica Partnership
- PID Denver II
- Pacifica Central Limited Partnership
- Pacifica Central General Partnership
- Shelby Dr. General Partnership
- K&L Redondo Beach
- PAC-4, LLC
- Pacifica Capital Stack'd, LLC
- Pacifica Capital Real Estate I, LLC
- Pacifica Rancho Way, LLC

- Pacifica SR4 2390 Oak Ridge Way LLC
- Kirshner/Leonard Real Estate I, LLC
- Kirshner/Leonard Real Estate II, LLC
- SR9 1935 Avenida Del Oro, LLC
- SR7 Pacifica, LLC
- Front Range Bank
- Pacifica Real Estate II, LLC
- Pacifica Encinatas Beach, LLC
- SR14 2727 Kurtz Street, LLC
- SR10 2611 Business Park Drive, LLC

As discussed above, PCI serves as the investment adviser of the Partnership. The primary investment objective of the Partnership is growth of capital. It invests in securities of small to large capitalized companies, including stocks, warrants, rights and options of U.S. and non-U.S. entities. The Partnership seeks to focus primarily on finding quality companies that have:

- Easily understandable business models;
- Favorable long term earnings prospects;
- Durable competitive advantages;
- Management teams that act with integrity; and
- Interests that can be acquired below their intrinsic value.

Investment Strategies and Related Risks. Investment strategies used by PCI in managing client accounts include:

- Long term securities purchases (*i.e.*, securities held at least one year);
- Short term securities purchases (*i.e.*, securities sold within one year of purchase);
- Trading (*i.e.*, securities sold within 30 days);
- Short sales; and
- Margin transactions.

The following risks should be considered:

Equity securities. Prices of equity securities change in response to many factors, including the historical and prospective earnings of the issuer and the value of its assets, interest rates, investor perceptions and market liquidity. Equity security investment also involves certain additional risks, including industry, market and general economic related risks. Adverse developments or perceived adverse developments in one or more of these areas could cause a substantial decline in the value of equity securities. In particular, changes in stock market values can be sudden and unpredictable. Also, although stock values can rebound, there is no assurance that values will return to previous levels.

Municipal securities and U.S. Government securities face risks related to interest rates, credit risk and income. Bond values are inversely related to interest rates. If interest rates go up, bond values will go down and vice versa.

Concentration of Investments. PCI generally invests client accounts in a concentrated portfolio of securities. If an investment performs poorly, this concentration could cause a proportionately greater loss than if a larger number of investments were made. If such proportionately greater loss occurs, it may adversely impact the overall return on investment realized by the client.

Private securities, such as investments in the Partnership and/or the Private Investment Vehicles, provide extremely limited liquidity. Once funds are committed to these investments, such funds typically are inaccessible for many years. Steve Leonard, as the manager of the Private Investment Vehicles and the managing member of PCI, the general partner of the Partnership, has complete control over how the funds are invested. Once a client is committed to investing in a private security, the client is contractually obligated to meet capital calls. Failure to meet capital calls is likely to result in the client losing some or all of their investment, regardless of the circumstance. In addition to broad-based market risk, private securities also entail the risk that the manager makes poor investment choices causing clients to lose some or all of their investment.

Additional information regarding the Partnership's methods of analysis, investment strategies, and related risks can be found in the Partnership's offering documents.

Investing in any publicly traded or private securities involves risk and clients may lose some and possibly all of their investment. Clients should be prepared to bear such risk of loss.

ITEM 9. DISCIPLINARY INFORMATION

Neither PCI nor any of its management persons has been the subject of any legal or disciplinary events involving investments or an investment-related business.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Clients of PCI are solicited to invest in the Partnership as well as the Private Investment Vehicles. These entities are discussed in greater detail above in the section entitled, "Methods of Analysis, Investment Strategies and Risk of Loss." PCI's relationship with these entities is material to its advisory business and could potentially pose a conflict of interest if PCI solicits clients to invest in the Partnership or a Private Investment Vehicle based on reasons other than such clients' best interests. In particular, PCI receives both a management fee and a performance-based fee in connection with its management of the Partnership, Steve Leonard receives compensation in connection with his role as manager or director of the Private Investment Vehicles, and PCI's related persons have a participatory interest in the Partnership and the Private Investment Vehicles, and in certain cases may be entitled to receive compensation for services provided to an entity in which a Private Investment Vehicle invests.

PCI, as a fiduciary, intends to always act in the best interests of its clients. As such, before recommending an investment in the Partnership or a Private Investment Vehicle, PCI will first determine whether a specific client meets the eligibility requirements associated with participation in such entity and will determine whether an investment in the Partnership or Private Investment Vehicle is appropriate for such client. In addition, PCI believes that the potential conflicts of interest noted above are addressed by fully disclosing to clients PCI's and Steve Leonard's relationship with the Partnership and Private Investment Vehicles.

ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

PCI's Code of Ethics was adopted in order to establish standards and procedures to guard against impropriety and conflict, and to reflect PCI's fiduciary obligations in accordance with federal securities laws.

PCI's principals, including Steve Leonard, have a substantial portion of their net worth invested alongside PCI clients in the same basic portfolio of stocks. To that end, PCI, Steve Leonard, PCI's employees and/or their family members (collectively referred to herein as "PCI Related Accounts"), routinely buy or sell securities that PCI purchases or sells for its clients. Such purchases or sales could be entered into at or about the same time that PCI enters into purchases or sales of the same securities on behalf of client accounts. This practice can potentially raise conflicts of interest, for example, if Steve Leonard or a PCI employee recommends the purchase for client accounts of securities they own personally or if the employee buys a security before clients or sells a security that clients continue to hold.

Purchases and sales by PCI Related Accounts are made in compliance with PCI's Code of Ethics, which prohibits certain acts to avoid potential conflicts of interest. In particular, the Code provides that no "Access Person" (as defined in the Code) may engage in personal securities transactions with respect to initial public offerings ("IPOs") or limited offerings without obtaining advance preclearance of such transactions. In addition, each Access Person must obtain advance preclearance with respect to entering into any securities trades *opposite* a trade being made for a client account (with certain limited exceptions). The Code also prohibits PCI's "Supervised Persons" (as defined in the Code) from profiting personally as a result of using knowledge about pending or currently considered securities transactions for clients. Securities trades by PCI Related Accounts are also made in compliance with PCI's Trade Allocation Policy.

PCI analyzes all client accounts, as well as PCI Related Accounts, on an individual basis and in a systematic order. Most trades are placed online during this review process in the order that the accounts are reviewed. The process for entering purchase and sale orders is as follows:

Purchases. The market price of a security usually is higher than the buy price range, and as a result PCI will enter "good until cancelled" order(s) within the buy target price range. Multiple open orders to purchase a given security at a descending price level may be entered, depending on

the following factors:

- Amount of cash available in the account;
- The size of the account;
- Whether the position is currently in the account; and
- The relative size of a particular security's position in an account.

Sales. For positions already in the account, similar factors are considered and "good until cancelled" order(s) to sell at an ascending price may be entered.

With respect to all trades, consideration is given to each account individually based on several factors including:

- Size of the account;
- Relative size of the positions in the account (or the lack of positions in the account);
- Tax considerations; and
- The investment goals of the client.

PCI and its Access Persons seek to avoid even the appearance of front-running a client account. As a result, where an Access Person seeks to place a "good until cancelled" order for his or her own account in a security for which "good until cancelled" orders already have been placed (or are anticipated to be placed) on behalf of client accounts, such Access Person will set a target price on behalf of his or her own account that attempts to ensure that trades for client accounts will be placed prior to any trades in such Access Person's account. In certain instances, this activity could result in the Access Person obtaining a price on such security that is favorable to the price received on behalf of the client accounts. PCI believes, however, that such price difference will be *de minimus*.

Because PCI invests primarily in equity securities traded on national securities exchanges and on the NASDAQ Stock Market, there generally are sufficient quantities of such securities to satisfy the accounts of PCI clients and PCI Related Accounts. In the unlikely event that PCI determines to invest client accounts in a thinly-traded security or other security that could have an insufficient quantity to satisfy the eligible client accounts, PCI will allocate such trades to client accounts in compliance with its Trade Allocation Policy, which is designed to ensure that each account is treated fairly and that trading does not result in certain accounts being treated preferentially over time.

A copy of PCI's Code of Ethics, as well as its Trade Allocations Procedures, will be provided to any client or prospective client upon request.

Steve Leonard, PCI and/or its related persons may advise clients to purchase interests in the Partnership or the Private Investment Vehicles. PCI receives compensation (as outlined above) for managing and advising the Partnership, and Steve Leonard receives compensation for managing, or serving as the director of, the Private Investment Vehicles. In addition, PCI's related persons, including Steve Leonard, generally have an ownership interest in the Partnership and

Private Investment Vehicles. PCI's and Steve Leonard's relationship with these entities could potentially pose a conflict of interest if PCI solicits clients to invest in the Partnership or a Private Investment Vehicle based on reasons other than such clients' best interests. Such conflicts are based on the possibility that by recommending to clients that they invest in the Partnership and Private Investment Vehicles, PCI and/or Steve Leonard is basing such recommendation on a desire to increase the value of such vehicles and/or increase the fees received from such vehicles. However, PCI, as a fiduciary, intends to always act in the best interests of its clients. As such, before recommending an investment in the Partnership or a Private Investment Vehicle, PCI determines whether an investment in the Partnership or Private Investment Vehicle is appropriate for the client. In addition, PCI believes that the potential conflicts of interest noted above are addressed by fully disclosing to clients PCI's and Steve Leonard's relationship with the Partnership and Private Investment Vehicles.

ITEM 12. BROKERAGE PRACTICES

In selecting broker-dealers for client transactions, PCI seeks to obtain the most favorable price and execution available. In making such selection, PCI considers all factors it deems relevant, including by way of illustration:

- Price;
- Size of the transaction;
- Nature of the market for the security;
- Amount of the commission;
- Timing of the transaction (taking into account market prices and trends);
- Reputation, experience and financial stability of the broker-dealer; and
- Quality of service rendered by the broker-dealer in other transactions.

PCI's standard procedure is to use Schwab Institutional for both account custodian and as the broker to execute trades for managed accounts. Thus, PCI encourages clients to establish brokerage accounts with Schwab Institutional to maintain custody of clients' assets and to effect trades for their accounts. Not all advisers encourage clients to direct brokerage to a particular broker-dealer, and by a client directing the use of Schwab PCI may not in every circumstance be able to achieve most favorable execution of client transactions, which may cost clients more money. The trading commissions are determined by Schwab per the standard commission rates that vary by factors including size of account. It is possible, however, that PCI could use a different custodian or a different broker to execute a trade.

PCI is not affiliated with Schwab. Schwab provides PCI with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of PCI's clients' assets are maintained in accounts at Schwab Institutional. These services are not otherwise contingent upon PCI committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise

generally available only to institutional investors or would require a significantly higher minimum initial investment.

For PCI's client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by client accounts through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab makes available to PCI other products and services that benefit PCI but may not benefit its clients' accounts. Some of these other products and services assist PCI in managing and administering clients' accounts. These include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements);
- Facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts);
- Provide research, pricing information and other market data;
- Facilitate payment of PCI's fees from its clients' accounts; and
- Assist with back-office functions, recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of PCI's accounts. Schwab Institutional also makes available to PCI other services intended to help PCI manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to PCI by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to PCI. While as a fiduciary, PCI endeavors to act in its clients' best interests, PCI's recommendation or requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to PCI of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a conflict of interest.

Within PCI's last fiscal year, the above products and services were available to PCI. PCI client accounts do not individually generate so-called "soft dollar credits," and as a result PCI does not seek to allocate soft dollar benefits to specific client accounts. Rather, as stated above, Schwab makes available to PCI certain products or services because PCI's clients' assets (above the \$10 million threshold amount) are maintained in accounts at Schwab Institutional.

PCI may at times cause its clients to pay commissions to Schwab in excess of the commission another broker-dealer would have charged for effecting that transaction, if PCI determines in good faith that such amount of commission was reasonable in relation to the value of the brokerage and/or research services provided by Schwab. In making this determination, PCI will take into account the particular transaction and/or PCI's overall responsibilities with respect to the client and its other discretionary clients. Clients should understand that when PCI uses client brokerage

commissions to obtain research or other products or services, PCI receives a benefit because PCI does not have to produce or pay for the research, products or services. In addition, PCI may have an incentive to select or recommend Schwab based on its interest in receiving such research, products and services, rather than on its clients' interest in receiving most favorable execution.

On occasion, a client may direct PCI in writing to utilize a particular broker-dealer other than Schwab. In such situations, PCI's ability to obtain the best price and execution with respect to such client's account may be hindered. As a result the client may pay brokerage commissions that exceed the commissions charged by other broker-dealers, including Schwab. PCI may not obtain best execution on behalf of the client, who may pay materially disparate commissions, greater spreads or transaction costs, or receive less favorable net prices on transactions for the account than would otherwise be the case.

With regard to investment advisory services provided to the Partnership, PCI has discretion regarding which brokers to use and the rate of commissions to be paid. In selecting broker/dealers, PCI seeks to obtain the best overall results for the Partnership, taking into account such relevant factors as:

- Price;
- The brokers' facilities;
- Reliability;
- Financial responsibility;
- Ability of the broker to effect securities transactions;
- Custodian capabilities;
- Client support services;
- Willingness to negotiate a discounted rate; and
- Research services provided.

Commission rates, being a component of price, are considered together with such other factors. Accordingly, PCI does not always seek the lowest overall commission cost to the Partnership. The Partnership is specifically authorized to enter into arrangements with securities broker-dealer and commodities firms pursuant to which Partnership securities transactions, commissions and/or fees are allocated to such firms in exchange for the respective firm providing or paying for products or services used by PCI for the benefit of the Partnership or other accounts managed by PCI. Such "soft dollar" benefits offered by those firms may not be for the Partnership's direct or exclusive benefit or be obtained at the lowest available cost based on such factors as PCI deems relevant, including, among other things:

- Research services
- Special execution capabilities;
- Clearance;
- Settlement;
- Reputation;
- Financial strength and stability;

- Efficiency of execution and error resolution;
- Quotation services; and
- Availability of securities to borrow for short trades.

As discussed above in the section entitled, “Advisory Business,” PCI participates in the Independently Managed Advisory (“IMA”) program offered by Wedbush Morgan Securities, Inc. (“WMS”), a securities broker-dealer. In connection with the IMA program, PCI provides investment management services to clients participating in the program, and receives fees from such clients as discussed above in the section entitled “Fees and Compensation.” PCI pays to WMS a fee in connection with referring IMA program clients to PCI. It should be noted that if a client is referred by a brokerage firm such as WMS and trades for that client are placed through the referring broker, PCI has a potential conflict of interest between the client receiving best execution and PCI receiving future referrals from the brokerage firm. Clients retaining PCI as part of the IMA program designate the use of WMS as the broker/dealer for their account.

As discussed in more detail above in the section entitled “Performance-Based Fees and Side-by-Side Management,” PCI does not engage in “block” transactions, in which trade orders for clients are aggregated and placed as a single order. PCI generally follows a policy of entering trade orders for each of its clients on a “good until cancelled” basis, thereby making block trading impracticable.

ITEM 13. REVIEW OF ACCOUNTS

All investment advisory accounts of PCI are reviewed regularly, generally not less than every 90 days. Larger accounts and the accounts of the Partnership are reviewed more frequently because of their size and the greater number of holdings in such accounts. Review frequency with respect to any account increases for reasons including:

- Contributions or withdrawals of cash;
- A client advising PCI of an investment goal change; and
- Market volatility increases.

Accounts reviewed with greater frequency will likely engage in more frequent trading. Each account is reviewed on an individual basis, and issues specific to that account are considered in the review process.

Most account reviews are conducted by Steven C. Leonard, the managing member and Chief Investment Officer of PCI, who has primary responsibility for such accounts. In addition, Kari Pemberton, PCI’s Chief Compliance Officer and Director of Research, has primary responsibility for approximately 67 accounts. Ms. Pemberton reviews accounts in accordance with client investment objectives and restrictions and engages in regular discussions with Mr. Leonard regarding securities, pricing and other considerations.

Individually Managed Accounts

As soon as practical following the end of each calendar quarter, PCI prepares reports for its clients. The contents of the reports may vary, but generally include:

- An assessment of current market and economic conditions;
- A discussion of some or all of the securities held in the account;
- Performance results of the account for the year to date and inception to date periods in which a comparison is made against the S&P index;
- Estimated year to date management fees; and
- Often, a discussion of PCI's investment strategy and/or investment philosophy.

Annual reports also are provided as soon as practical after the end of each calendar year with a calculation of the management fees due for that year.

Partnership

PCI distributes audited financial statements of the Partnership to Limited Partners within 120 days of the end of such fiscal year. Each Partner also receives quarterly estimated progress reports and certain other reports as PCI may deem appropriate. The estimated performance statistics represent the performance of the Partnership for the period indicated and do not necessarily represent the performance of any individual Partner's capital accounts.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

PCI has entered into client solicitation agreements with certain third-party solicitors. Pursuant to these agreements PCI may compensate such solicitors for client referrals. PCI pays to its solicitors a fee of up to 50% of the Performance Fee and up to 50% of the Base Management Fee with respect to clients referred by a solicitor. Such solicitors, including WMS, therefore have a financial incentive to recommend PCI's services.

ITEM 15. CUSTODY

PCI is deemed to have "custody" over its client accounts based on its authority to withdraw its fees directly from such accounts. As a result, in order to comply with the SEC's "Custody Rule," PCI has taken steps to ensure that the qualified custodians maintaining client accounts send to clients quarterly account statements that do the following:

- Identify the amount of funds and of each security in the account at the end of the quarter; and
- Set forth all transactions in the account during the quarter.

Thus, clients should expect to receive from their custodian such statements on a quarterly basis, and are encouraged to review such statements carefully. In addition, PCI sends each of its clients

a quarterly report, and urges its clients to compare these reports with those received from the custodian.

PCI also is deemed to have custody of the assets of the Partnership. In connection therewith, PCI distributes audited financial statements of the Partnership to Limited Partners within 120 days of the end of each fiscal year.

ITEM 16. INVESTMENT DISCRETION

PCI's investment advisory agreement, which clients are required to sign prior to PCI assuming investment management responsibility, specifies that PCI has discretionary authority to manage securities accounts on behalf of clients. Clients also appoint PCI as their attorney-in-fact as part of such agreement.

Clients may request that PCI not purchase certain securities or groups of securities (such as by industry or based on social criteria) for their accounts and PCI strives to comply with such requests. Such restrictions customarily include requirements that specific securities remain in a client's account, and/or that such account should recognize only a minimal amount of gain for income tax purposes.

ITEM 17. VOTING CLIENT SECURITIES

PCI does not vote proxies with respect to securities held in its clients' accounts. Rather, PCI's clients retain responsibility for voting such proxies. In addition, PCI does not vote proxies on behalf of the Partnership.

PCI also does not take any action or render advice involving legal matters, including securities class actions, on behalf of clients with respect to securities or other investments held in client accounts. PCI does not respond to client questions regarding particular proxy solicitations. The account custodian sends proxy and class action information directly to PCI's clients. In the event that PCI receives any such material on behalf of a client, it will promptly forward that material to the client.

ITEM 18. FINANCIAL INFORMATION

The Company is not subject to any financial condition reasonably likely to impair its ability to meet contractual commitments to clients.