



ALJ CAPITAL MANAGEMENT, LLC

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BROCHURE

Form ADV, Part 2A

March 30, 2015

This Brochure provides information about the qualifications and business practices of ALJ Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact us by telephone at 323-651-3508 or by email at JFishman@ALJCapital.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.

ALJ Capital Management, LLC, is an investment adviser registered with the United States Securities and Exchange Commission. Registration with the SEC does not imply that ALJ Capital Management, LLC, or any person associated with ALJ Capital Management, LLC, has achieved a certain level of skill or training.

Additional information about ALJ Capital Management, LLC, is also available on the SEC's website at www.adviserinfo.sec.gov, either by a search for our firm name or for our firm IARD/CRD number, which is: 128621.

ITEM 2: MATERIAL CHANGES

This Firm Brochure, dated March 30, 2015, provides you with a summary of ALJ Capital Management, LLC's advisory services and fees, professionals, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item is used to provide our clients with a summary of new and/or updated information; we will inform of the revision(s) based on the nature of the information as follows.

1. Annual Update: We are required to update certain information at least annually, within 90 days of our firm's fiscal year end (FYE) of December 31. We will provide you with either a summary of the revised information with an offer to deliver the full revised Brochure within 120 days of our FYE or we will provide you with our revised Brochure that will include a summary of those changes in this Item.
2. Material Changes: Should a material change in our operations occur, depending on its nature we will promptly communicate this change to clients (and it will be summarized in this Item). "Material changes" requiring prompt notification will include changes of ownership or control; location; disciplinary proceedings; significant changes to our advisory services or advisory affiliates – any information that is critical to a client's full understanding of who we are, how to find us, and how we do business.

There have been no material changes to this Brochure since our last annual amendment on March 28, 2014.

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ITEM 4: ADVISORY BUSINESS

A. FIRM BACKGROUND & PRINCIPAL OWNERS

ALJ Capital Management, LLC, is a California limited liability company (referred to as "ALJCM," "Firm," "we," or "us") headquartered in Los Angeles, California. We have been in business since 2003. The following individuals and entities own, directly or indirectly, 25% or more of ALJCM:

Direct Owners

Jomita, LLC, Member

Fishfood, LLC, Member

AGT Advisors, LLC, Member

Indirect Owner

Jeffrey S. Fishman, Chief Compliance Officer and Manager

Ron D. Silverton, Manager

Lawrence B. Gill, Manager

ALJCM serves as discretionary investment manager to the following pooled investment vehicles (each called a "Fund" and collectively, the "Funds") that we organized with our affiliate, ALJ Capital Partners, LLC:

- ALJ Capital I, L.P. ("ALJ I"), a Delaware limited partnership,
- ALJ Capital II, L.P. ("ALJ II"), a Delaware limited partnership,
- ALJ Capital Offshore, Ltd. ("ALJ Offshore"), a Cayman Islands exempted company,
- LJR Capital, L.P. ("LJR"), a Delaware limited partnership, and
- LRJ Capital Ltd. ("LJR Offshore"), a Cayman Islands exempted company.¹

ALJ Capital Partners, LLC (referred to as "General Partner") serves as general partner of ALJ I, ALJ II, and LJR. ALJ II, ALJ Offshore, LJR and LJR Offshore utilize a master-feeder structure; ALJ Offshore and LJR Offshore serve as the feeder funds and invest all their respective assets in ALJ II and LJR, respectively (the master funds).

The Funds are our only clients. When we use the term "clients" in this Brochure, we are referring only to the Funds. Persons who invest in the Funds are referred to as "Investors," and are not considered to be clients of ALJCM. We use the term "Interests" to refer to the limited partnership interests issued to Investors in ALJ I, ALJ II and LJR, L.P. and shares issued to Investors in ALJ Offshore and LJR Ltd.

The Interests are offered only through private transactions exempt from registration under US and foreign securities laws. The number and qualifications of the Investors and the manner of offering the Interests are limited to maintain the Funds' exclusion from treatment as "investment companies" under the Investment Company Act of 1940.

Each Fund's confidential Offering Memorandum, limited partnership agreement or operating agreement (each referred to herein as the "Organizational Agreement"), and other offering

¹ LJR and LJR Offshore are dedicated Funds available exclusively to the affiliates of the entity which seeded said Funds.

documents (collectively, the “Offering Documents”), are available from the General Partner. These documents contain additional important information about the Funds and the Interests, such as:

- objective of the Funds and investment strategies ALJCM expects to follow;
- types of securities and other investment opportunities ALJCM will seek;
- risks of investing in the Funds; and
- limitations on Investors’ ability to withdraw capital or transfer their Interests.

Investment in the Funds involves a high degree of risk and may be considered speculative.

The Funds are intended for sophisticated investors who can accept a high degree of risk in their investments, do not need regular current income, and can accept a potential loss of their entire investment. Each prospective Investor should make such investigation and evaluation of the risks as he or she concludes is appropriate.

Prospective Investors should read the Offering Documents carefully and consult with their counsel and tax advisers before investing.

Investors will be admitted as limited partners or shareholders, and their capital contributions will be remitted to the qualified custodian for the appropriate Fund, as of the first day of the month next succeeding acceptance of their subscription. An Investor’s entire capital contribution will be payable upon execution and delivery of a Subscription Agreement, unless otherwise agreed. In the General Partner’s discretion, Investors may make additional capital contributions from time to time.

B. INVESTMENT MANAGEMENT SERVICES & TYPES OF INVESTMENTS

In managing the Funds’ cash and other investments, our principal investment strategy seeks to generate competitive, long-term, absolute returns while emphasizing capital preservation and minimizing the effect of severe downside market volatility. The Fund invests primarily in publicly-traded corporate debt securities and other investments related to companies in financial distress needing to restructure their obligations.

We implement a research-intensive, value-driven investment analysis to identify undervalued securities of primarily US companies. We believe that favorable investment opportunities may be found in all capitalization ranges and market or industry segments. Consequently, we do not formally limit investments to any one specific criterion and will seek to optimize the risk/reward characteristics for Investors. However, we believe that absolute value, and selectively, relative value combined with a favorable catalyst, can provide the long-term means for capital appreciation and preservation.

The Funds will focus on five basic investment scenarios:

- The deleveraging through bankruptcy or out-of-court restructuring of an issuer’s balance sheet involving the exchange of old debt for new debt and/or new equity;
- The liquidation of assets generating cash proceeds to be distributed pursuant to the Bankruptcy Code or otherwise to holders of an issuer’s debt obligations;
- Litigation that may provide a value enhancement to a particular position, including legal actions based on unique provisions of the Bankruptcy Code;
- Inter-capital structure “arbitrage” of stressed high yield credits, based on a legal analysis of complicated corporate and capital structures; and

- Circumstances in which a position is trading at a significant discount (in the case of a long position) or premium (in the case of a short position) to its ultimate value, and we have identified a near-term catalyst for realizing the difference.

Through rigorous analysis, ALJCM intends to invest in financially distressed entities in the situations described above at prices that ALJCM believes are less than the intrinsic long-term value of these positions and are at or near their market bottom. It is hoped that this strategy will yield high investment returns combined with a higher level of downside protection than other strategies pursuing similar returns.

In pursuing the Funds' objectives, we provide advice across a range of securities and other investments, including:

- exchange-listed, over-the-counter, or privately issued debt, equity, or convertible securities of domestic or foreign issuers, which may be common or preferred, senior or junior, secured or unsecured;
- exchange-listed, over-the-counter, or privately issued warrants, rights, options, or other derivative securities referencing the securities or bank debt of distressed companies;
- municipal securities;
- securities issues by the United States Treasury, government agencies, or government sponsored enterprises, and shares of money market mutual funds and other short-term cash management vehicles;
- non-certificated claims against a debtor in bankruptcy previously held by individual creditors, interests in liquidating trusts, and agreements evidencing the ownership of syndicated bank loans, none of which is considered to be a "security" within the meaning of Section 202(a)(8) of the Investment Advisors Act of 1940; and
- financing of private litigation in situations in which a party to the litigation is willing to share the proceeds of his or her ultimate recovery in exchange for such financing.

The Funds typically invest 70-110 different long positions. We seek to limit each position to a maximum of 5%-7%, on a cost basis, of a Fund's portfolio. However, we may maintain positions that exceed these amounts as a result of market changes or circumstances unique to a particular investment, and we have the discretion to acquire larger positions when we believe appropriate. We are not required to seek approval of a Fund's Investors to make any investment or maintain any position.

Please refer to Item 8 for further information about our methods of analysis and investment strategies, the types of investments we generally recommend, and material risks.

C. TAILORED SERVICES & CLIENT-IMPOSED RESTRICTIONS

ALJCM seeks to achieve the Funds' investment objectives by continuous management and monitoring of the Funds' portfolios according to the investment strategy and terms described in the Offering Documents and the Funds' Investment Advisory Agreements, in a manner consistent with the Funds' financial circumstances, tolerance for risk, and liquidity needs. Under the terms of the Investment Advisory Agreements, the Funds have granted us broad authority and discretion to determine which, and the amounts of, investments to be bought or sold for their accounts. The Funds are not authorized to impose other investment restrictions.

D. INFORMATION ABOUT WRAP FEE PROGRAMS

Item 4.D requires disclosure of certain information about wrap fee programs for which we provide portfolio management services.

ALJCM does not provide portfolio management services for any wrap fee programs, and has no disclosures for this item.

E. MANAGED ASSETS

As of December 31, 2014, ALJCM managed Fund assets of \$235,200,000 on a discretionary basis, and did not manage any assets on a non-discretionary basis.

ITEM 5: FEES & COMPENSATION

A. MANAGEMENT FEE AND INCENTIVE ALLOCATION

Management Fee

ALJCM charges an annual management fee ranging from 1.25% to 1.50% of the value of each Investor's capital account (the "Management Fee"). The Management Fee is billed quarterly, in advance, and is prorated for investments made at times other than the beginning of a calendar quarter.

Incentive Allocation

In addition to the Management Fee, Investors are subject to an annual performance-based compensation arrangement with the General Partner (the "Incentive Allocation"). The Incentive Allocation generally ranges from 17% to 20% of the net capital appreciation (i.e., capital appreciation less capital depreciation), if any, of each Investor's capital account, subject to certain hurdles; provided, the Incentive Allocation is payable only if, and to the extent that, the net capital appreciation of the Investor's capital account exceeds any net capital depreciation accumulated in prior years (as adjusted for withdrawals of capital).

Please refer to Item 6 for further information about the Incentive Allocation and our conflicts of interest.

Negotiability of Compensation & Other Investor Terms: Side Letters

ALJCM and the General Partner, respectively, retain the authority and discretion, on an Investor-by-Investor basis:

- to negotiate, modify, or waive, in whole or in part, the amount, terms, or method of calculating the Management Fee or Incentive Allocation; and
- to negotiate alternative fee or compensation arrangements.

ALJCM and the General Partner have negotiated, and may negotiate again in the future, separate agreements with Investors (each referred to as a "Side Letter") containing material assurances or undertakings that provide the recipient more favorable rights or terms, as compared to other Investors. A Side Letter may grant an Investor any or all of the following:

- preferential redemption rights (such as greater liquidity rights, more frequent liquidity dates, shortened or eliminated lock-up periods, shortened notice periods for redemptions, or redemption “gate” waivers);
- greater ‘key man’ redemption provisions;
- capacity assurances or terms regarding in-kind distribution;
- additional reports or greater access to information regarding the Funds’ investments or changes in the Funds’ custodian, administrator, or broker-dealers;
- earlier notice of management redemptions; or
- confidentiality provisions which prevent us or the General Partner from disclosing the existence or terms of the Side Letter.

Investors not receiving a Side Letter with comparable terms can reasonably be expected to be at a material disadvantage as compared to the Investors who receive Side Letters, particularly where a Side Letter grants the recipient enhanced redemption rights or better or timelier information from which to decide whether or when to redeem their Interests. For example, an Investor receiving a Side Letter may be able to exercise redemption rights at a time when market conditions are more favorable, and when other Investors may be prevented from redeeming their Interests.

When considering and negotiating the Management Fee, the Incentive Allocation, or terms of a Side Letter, we usually consider, among other factors, the size of the Investor’s investment, anticipated additional investments from the Investor or related accounts, and existing or anticipated business or personal relationships, among other factors. We or the General Partner may elect, in our discretion, to grant more favorable terms not generally available to other Investors to the family members or friends of ALJCM, the General Partner, or our employees.

B. PAYMENT OF THE MANAGEMENT FEES & REALLOCATION OF THE INCENTIVE ALLOCATION

We bill the Management Fees, in advance, as of the beginning of each calendar quarter, to the qualified custodian(s) maintaining the Funds’ assets, who will deduct the Management Fees from the Funds’ assets and pay us according to our instruction. The General Partner calculates the Incentive Allocation for each Investor, in arrears, as of the end of each calendar year, and which will be paid by reallocation from the Investor’s capital account balance to the General Partner’s capital account balance as of December 31 of each year. An Investor is not permitted to choose to have Management Fees or the Incentive Allocation billed directly to the Investor for payment.

The Management Fee and Incentive Allocation are prorated for periods less than a full billing cycle and for investments in the Funds at times other than the start of a calendar quarter or calendar year. Investors who elect to withdraw all or part of their capital account balance will be charged the Incentive Allocation based on the net capital appreciation of their capital account from the end of the period for which the Incentive Allocation was last assessed until the date of withdrawal.

Value of Securities and Other Investments

The Management Fees and Incentive Allocation are based, in part, on the value of the Funds’ securities and other investments, as determined by ALJCM. In valuing the Funds’ securities and other investments, we will be guided by the following:

- Securities traded on a national securities exchange will be valued at the last sale price prior to the date of determination, or if no sales occurred on such day, at a value based on a weighted average (which weighted average will differ depending on whether such security is a long position or a short position, with the long positions weighted towards the “bid” and the short positions weighted toward the “ask”) of the “bid” and “asked” prices on such day, or if no such “bid” and “asked” prices exist, by any reasonable method as ALJCM determines in its sole and absolute discretion. If a security is listed on more than one such exchange, ALJCM will use the price of the principal market on which such security is traded.
- Securities traded in the over-the-counter market will be valued at their closing price, as reported by the National Association of Securities Dealers Automated Quotations systems. If no such “bid” and “asked” prices exist, by any reasonable method as ALJCM determines in its sole and absolute discretion.
- Options will be valued at their fair value utilizing, if available, prices or quotations of options traded on a national securities exchange.
- Securities or other assets or liabilities not traded on an exchange or whose prices are not publicly reported by NASDAQ shall be valued by taking into consideration price quotations obtained from third-party broker-dealers making a market in, or otherwise willing to provide quotations for, such securities or assets, or by any reasonable method as ALJCM determines in its sole discretion. In determining the fair value of an asset, ALJCM will consider whether exchange- or NASDAQ-reported prices or quotations were from a market that was not active or for which the volume or level of trading activity was not normal, and whether quotations were binding or indications of interest from the broker-dealers who provided them.
- The fair value of any other security, other investment, or liability will be the item’s fair value using any reasonable method as ALJCM determines in its sole discretion.

We anticipate that most of the securities and other investments purchased by the Funds will not be actively traded on an exchange or over-the-counter, and will be valued in accordance with our “Pricing Procedures” described below.

Pricing Procedures

Securities or other investments not traded on an active market will be valued in accordance with the pricing procedures established by ALJCM from time to time, which may include consideration of factors such as: the average price quotations obtained in response to month-end valuation requests sent to third-party broker-dealers who make a market in or are otherwise willing to provide price quotations for such securities or other investments; and our internal records of quotations or prices, average price calculations, and prices or quotations reported on any publicly available reporting system. Special weight may be given to factors we consider appropriate, including pricing obtained from the broker-dealer most active in trading the security or other investment.

Special Securities or investments will be valued at fair value as ALJCM determines in good faith, which may include consideration of factors such as: the cost of the investment; analytical data regarding the investment; the value of derivative investments or related investments; value of investments traded in other markets; interest rates; observations from financial institutions; court or governmental actions or pronouncements; news events; information about transactions or offers with respect to the

investment; price and extent of trading in similar investments in comparable companies; pricing history of the security; and relative size of the position.

ALJCM reserves the right to modify its pricing procedures as it deems reasonable and necessary without notice to Investors.

Please refer to the Offering Documents for further information about the valuation and pricing of the Funds' assets and liabilities.

C. OTHER FEES & EXPENSES

The Funds will bear the Brokerage and Investment Expenses, various Compliance Costs, Custodial Costs, and Cash Management Expenses, as described in this Item 5.C, in connection with our investment advisory services, which will be in addition to the Management Fees and Incentive Allocation.

Please refer to the Offering Documents for information regarding other expenses or charges the Investors will incur as limited partners or shareholders of the Funds.

Brokerage and Investment Expenses

As used in this Brochure, the term "Brokerage and Investment Expenses" refers to the following:

- commissions, ticket charges, or other fees charged by brokers who execute transactions on an agency basis;
- mark-ups, mark-downs, or other spreads included in the amount charged by or paid to a dealer for positions bought or sold on a principal basis, and underwriting fees, dealer concessions, or related compensation in connection with positions acquired in underwritten offerings;
- odd lot differentials, transfer or other taxes, floor brokerage fees, exchange fees, service and handling fees, electronic fund or wire transfer fees, costs of exchanging currencies, and postage and delivery expenses by a broker-dealer in connection with account transactions; and
- costs of margin interest or other borrowing costs, and direct or indirect fees for other financial or investment services provided by brokers-dealers or other financial service providers.

Compliance Costs

As used in this Brochure, the term "Compliance Costs" refers to all regulatory and compliance fees, costs and expenses incurred in complying with regulatory requirements that directly result from management of the Funds (including expenses incurred in complying with FATCA and preparing Form PF).

Custodial Costs

As used in this Brochure, the term "Custodial Costs" refers to compensation paid to a custodian of a Fund's assets for services in connection with: (1) receiving, holding, and delivering securities or other investments deposited, purchased, sold, exchanged, redeemed, borrowed or loaned; (2) receiving cash deposits, dividends, interest, or the proceeds of transactions, and making payments for account

purchases or costs; and (3) recordkeeping or reporting with respect to the account and account activity. ALJCM will cause the Funds to pay Custodial Costs through commissions or other transaction-based fees for transactions executed through the custodian (or its broker-dealer affiliates) or by asset-based fees for assets settled into the custodian's accounts, or both.

The specific fees and terms of each custodian's services will be described in the custodian's separate account agreement with each Fund. The Funds are not committed to continue their custodial or prime broker relationships with any custodian for any minimum period, and may enter into custodial or prime broker relationships with other qualified custodians.

Please refer to Item 12 for information about brokerage and custody of the Funds' assets.

Cash Management Expenses

Under normal market conditions, approximately 5% - 10% of the Funds' assets will be maintained in money market funds, U.S. Government securities, or other short-term investments, pending investment in other positions or for purposes of liquidity. During periods when ALJCM believes that acceptable investments are not available, or under unusual market conditions, a substantial portion (or all) of the Fund's assets may be invested in such positions. A Fund's custodian, broker-dealer, or affiliated bank may offer cash management services that will cause uninvested cash balances to be automatically invested or "swept" into money market funds or similar short-term investments until they can be appropriately invested.

Consequently, while held in these short-term investments, the Funds will incur fees and expenses as shareholders of money market or other mutual funds, or as investors or depositors of other cash management investments or accounts offered through the custodian, broker-dealer, or other financial institution. The fees and expenses of mutual fund investments will generally include a management fee, fund operating expenses, and servicing and distribution fees paid pursuant to Rule 12b-1 ("12b-1 Fees"), recordkeeping fees, and transfer and sub-transfer agent fees. Some mutual funds may impose an initial or deferred sales charge, or redemption fee. The fees and expenses charged by mutual funds to their shareholders, or by any other provider of cash management products or services, are separate and distinct from, and will not reduce or offset, the Management Fee or the Incentive Allocation.

Availability and Costs of Similar Services and Investments

Investors should consider that similar investment advisory services or private fund investments may be available from other investment advisers or broker-dealers, at lower cost or with better performance. The Management Fee and the Incentive Allocation may be higher than are available from other investment advisers, private funds, or with respect to other investments that offer lower volatility, greater liquidity, or higher returns.

D. PREPAYMENT OF MANAGEMENT FEES, INVESTOR WITHDRAWALS & REFUNDS

Although Management Fees are payable in advance, we will not require or solicit prepayment of more than \$1,200 in Management Fees per Fund, six months or more in advance.

Investor Withdrawals & Refund of Prepaid Management Fees

Investors are limited in their ability to withdraw capital from the Funds. Such limits are set out in the Offering Documents of each Fund, which should be read carefully before investing.

Subject to the terms of the Organizational Agreements, an Investor may withdraw any or all of his or her capital account balance as of the end of the twelfth full calendar month following admission as an Investor, and thereafter, as of each six (6) month anniversary, except for any portion of the capital account balance attributable to allocations of Special Securities (discussed below). An Investor must provide at least 60 days' prior written notice to the General Partner of any withdrawal, and may not reduce his or her capital account balance below \$100,000 (or such lesser amount as may be permitted by the General Partner) unless withdrawing as an Investor.

ALJCM, the General Partner, and their employees may invest in the Funds for their own accounts, and may voluntarily withdraw all or any portion of their capital account balance at any time without notice to the Investors.

If an Investor withdraws capital from a Fund, any unearned, prepaid Management Fees received by ALJCM through the date of such termination or withdrawal will be refunded to the Investor. Refund payments are generally sent within 30 days following the effective date of the withdrawal or termination.

The Funds will use their best efforts to satisfy withdrawal requests in full and in a timely manner. However, they may not be able to do so in all cases. Upon an Investor's complete withdrawal from the Funds, the Funds may make a partial payment of 90% of the withdrawal, with the remainder to be paid as promptly as possible after final reconciliation of the Funds' net asset values as of the valuation date (generally not more than 120 days after the withdrawal).

At the discretion of the General Partner, any withdrawal payments may be delayed if necessary to permit orderly liquidation of portfolio positions by a Fund. If a Fund is not able to liquidate investments prudently in a timely manner in an amount sufficient to provide for all such withdrawal requests (because, for example, the liquidation would have an adverse or disproportionate effect on the Fund's assets or performance as a result of the illiquidity of the Fund's investments or the magnitude of the withdrawal), then the total amount actually liquidated will be distributed to the Investors requesting withdrawals, pro rata, in proportion to their withdrawal requests, and the balance will remain credited to their respective capital accounts and at the risk of the Fund's business until such time as the Fund is able to liquidate the necessary investments.

If adequate cash is not reasonably available from cash on hand or liquidation of non-cash assets, a Fund may, under certain circumstances, distribute assets in kind to satisfy withdrawal requests. The General Partner may, under certain circumstances, also require any Investor to withdraw from a Fund, or reduce his or her Interest in a Fund, at any time.

The General Partner may, in its discretion, under certain circumstances, waive or modify the conditions of withdrawal or suspend the Investors' withdrawal rights, when it believes it is in the best interest of any Fund.

No Withdrawals with Respect to Special Securities

Notwithstanding the withdrawal of an Investor from a Fund, no withdrawals will be permitted with respect to any Special Securities allocated to such Investor, and the Investor will continue to participate in any appreciation or depreciation in the Special Securities until the Special Securities are liquidated, distributed or cease to be Special Securities. ALJCM and the General Partner will continue

to receive a Management Fee and Incentive Allocation (if any), respectively, with respect to Special Securities. The General Partner may grant exceptions to this provision.

E. COMPENSATION FROM THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS

Neither the Firm nor any employee accepts compensation (including asset-based sales charges or service fees from the sale of mutual funds) for the sale of securities to the Funds.

One of ALJCM's founding partners and managers, Jeffrey Fishman, is the managing member of JSF Financial, LLC, a registered investment adviser. Mr. Fishman is also a registered representative of Mid Atlantic Capital Corporation, a registered broker-dealer and member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Information regarding Mr. Fishman and his affiliation with Mid Atlantic Capital Corporation is publicly available at "BrokerCheck" on FINRA's website at <http://brokercheck.finra.org>.

Mr. Fishman may refer clients of JSF Financial, LLC to the Funds as prospective investors, but neither he nor JSF Financial, LLC will receive any compensation (including asset-based sales charges or service fees from the sale of mutual funds) in connection with such persons' investments in the Funds. The decision to invest is solely at the discretion of such persons, who will have no obligation to invest in the Funds.

Please refer to Item 10 for further information regarding the Firm's and its management persons' activities and relationships with other financial industry firms.

ITEM 6: PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

A. PERFORMANCE-BASED FEES

The Incentive Allocation is a performance-based fee arrangement that provides the General Partner the potential to earn a 17% to 20% share of net capital appreciation of Investor capital account balances, subject to certain return hurdles and other conditions stated in the Organizational Agreements.

The Incentive Allocation will only be charged in accordance with the provisions of Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act"), or the California Corporate Securities Law of 1968, as applicable. Prior to investing in the Funds, Investors should review the Offering Documents to ensure they understand the Incentive Allocation and the risks of performance-based fee arrangements.

Subscriptions for interests in ALJ I will only be accepted from "accredited investors" (as determined under the Securities Act of 1933) who are "qualified clients" eligible to enter into a performance-based fee arrangement under the Advisers Act or state law, as applicable. Investors must either demonstrate a net worth of at least \$2,000,000, excluding the value of the investor's primary residence, or must have at least \$1,000,000 under management at the time of their subscription to invest in the Funds. Indebtedness that is secured by the primary residence (i.e. a mortgage or home equity loan), up to the estimated fair market value of the primary residence shall not be included as a liability, unless indebtedness was incurred less than 60 days prior to the purchase of the securities. Indebtedness that is secured by the Investor's primary residence that is in excess of the fair market value of the residence shall be included as a liability. In addition, Investors will be required to make representations concerning their sophistication as investors and ability to bear risk of loss of their entire investment.

The Funds may waive all or part of any admission standard. The minimum subscription that will generally be accepted is \$500,000. This may be negotiated with specific investors.

Subscriptions for interests in ALJ II and LJR² will only be accepted from accredited investors who are “qualified purchasers” (under the Investment Company Act). In addition, Investors will be required to make representations concerning their sophistication as investors and ability to bear risk of loss of their entire investment. The Fund may waive all or part of any admission standard. The minimum subscription that will generally be accepted is \$1,000,000.

Subscriptions for Interests in ALJ Offshore and LJR Offshore³ will only be accepted from accredited investors, foreign persons, or US persons who are both “qualified purchasers” (under the Investment Company Act) and tax-exempt. In addition, Investors will be required to make representations concerning their sophistication as investors and ability to bear risk of loss of their entire investment. The Fund may waive all or part of any admission standard. The minimum subscription that will generally be accepted is \$1,000,000.

Clients should consider that the Incentive Allocation creates a conflict of interest because it provides an incentive for us to invest Fund assets in riskier or more speculative investments with the potential for higher rewards than we might otherwise recommend if the Funds paid fees that were not based on performance, such as fees calculated solely as a percentage of assets under management, or a flat fee, or hourly fee.

Additionally, Investors should consider that the Incentive Allocation is calculated as a percentage of realized and unrealized appreciation of the Funds’ assets. Because some or all of the Funds’ gains and losses will not have been realized when the Incentive Allocation is calculated, the amount paid by Investors may be substantially higher than 20% of the net capital appreciation ultimately realized, and may be higher than if the Incentive Allocation were based solely on realized net capital appreciation.

Our calculation of the Incentive Allocation will be based on our valuation of the Funds’ assets, many (or most) of which will not have readily available prices from active markets when the valuations are made. Consequently, there is a risk that the calculation of the Incentive Allocation may be inflated as a result of inaccuracies in the valuation of the Funds’ assets.

B. SIDE-BY-SIDE MANAGEMENT

Item 6 requires us to disclose if the firm or any of our employees manage some accounts that are charged a performance-based fee and other accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee.

All of the Funds provide an Incentive Allocation to the General Partner, and neither the Firm nor any employee manages client accounts that do not pay an Incentive Allocation. Mr. Fishman manages accounts which do not pay performance-based fees, but those accounts are not owned by clients of ALJCM, do not follow the same or similar strategies as the Funds, and generally do not seek the same types of investments.

² As noted previously, LJR and LJR Offshore are dedicated Funds available exclusively to affiliates of the entity which seeded the Funds.

³ Ibid.

ALJCM is aware of the special concerns that would arise if we or our employees managed some accounts that paid performance fees and other accounts that did not. In that situation, there could be a financial incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the accounts that paid the performance fees.

Additionally, we are aware that in situations where the investment strategy of some clients (e.g., aggressive short selling) conflicts with the strategy of other clients (e.g., buying and holding long positions), a performance fee arrangement may provide an incentive for us to favor the interests of clients paying performance fees.

C. MEASURES TO ADDRESS CONFLICTS OF INTEREST

We have evaluated the risks to our clients in connection with the Incentive Allocation, and have adopted the following measures to address those risks:

- We disclose the existence of the material conflicts of interest in connection with performance-based fee arrangements, the risk of riskier investments, and the potential for the Firm or our employees to earn more compensation from accounts that have such arrangements. We also disclose the material conflicts of interest that would exist in situations where we or our employees manage some accounts that pay performance fees and others that do not.
- We collect and maintain information, including financial information and investment experience, as necessary, to establish qualifications and suitability to participate in performance-based fee arrangements;
- We have implemented policies and procedures for fair and consistent allocation of investment opportunities among the Funds, for the accurate valuation of Fund assets, and for the proper calculation of the Incentive Allocation;
- We periodically review accounts to identify significant performance disparities indicative of possible favorable treatment; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for investment advice provided to clients and equitable treatment of clients, regardless of fee arrangements.

ITEM 7: TYPES OF CLIENTS & REQUIREMENTS FOR ACCOUNTS

ALJCM's only clients are the Funds. As stated in Item 6, the minimum investment in the Funds ranges from \$500,000 to \$1,000,000, but may be negotiated with specific Investors. Additional investor requirements are stated in each Fund's Offering Documents, which prospective Investors should review prior to investing. The General Partner, in its discretion, may permit aggregation of related accounts for purposes of meeting the minimum account size or other requirements.

ITEM 8: METHODS OF ANALYSIS, STRATEGIES & RISK OF LOSS

The investment strategies we intend to pursue in managing the Funds' assets, our methods of analyzing potential portfolio companies and positions therein, and the types of investments we intend to purchase for the Funds all involve numerous known and unknown risks. An investment in the Funds carries a high degree of risk and should be considered speculative. The purchase of an Interest is not intended as a complete investment program for any Investor. The Funds are for sophisticated investors who can accept a high degree of risk, do not need regular current income, and can accept a potential

loss of their entire investment. Each prospective Investor should make such investigation and evaluation of the risks as he or she concludes is appropriate.

Investing in securities involves risk of loss that the Investors should be prepared to bear. Securities and other investments are not guaranteed and Investors may lose money. We ask Investors to work with us to be sure we understand their willingness and financial ability to bear the risks of investing in the Funds. We offer no assurance that the Funds will achieve their investment objectives.

A. METHODS OF ANALYSIS & RISKS

In managing the Funds' investments, we employ research-intensive, value-driven analysis to identify potential portfolio positions. Our methods of analysis may include the following, each of which carries material risks:

Fundamental Analysis

Through fundamental analysis, we attempt to measure an investment's intrinsic value by considering economic, financial, and industry conditions, and the financial condition and management of the company to determine if the position is underpriced or overpriced.

Fundamental analysis does not attempt to anticipate market movements. As such, this method of analysis may not recognize when the price of an investment is moving up or down from overall market movement regardless of the economic and financial factors considered in a fundamental analysis of the investment.

Technical Analysis

Through a number of different statistical measures and data regarding the direction and velocity of movements in certain market averages and indices, prices for securities or other investment products, and economic indicators, we seek to identify short, intermediate, and longer term market trends or cycles, and recurring patterns of market movements, to assist us in determining when to enter or leave a market.

Technical analysis provides indications of market direction and potential turning points, but is an imprecise tool that can result in inaccurate buy or sell signals that do not coincide with actual market turns. Technical analysis does not consider the underlying financial condition of a company. As such, technical analysis carries the risk of generating a buy signal based on market trends for a company that is poorly-managed or financially unsound and that may underperform regardless of overall market movement.

Quantitative Analysis

We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

Distressed Company Analysis

In addition to relying upon fundamental and technical analysis, ALJCM conducts an in-depth analysis of documents and information available through the Electronic Court Filings (ECF) service and the Public Access to Court Electronic Records (PACER) service provided by the Administrative Office of the U.S. Courts. PACER/ECF provide access to court dockets, and other legal filings from U.S. District Courts, Bankruptcy Courts, and U.S. Courts of Appeal. We use this (and other) research to perform qualitative and quantitative analysis of the distressed company and examine the legal aspects of a distressed company's restructuring or liquidation process, whether through bankruptcy or other proceeding.

Our methods of analyzing distressed companies and investments therein are subject to a variety of material or significant risks, such as:

- **Lack of Reliable Information.** ALJCM's ability to obtain information fairly presenting the true condition of a distressed company can be more challenging than with other types of investments, which increases the risk of errors in our analysis and price targets.
- **Inaccuracy of Analysis:** ALJCM's strategy is based on its evaluation of the intrinsic value of a distressed company. Although ALJCM uses a variety of quantitative, qualitative, legal, and other methods to determine intrinsic value using different assumptions, there is a risk that the intrinsic value may be different than ALJCM's original estimate because of unfavorable litigation, failure to obtain necessary financing, or negligence or fraud of company insiders, accountants, or other professionals, among other reasons.
- **Inaccuracy of Subjective Analysis:** In some situations, we subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and other factors not readily subject to measurement, and predict changes to the value of investments based on that data. A risk in using qualitative analysis is that our subjective judgment may prove incorrect.
- **Reliance on Expertise of ALJCM's Portfolio Managers:** The Funds are highly dependent on the expertise of ALJCM's portfolio managers in analyzing the complex legal and financial issues involving companies in liquidation, reorganization, litigation or other distressed situations, and assessing the relative strengths and weaknesses of competing claims. There is no assurance a suitable replacement could be found if the portfolio managers are unavailable for any reason.

B. INVESTMENT STRATEGIES & RISKS

ALJCM will use the following investment strategies, or others, to achieve its objectives, each of which carries material risks:

- **Long-term purchases:** This strategy involves buying and holding a security or other investment for a year or longer, which may occur when we believe a position is currently undervalued or we seek exposure to a particular asset class over time, regardless of the current values. A long-term investment strategy carries the risk that the investments will not achieve the price targets our analysis suggests. The risks of this strategy will be influenced by the types of investments in which we invest. The Funds may invest in entities of any size market capitalization. Smaller companies often have limited product lines, markets, or financial resources. Investments in such

companies may be subject to more volatile market movements than investments in larger, more established companies.

- **Short-term purchases:** This strategy involves purchasing investments with the idea of selling them within a relatively short time to take advantage of conditions we believe will soon result in a favorable price swing. There is no assurance the investments will perform as expected. A short-term purchase strategy poses risks that the anticipated price swing may not materialize, leaving a long-term investment that was designed to be a short-term purchase, or potentially taking a loss. This strategy involves more frequent trading than a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.
- **Trading:** Trading involves making investments with the idea of unwinding them relatively quickly. We do this in an attempt to take advantage of our predictions of brief price swings. A trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize, and could result in having a long-term investment that was designed to be a short-term investment, or the potential of a loss.

There is no predetermined limit to the Fund's annual portfolio turnover rate, which is likely to vary from year to year and at different times during the same year, and may exceed 100%. Higher turnover levels could result from the risk management and trading activities of the investment process. Such high rates of portfolio turnover could result in the Fund paying greater brokerage commissions on trades (other than those effected with dealers on a principal basis) than would otherwise be the case, which will be borne directly by the Fund and ultimately by the Investors. High portfolio turnover may also result in the realization of net capital gains, and any distributions derived from such gains may be ordinary income for federal tax purposes.

- **Short sales:** The Funds may make short sales in any type of securities. Short sales that are not made "against the box" and are not part of a hedging transaction create opportunities to increase return but, at the same time, are speculative and involve special risk considerations. In this strategy, we sell a security that we have borrowed from our broker with a promise to replace the security on a future date. We use this strategy when we believe the security price is dropping and believe we can replace it at a lower cost. Short selling carries some unique risks:
 - Losses can be infinite. A short sale loses when the security price rises, and a security is not limited (at least, theoretically) in how high it can go. For example, if an investor shorts 100 shares at \$50 each, hoping to make a profit but the shares increase to \$75 per share, such investor would lose \$2,500. On the other hand, the price of a security cannot fall below \$0, which limits potential upside.
 - Short squeezes can wring out profits. As security prices increase, short seller losses also increase as sellers rush to buy the security to cover their positions. This increase in demand, in turn, can further drive the prices up.
 - Timing. Even if we are correct in determining that the price of a security will decline, we run the risk of incorrectly determining when the decline will take place, i.e., being right too soon. Although a company is overvalued, it could conceivably take some time for the price to come down; during which a short investor is vulnerable to interest, margin calls, etc.
 - Inflation. History has shown that over the long term, most stocks appreciate. Even if a company barely improves over time, inflation should drive its share price up

somewhat. In fact, short selling of stocks may not be appropriate in times of inflation for that very reason, as prices may adjust upwards regardless of the value of the stock.

If the anticipated price swing does not materialize, we could be left with a long-term investment that was designed to be a short-term purchase or with a loss. Under adverse market conditions the Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio investments to raise the capital necessary to meet its short sale obligations at a time when other investment considerations would not favor such sales. This strategy may also involve more frequent trading than longer-term strategies, which could result in increased brokerage and transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

- **Margin transactions:** We do not expect to use significant amounts of margin or other leverage in our strategies. However, certain types of transactions may or must be executed through a “margin account” (e.g., short sales). Because we do not expect to carry significant margin debit balances, we do not expect the amount of margin interest to be significant.

Although unlikely, if we purchase securities on margin and the value of the account falls below a certain level, the broker will issue a “margin call,” and the Funds would be required to sell account positions or add cash to the account. The use of margin can increase the potential amount of losses where the account carries a margin debit balance.

- **Option purchases and sales:** We may use options to speculate on the possibility of a sharp price swing of a security or as a hedging strategy. We may also sell covered calls for income. The Funds may purchase or sell standardized options on a national securities exchange, or dealer options that are not traded on a securities exchange. Options not traded on a securities exchange may bear a greater risk of nonperformance than options traded on a securities exchange, will generally lack the liquidity of an exchange-traded option, and may involve the risk that the securities dealers participating in such transactions will fail to meet their obligations under the terms of the option.

The Funds may also write (sell) listed covered options. Call options written by a Fund give the holder the right to buy the underlying securities from the Fund at a stated exercise price; put options written by the Fund give the holder the right to sell the underlying security to the Fund. If an option written by the Fund expires unexercised, the Fund realizes a gain equal to the premium received at the time the option was written. If an option purchased by the Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid.

Prior to the earlier of exercise or expiration, an option written by a Fund may be closed out by an offsetting purchase or sale of an option. The Fund will realize a gain from a closing purchase transaction if the cost of the closing transaction is less than the premium received from writing the option; if it is more, the Fund will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund will realize a gain; if it is less, the Fund will realize a loss.

The Funds may also employ certain combinations of put and call options. A “straddle” involves the purchase of a put and call option on the same security with the same exercise prices and expiration dates. A “strangle” involves the purchase of a put option and a call option on the same security with the same expiration dates but different exercise prices. A “spread” involves the sale of an option and the purchase of the same type of option (put or call) on the same security with the same or different expiration dates and different exercise prices. A Fund may,

at the same time it employs certain combination of options, also have a position in the underlying security, and a holding of segregated collateral as part of its "coverage" of short options. Thus, the Fund's entire position related to a particular security or index may be complex; however, the Funds will always be in a covered position with respect to options sold by the Funds.

- **Insolvency of Brokers and Others:** The Funds will be subject to the risk of failure of the brokerage firms that execute their trades, the clearing firms that such brokers use, or the clearinghouses of which such clearing firms are members.

C. SIGNIFICANT RISKS OF PARTICULAR TYPES OF INVESTMENTS

The Offering Documents provide further information regarding the risks of the specific types of investments in which we intend to invest the Funds' assets. Investors and prospective Investors should review the Offering Documents carefully to understand all of the material risks. Below, we have summarized some of the significant risks of the types of investments we will primarily recommend:

- **Special Securities:** The Funds will acquire securities or other investments that are not readily disposable, whether due to a bankruptcy reorganization of the issuer, transfer restrictions, or other circumstances (such as positions acquired through direct investments or private placements). We anticipate that all trade claims and litigation fundings (as further described below) purchased by the Funds will be classified as Special Securities.

The Funds will hold the Special Securities until such positions have been redeemed or satisfied, or ALJCM determines the impediments to transfer have been resolved and a favorable market exists. It is not anticipated that Special Securities will exceed a range from 10% to 20% of a Fund's portfolio, as valued at the time of each purchase. The General Partner will specially allocate, only to the Investors participating in a Fund at the time of each purchase, any long-term or short-term gains or losses, or net income and loss of any kind, attributable to such Special Securities. Subsequently-admitted Investors will not participate in previously-acquired Special Securities.

- **High Yield Bonds/Non-Performing Debt:** Below investment grade debt securities, commonly referred to as "high yield bonds" or "junk bonds," are considered to be speculative and involve a greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated securities, and may be in default. These are securities below the fourth highest rating category by a nationally recognized statistical rating organization. There is no limit on the ratings of high-yield securities that may be purchased or held by the Funds. In addition, the Funds may invest in unrated securities or other debt instruments.

When economic conditions appear to be deteriorating, medium to lower rated securities may decline in value due to heightened concern over credit quality, regardless of prevailing interest rates. The Funds will primarily invest in non-performing, "distressed" debt – high yield bonds or other instruments issued by entities that have already indicated an inability to pay outstanding interest or principal. The value and liquidity of these instruments may be diminished by adverse publicity and investor perceptions. In addition, the ultimate recovery for holders of such instruments often depends upon the resolution of complex legal questions, determined in the context of bankruptcy reorganization or liquidation. These instruments often are subordinated in right of payment to prior claims of banks or other senior lenders, and will often be unsecured.

Because defaulted high yield debt instruments are frequently traded only in markets where the number of potential purchasers and sellers, if any, is limited, the ability of the Funds to sell these positions at their fair value either to meet redemption requests or to respond to changes in the financial markets may be limited. Thinly traded high yield debt instruments may be more difficult to value accurately for the purpose of determining a Fund's net asset value. Investors should carefully consider the relative risks of investing in high yield debt instruments and understand that such debt instruments are not generally meant for short-term investing.

- **Loan Participations and Assignments:** The Funds may purchase participations or assignments of portions of syndicated secured or unsecured commercial loans. Loan participations and assignments typically represent a direct portion of a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Funds may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing portions of syndicated loans, the Funds assume the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The loan interests may not be rated by any nationally recognized rating service.
- **Trade Claims:** Trade claims are claims asserted against debtors in bankruptcy by third party vendors or other claimants. Trade claims generally are unsecured and ownership is not evidenced by a certificate. Typically, trade claims are purchased directly from the third party, who will assign the claim to the Fund. The amount realized on a trade claim, if any, will generally depend upon its ultimate disposition in the bankruptcy proceeding. The secondary market for trade claims is thin, and as a result the Fund expects that these investments will be illiquid. The Adviser anticipates that all trade claims purchased by the Fund will be classified as Special Securities.
- **Litigation Funding:** The Funds may provide financing of private litigation in situations in which a party to the litigation is willing to share the proceeds of his or her ultimate recovery in exchange for financing. There exists no secondary market for such investments and a positive outcome will generally depend entirely upon the results of the litigation. The Advisor anticipates that all litigation funding provided by the Funds will be classified as Special Securities.
- **Fixed Income Investments:** Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments (credit risk), and may also be subject to price volatility due to other factors, such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Market values of fixed-income securities tend to vary inversely with interest rates. Yields and market values of fixed income securities fluctuate over time, reflecting not only changing interest rates but the market's perception of credit quality and the outlook for economic growth.
- **Over-the-Counter Securities:** Securities traded over-the-counter are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and credit worthiness of the counterparty. These securities include options, credit default swaps, and asset swaps.
- **When Issued and Forward Commitment Securities:** The Funds may purchase or sell securities on a "when-issued" basis. These transactions involve a commitment by a Fund to purchase or sell securities at a future date (ordinarily at least one or two months later). The price of the underlying securities is fixed at the time the commitment is made, but delivery and payment for the securities takes place at a later

date. When-issued securities may be sold prior to the settlement date. If a Fund disposes of the right to acquire a when-issued security prior to its acquisition it may incur a gain or loss. There is a risk that securities purchased on a when-issued basis may not be delivered, causing the Fund to incur a loss.

- **Convertible Securities, Rights, and Warrants:** All of the risks of equity and fixed-income securities and options are applicable to convertible securities. Investments in warrants involve certain risks, including the possible lack of a liquid market for resale, potential price fluctuations as a result of speculation or other factors, all of the risks of the underlying security and the failure of the price of the underlying security to reach or have reasonable prospects of reaching a level at which the warrant can be prudently exercised, in which event the warrant may expire without being exercised, resulting in a loss of a Fund's entire investment therein. Like other debt securities, the market value of a convertible debt security tends to vary inversely with the level of interest rates. A convertible security may be subject to redemption at the option of the issuer at a price established in the instrument governing the convertible security. If a convertible security held by the Fund is called for redemption, a Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party.

In the case of warrants, price movements in the underlying security are generally magnified in the price movements of the warrant. This effect would enable a Fund to gain exposure to the underlying security with a relatively low capital investment but increases the Fund's risk in the event of a decline in the value of the underlying security and can result in a complete loss of the amount invested in the warrant. In addition, the price of a warrant tends to be more volatile than, and may not correlate exactly to, the price of the underlying security. If the market price of the underlying security is below the exercise price of the warrant on its expiration date, the warrant will generally expire without value. The equity security underlying a warrant is authorized at the time the warrant is issued or is issued together with the warrant, which may result in losses to the Fund. Investing in warrants can provide a greater potential for profit or loss than an equivalent investment in the underlying security, and, thus, can be a speculative investment. The value of a warrant may decline because of a decline in the value of the underlying security, the passage of time, changes in interest rates or in the dividend or other policies of the company whose equity underlies the warrant or a change in the perception as to the future price of the underlying security, or any combination thereof.

- **Foreign Investment Considerations:** Special risks associated with a Fund's investments in securities or other debt issues by foreign companies add to the usual risks inherent in domestic investments. Such special risks include fluctuations in foreign exchange rates, political or economic instability in the country of issue, and the possible imposition of exchange controls or other laws or restrictions. In addition, foreign markets for securities and debt are generally subject to different economic, financial, political and social factors than are the prices of securities in United States markets. With respect to some foreign countries there may be the possibility of expropriation or confiscatory taxation, limitations on liquidity of positions or political or economic developments that could affect the foreign investments of the Funds. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities or other debt held by the Funds than is available concerning U.S. companies. Foreign companies are also generally not subject to uniform accounting, auditing and financial reporting standards or to practices and requirements comparable to those applicable to U.S. companies.

- **Foreign Currency Transactions and Exchange Rate Risk:** The Funds may invest in securities or other positions denominated in non-U.S. currencies and in other financial instruments, the price of which is determined with reference to such currencies. The Funds may engage in foreign currency transactions for a variety of purposes, including to “lock in” the U.S. dollar price of the position, between the trade and the settlement dates, the value of a position the Fund has agreed to buy or sell, or to hedge the U.S. dollar value of positions the Fund already owns. The Funds may also engage in foreign currency transactions for non-hedging purposes to generate returns. The Funds will, however, value their investments and other assets in U.S. dollars. To the extent unhedged, the value of a Fund’s net assets will fluctuate with U.S. dollar exchange rates as well as with price changes of the Fund’s investments in the various local markets and currencies. Forward currency contracts and options may be utilized by the Funds to hedge against currency fluctuations, but the Funds are not required to utilize such techniques, and there can be no assurance that such hedging transactions will be available or, even if undertaken, effective.

ITEM 9: DISCIPLINARY INFORMATION

We are required to disclose any legal or disciplinary event that is 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 & AFFILIATIONS

As disclosed in Item 5, one of our employees and principal owners, Mr. Fishman, is separately registered as a securities representative of an independent broker-dealer, and is registered as an investment adviser representative of a separate and independent registered investment adviser. He is also licensed as an insurance agent for various insurance companies. Clients of Mr. Fishman’s separate businesses are not considered to be clients of ALJCM.

Mr. Fishman may refer clients of JSF Financial, LLC to invest in the Funds, but he will not receive sales compensation for those investments. JSF Financial, LLC, does not charge advisory fees on the value of its clients’ investments in the Funds. Clients of JSF Financial, LLC, have no obligation to invest in the Funds. The decision to invest is solely at the discretion of the client.

ITEM 11: CODE OF ETHICS, INTEREST IN TRANSACTIONS & PERSONAL TRADING

A. CODE OF ETHICS

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. A copy of our Code of Ethics is available to our advisory clients and prospective clients, upon request, by email to JFishman@ALJCapital.com, or by mail or telephone to the address or telephone number on the front of this Brochure.

We and our employees 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 also to the general principles on which it is based. We require delivery of the Code of Ethics to every employee and a written acknowledgement of receipt by each employee. We have established policies requiring the

reporting of Code of Ethics violations to our senior management. Any employee who violates the Code of Ethics may be subject to termination.

Our Code of Ethics includes policies and procedures for the review of monthly securities transactions reports, and annual securities holdings reports that must be submitted by the Firm's access persons, and requires the prior approval of securities to be acquired in a limited offering (e.g., private placement) or an initial public offering.

Our Code of Ethics also includes our policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

The Code of Ethics provides for oversight, enforcement, and appropriate recordkeeping. The Chief Compliance Officer may grant exceptions to certain provisions contained in the Code where the interests of our clients will not be adversely affected or compromised. Doubts arising in connection with personal securities trading should be resolved in favor of the client even at the personal expense of our employees.

B. RECOMMENDATIONS INVOLVING ALJCM'S MATERIAL FINANCIAL INTERESTS

Our only clients are the Funds. We do not recommend the Funds invest in securities in which the Firm, our employees, or "related persons" have a material financial interest, except to the extent of ALJ Offshore's "feeder" Interest in ALJ II or LJR Capital Ltd.'s feeder interest in LJR Capital, L.P., as disclosed in the Offering Documents.

Please refer to Item 10 for information about Mr. Fishman's referral of the separate advisory clients of JSF Financial, LLC, to the Funds.

C. INVESTMENTS IN SECURITIES WE RECOMMEND TO THE FUNDS

ALJCM employees are not permitted to purchase for their own personal accounts, securities or other instruments that ALJCM buys or sells for clients. As these situations may present a conflict of interest, ALJCM has established the following policies:

- No Employee shall purchase or sell directly or indirectly, any security or other instruments for his/her own personal brokerage accounts, if:
 - The position is being considered for purchase or sale by ALJCM in its capacity as investment adviser;
 - The position is held long or short by ALJCM in its capacity as investment adviser, or
 - The position was sold by ALJCM in an advisory transaction within the most recent 5 business days.
- Any requests for an exception to this policy must be made in writing to the Chief Compliance Officer prior to execution of the trade. Personal transactions may be disapproved if our Chief Compliance Officer determines that the employee is unfairly benefiting from, or that the transaction is in conflict with, any pending client transaction.
- The following transactions are excepted from the pre-approval requirement:
 - Open ended investment company shares;

- Direct obligations of the United States Government;
 - Money market instruments;
 - Approved Exchange Traded Funds- ETF means any type of various open and closed end investment companies and other pooled vehicles in which interests are publicly traded on a recognized market or exchange anywhere in the world, and that are designed to track the performance of a securities or financial index, market, industry or sector. Examples of these companies and vehicles include country funds, SPDRs, QQQs, HOLDRs, iShares and Diamonds. ETFs that appear on the list of approved ETF maintained by the Chief Compliance Officer, which list may be revised from time to time, are referred to in the Code as "Approved ETFs/ETNs;"
 - Transactions effected for any account over which the person has no direct or indirect influence or control;
 - Transactions effected pursuant to an automatic investment plan, e.g. a dividend retirement plan;
 - Interests in variable insurance or variable annuities; and
 - Transactions in units or a unit investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds.
- Employee account statements are reviewed monthly for compliance.

D. INVESTMENTS AROUND SAME TIME AS FUND TRANSACTIONS

We do not permit the Firm or our employees to purchase or sell for their own accounts any client portfolio security (other than exceptions noted above) on or around the same time as client transactions in that security.

E. OTHER CONFLICTS OF INTEREST

ALJCM and its employees may engage in other investment activities and businesses, including the management of trading accounts on their own behalf, or on behalf of other investment advisers. In connection with these separate activities, our employees may recommend trades for their separate clients that are different from, or in conflict with, the trading decisions made on behalf of the Funds. Consequently, conflicts of interest may arise between the interests of the Funds and these persons. We have established the following additional procedures to address the conflicts of interest that may arise in these situations:

- we require employees to obtain prior approval of any outside employment so that we may ensure any conflicts of interests are properly addressed; and
- we periodically request the employee to update information about any outside employment and any conflicts of interest.

ITEM 12: **BROKERAGE PRACTICES**

A. PRIME BROKER AND OTHER BROKER-DEALERS & BROKER COMPENSATION

Prime Brokerage and Custodial Services

The Funds have established a “prime brokerage” arrangement with Pershing LLC (the “Prime Broker”). Under this arrangement, the Prime Broker will provide certain recordkeeping services and perform the following functions, among others: arrange for the receipt and delivery of securities bought, sold, borrowed, and loaned; make and receive payments for securities; maintain custody of cash and securities; deliver cash to the Funds’ bank accounts; and tender securities in connection with tender offers, exchange offers, mergers, or other corporate reorganizations.

The Funds may pay for custodial and related services either in cash or by allocating a portion of their brokerage business to the Prime Broker. The Funds are not committed to continue the “prime brokerage” relationship with the Prime Broker for any minimum period, and may use one or more other prime brokers or custodians in the future. If the Funds use another prime broker or custodian, they may be required to pay separate fees in cash.

Research & Other Soft Dollar Benefits

The Funds have granted us the discretionary authority to determine the brokers-dealers to be used and the commission rates to be paid for account transactions. We endeavor to select those brokers or dealers that execute transactions so that the Funds’ total costs or proceeds are the most favorable under the circumstances. In making our selections, we consider the transaction costs (including commissions or spreads, market impact costs, and opportunity costs), as well as the full range and quality of the brokerage and related services a broker-dealer provides, such as: the broker-dealer’s speed, certainty, consistency, and accuracy of execution; responsiveness to our inquiries and requests; willingness and speed in resolving errors or other discrepancies; and access to financial products and markets.

In limited circumstances, some broker-dealers make available to us general economic information, company specific information, or regulatory and compliance information available regardless of commissions or spreads paid, such as:

- stock quotes, trading volumes, company financial data, and economic data;
- research reports analyzing a company's performance or securities;
- corporate governance research, analytics, and rating services that contain substantive content of the type permitted under Section 28(e);
- specialized publications regarding particular industries, products, or services; or
- market research, including market color, optimal execution venues, and pre-trade and post-trade analytics.

Except for the services of the Prime Broker, we do not typically use non-execution services from broker-dealers. To the limited extent we use them, these products and services are designed to augment our own internal research and investment strategy capabilities, and are of the types permitted under Section 28(e).

Brokerage for Client Referrals

ALJCM does not receive referrals of prospective clients or Investors from any brokers-dealer that executes transactions for the Funds, and we do not direct transactions for the Funds to any broker-dealer in return for client referrals.

Directed Brokerage

We do not recommend, request, or require the Funds to direct us to execute transactions through a specified broker-dealer. We require clients to grant us discretion to select the broker-dealers to effect transactions for their accounts, and do not accept client instructions to direct brokerage to other broker-dealers. Not all investment advisers require clients grant them discretion. Some advisers permit the client to direct the use of a particular broker-dealer for their account.

B. AGGREGATION OF INVESTMENT TRANSACTIONS & REBALANCING TRANSACTIONS

Aggregation of Orders

When placing orders, we generally combine orders for the Funds into a single “aggregated” order for each broker-dealer we choose to execute the trade. The Funds’ custodian allocates the investments or proceeds received (and related transaction expenses) among the Funds, as we direct. The allocation is usually on a pro rata basis, except when another allocation is appropriate, as a result of varying levels of cash available across the accounts, differences in current holdings and a corresponding attempt to equalize the positions among the Funds, and desire to avoid “odd lots,” among other factors. We believe combining and allocating orders in this way will, over time, prove advantageous to the Funds by reducing transaction costs and providing for more efficient execution of trades. In unusual circumstances, the use of an aggregated order may be less advantageous to a particular Fund than if the Fund had been the only client participating in the transaction. We review accounts regularly to determine whether any Fund is being treated unfairly or systematically disadvantaged over time with respect to the trading of its account.

Re-Balancing Transactions

We manage the Funds with the same strategy and objectives, and intend for them to perform comparably. However, from time to time, usually as a result of capital contributions or withdrawals, it may be necessary for us to “rebalance” the portfolios by causing the Funds to buy and sell securities from each other. In this way, the Funds may re-align their holdings to more accurately reflect their relative capital balances and maintain comparable performance. Generally, re-balancing transactions will occur shortly after capital activity in a Fund and where the subject position is unavailable for purchase in the general market. The Funds will incur transaction charges in connection with the rebalancing transactions; however, we will seek to minimize the transaction costs, to the extent reasonably practical.

ITEM 13: REVIEW OF ACCOUNTS

A. PERIODIC & OTHER REVIEWS

Portfolio managers continuously monitor the positions in the accounts they manage and perform at least monthly reviews of Fund holdings for consistency with the investment objectives, concentration, investment strategy, risk tolerance, and investment restrictions and guidelines, as stated in the

Offering Documents or otherwise imposed by the Funds or adopted by ALJCM, and for performance relative to an appropriate benchmark.

More frequent reviews may be triggered by changes in a Fund's financial circumstances, liquidity needs, tax or financial status, as well as by economic, macroeconomic, political, or market activity or events.

B. CLIENT REPORTS

ALJCM will provide monthly unaudited statements and reports to Investors discussing general account performance. Within 120 days of the close of its fiscal year, ALJCM will also provide Investors with an annual report containing audited financial statements for the appropriate Fund, as well as a statement of the Investor's capital account in the Fund as of the end of the fiscal year. This report will include information concerning valuations, profits, gains, and losses of the Fund. ALJCM will also provide annual tax information necessary for the Investor's individual tax returns.

ITEM 14: CLIENT REFERRALS & OTHER COMPENSATION

A. ARRANGEMENTS TO REFER CLIENTS TO THIRD PARTIES

Item 14 requires us to provide certain information if someone who is not our client provides us an economic benefit for providing investment advice or other advisory services to the Funds.

Please refer to Item 12.A for information about services the Funds' prime broker makes available to us. We do not receive economic benefits from any other person who is not a client for providing investment advice or advisory services to the Funds.

B. ARRANGEMENTS WITH THIRD PARTIES TO REFER CLIENTS TO US

We do not currently have arrangements to pay cash or non-cash compensation to third-parties for referring clients to us; however, in the future, ALJCM or the General Partner may engage underwriters, brokers, dealers, or finders to assist in the offering of the Interests. ALJCM or the General Partner may pay (and will not charge the Funds) any fees and commissions payable to such brokers or finders for assisting in the offering or sale of the Interests.

Additionally, in the future, ALJCM may also employ solicitors to refer investment advisory clients other than the Funds, and may pay cash or non-cash compensation to the solicitors based on the fees we receive from the persons referred. In such cases, we will require the solicitor to disclose this practice in writing to the client, provide a copy of this Brochure, obtain a signed receipt from the client for such documents, and otherwise comply with the requirements of SEC Rule 206(4)-3, or if applicable, the California Corporate Securities Law of 1968.

ITEM 15: CUSTODY

Client assets are maintained with a qualified custodian that we select and may change from time to time, in our sole discretion. ALJCM does not accept physical possession of client assets. However, under SEC rules, ALJCM is deemed to have constructive custody of the Funds' assets. As required under the SEC rules, we will provide Investors with the Funds' annual report and audited financial statements. Investors will not receive account statements or other reports from a Fund's custodian.

Please refer to Item 13 for further information about the reports and audited financial statements we provide.

Notwithstanding the foregoing, with regard to agreements evidencing the ownership of syndicated bank loans, non-certificated claims against a debtor in bankruptcy or investments in private litigation that are not "securities" within the meaning of Section 202(a)(8) of the Investment Advisors Act of 1940, as amended, the General Partner or its counsel may maintain custody of documents evidencing such investments.

ITEM 16: INVESTMENT DISCRETION

Under the terms of the Investment Advisory Agreements, the Funds grant us the authority and discretion to determine which securities and other instruments and the amount of such positions to be bought or sold for their accounts, consistent with the Funds' objectives and other provisions of the Investment Advisory Agreements and Offering Documents. The Funds are not authorized to impose other limitations on our discretionary authority.

ITEM 17: VOTING CLIENT SECURITIES

Pursuant to the Investment Advisory Agreements, ALJCM has been granted discretionary authority to manage the Funds' accounts, including the authority to vote the Funds' securities and other positions when solicited. Because the majority of the Funds' assets are invested in fixed income or other types of securities or other investments for which proxies are not typically solicited, such solicitations are less common than for equity investments. Nonetheless, ALJCM recognizes its fiduciary duty to act in the Funds' best interests when a vote of the Funds' positions is solicited, and to exercise care and diligence in voting (or deciding not to vote) the Funds' positions to ensure all decisions are made solely in the best interests of the Funds.

ALJCM's policy and practice is to receive proxy solicitations and vote client securities in order to enhance the economic value of our clients' assets, to disclose and mitigate conflicts of interest when they arise, to make the policy available upon client request, to respond to client inquiries regarding the voting of proxies, and to maintain appropriate records. ALJCM has adopted procedures pursuant to Rule 206(4)-6 to implement its policy regarding voting of the Funds' securities.

Lawrence B. Gill and Ron Silverton are ultimately responsible for implementing ALJCM's proxy voting policy in a timely manner according to ALJCM's determination of the Funds' best interests, and that consistent action is taken across all similarly situated funds. ALJCM follows procedures designed to identify and address material conflicts that may arise between ALJCM's interests and those of the Funds before voting proxies. If it is determined that a conflict of interest is not material, ALJCM may vote proxies notwithstanding the existence of the conflict.

Generally, Messrs. Gill and Silverton will evaluate each proposal or request for action on its merits and vote or act (or decides to not vote or act) in a manner that they deem most likely to cause the value of the Funds' assets to increase the most or decline the least in value, considering the anticipated holding period of the position and strategy or circumstances under which the position was acquired.

We actively consider and research matters in connection with voting client positions in connection with bankruptcy plans of reorganization or liquidation, and maintain records of our review and voting.

ALJCM will refrain from voting on behalf of investments when: the investments are no longer held in the account; the Investment Advisory Agreement has been terminated; the voting materials are not received in sufficient time to allow proper analysis or an informed vote by the voting deadline; it determines the cost of voting will likely exceed the expected potential benefit to the Fund; the investments have been loaned pursuant to the account's lending arrangement and are unavailable to vote; or the investments to be voted for a Fund have a value less than \$500 (or other de minimis amount, as determined by the Firm from time to time) or the value is not reasonably determinable.

Where a proxy or other proposal raises a material conflict between ALJCM's interests and a Fund's interest, ALJCM will resolve such a conflict in the manner described below:

- **Obtain Client Consent:** ALJCM will disclose the conflict to the relevant clients and obtain their consents to the proposed vote prior to voting the positions. The disclosure to the client will include sufficient detail regarding the matter to be voted on and the nature of ALJCM's conflict that the client would be able to make an informed decision regarding the vote. If a client does not respond to such a conflict disclosure request or denies the request, ALJCM will abstain from voting the positions held by that client's account. If the client is a Fund, ALJ Capital will abstain from voting the positions.
- **Client Directive to Use an Independent Third Party:** Alternatively, a client may, in writing, specifically direct ALJCM to forward all voting matters in which ALJCM has a conflict of interest regarding the client's positions to an identified independent third party for review and recommendation or to consult with an identified independent third party's recommendations. Where such independent third party's recommendations are received on a timely basis or are otherwise publicly available, ALJCM will vote in accordance with such third party's recommendation. If the third party's recommendations are not timely received, ALJCM will abstain from voting the positions held by that client's account. ALJCM will not retain an independent third party to make recommendations for the Funds and instead will abstain from voting the positions.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting us by email addressed to JFishman@ALJCapital.com or by telephone or in writing at the telephone number or address shown on the cover page of this Brochure.

ITEM 18: FINANCIAL INFORMATION

A. PREPAID FEE ARRANGEMENTS & FINANCIAL STATEMENTS TO INVESTORS

ALJCM does not require or solicit payment of fees in excess of \$1,200 per Fund more than six months in advance. However, although the Funds' assets are maintained with the qualified custodian, we are deemed to have "custody" of those assets. As required under SEC Rule 206(4)-2, and the terms of the Investment Advisory Agreements and Offering Documents, Investors will receive the Funds' audited financial statements within 120 days after the end of each fiscal year.

B. DISCRETION OR CUSTODY OF ASSETS; DISCLOSURE OF FINANCIAL CONDITION

We have discretionary authority over, and are also deemed to have custody of, the Funds' assets. Consequently, we are required by Item 18 to disclose any financial condition that is reasonably likely to impair our ability to meet contractual commitments to the Funds.

There is no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to the Funds.

C. BANKRUPTCIES WITHIN PAST TEN YEARS

ALJCM has never been the subject of a bankruptcy petition.