

# Form ADV Part 2A

Firm Brochure (“Brochure”)

## RK Capital Management, LLC

3033 East First Avenue, Suite 401

Denver, CO 80206

Telephone: 303-394-0101

Website: [www.rkcap.com](http://www.rkcap.com)

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This Brochure provides information about the qualifications and business practices of RK Capital Management, LLC (“RK Capital”, the “Adviser”, “our”, “us” or “we”). If you have any questions about the contents of this Brochure, please contact us at telephone: (303) 394-0101 or email: [investor-relations@rkcap.com](mailto:investor-relations@rkcap.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.

RK Capital Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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

In no event should this Brochure be considered to be an offer of interests in any of RK Capital’s private fund clients or relied on in determining whether to invest in any private fund client. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure. Rather, this Brochure is designed solely to provide information about RK Capital for the purpose of compliance with certain obligations under the Investment Advisers Act of 1940 (“Advisers Act”) and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided to potential investors in private offering memorandums (the “memorandums”). To the extent that there is any conflict between any discussion in this Brochure and the memorandums provided to investors, the memorandums provided to such investors govern.

## Item 2 – Material Changes

This brochure includes no material changes since the brochure dated March 26, 2015.

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## Item 4 – Advisory Business

### Firm History & Management

RK Capital Management, LLC, a Colorado limited liability company, was formed in June 2004 by Robert Ammann and Kevin Sonnett. Mr. Ammann and Mr. Sonnett each have a 50% ownership interest in RK Capital. There are no other persons or entities with an ownership interest in RK Capital. The firm registered with the United States Securities and Exchange Commission (the “SEC”) as an investment adviser in January 2007.<sup>1</sup> RK Capital provides investment advisory services to pooled investment vehicles such as limited partnerships, offshore exempted companies and separately management accounts.

We provide investment advisory services in our role as the general partner of the Tessera Fund, LP, the Tessera QP Fund, LP (both onshore funds) and the Tessera Master Fund, L.P. (collectively, the “Partnerships”). We also provide investment advisory services in our role as the investment manager of the Tessera Offshore Fund, Ltd. (the “Company”) and as sub-advisor to the PM Manager Fund SPC Segregated Portfolio 16 (the “SP16”). The Partnerships, the Company and the SP16 are collectively referred to as the “Funds” or generally and individually as a “Fund” and the Partnerships and the Company are collectively referred to as the “Tessera Funds”. The Tessera Fund, LP launched in November 2004. The Tessera QP Fund, LP and the Tessera Offshore Fund, Ltd launched in January 2007. The Tessera Master Fund, L.P. was launched in March 2011. At that time, the Tessera QP Fund, L.P. and the Tessera Offshore Fund, Ltd. began to execute their investment strategy as feeder funds to the Tessera Master Fund, L.P.

### Advisory Services

We provide investment supervisory services to the Funds. Our investment advice to the Funds is tailored to the Funds’ investment objectives and restrictions as disclosed in the Funds’ respective offering documents. We do not provide investment advice tailored to the particular needs of the investors in the Partnerships. As of February 29, 2016, we had approximately \$608,200,000 in net assets under management (“AUM”). We exercise discretionary investment authority over all managed assets held in the Funds. RK Capital, its principals, and certain employees of RK Capital maintain investments in the Tessera Funds. These investments are included in the AUM number shown above.

The Tessera Funds are long/short equity hedge funds and the SP16 is a separately managed account (an “SMA”). The Tessera Fund, L.P., the Tessera Master Fund, L.P. and the SP16 invest primarily in publicly traded, U. S. listed equities of small capitalization (“small cap”) companies. The Tessera QP Fund, L.P. and the Tessera Offshore Fund, Ltd. execute their investment strategies through direct investment in the Tessera Master Fund, L.P. We may invest in other securities and securities of other market capitalizations, but our primary focus is domestic small cap.

We generally manage all the Funds using a similar strategy as outlined in each of the Funds’ offering documents. This is known as “pari passu” or “in an equal manner, without preference.” However, there may be some slight differences or exceptions. For example, Initial Public Offerings (“IPOs”) of shares of issuers may be treated differently depending on the intent of clients and/or their underlying investors. Certain clients or underlying investors may elect to participate in a limited basis in the gains from IPOs and other clients or underlying investors may elect to not participate at all in the gains from IPOs.

As well, clients who desire differing levels of leverage or position size differences may elect to place their assets into SMAs. In such a case, the investment activities and restrictions are governed by a separate investment

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<sup>1</sup> Registration with the SEC of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you may use to determine whether to hire or retain an Adviser.

advisory agreement or sub-advisory agreement. In all Funds, position sizes are determined using our standard model where an investment weight is determined by the investment team. Trades are calculated using the same position size for each Fund to reach the target weight. In cases where an SMA requires larger position sizes, the target weight is determined by taking the weight generated by the investment model and upsizing it by the required factor for the SMA. For example, if the target weight for XYZ stock is determined to be 1.00% and the SMA has a required upsize factor of 20%, the target weight in the SMA will be 1.20%. Currently, the SP16 requires larger position sizes. It is unlikely that differing levels of leverage or larger position sizes alone would create a conflict of interest where one Fund may be favored over another Fund.

## **Item 5 – Fees and Compensation**

The specific manner in which fees are charged by RK Capital is established in a client's written agreement with us. We generally charge investors a 1.5% annual management fee payable monthly at the rate of 0.125% for those investors who invested on or before April 1, 2014, and a 2.0% management fee payable monthly at a rate of 0.167% for those investors who invested after April 1, 2014. Separately managed accounts may negotiate differing fee arrangements. Fees charged to the Tessera Funds are calculated and payable in advance at the beginning of each calendar month, using the prior month's ending net asset value after taking into account any subscription and/or redemption activity (but without the accrual of any performance fee, which is discussed later). On the first day of the month, fees are deducted from each client's account, or are recorded as a payable to us. The management fees credited to us are available for withdrawal at our discretion. While fees charged to the Tessera Funds are deducted at the beginning of the month, we do not foresee an instance where any refund of such fees would be required since any redemption notice period is not less than 30 days. Fees charged to the SP16 are paid in arrears based on the end of month assets of that client.

In certain circumstances fees may be negotiable. We, at our sole discretion may alter, reduce, or waive any portion of the management fee as to any investor, employee, principal, or our affiliate, or their respective family members, trusts, foundations, or affiliates.

In addition to management and performance fees, clients are subject to other fees and expenses including, but not limited to, brokerage and transaction costs, audit fees and fund administration costs.

RK Capital and our employees do not accept compensation from any party for the recommendation or sale of any security or investment product.

Refer to **Item 6** below for more detailed information regarding performance-based fees. **Item 12** further describes the factors RK Capital considers in selecting or recommending broker/dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

As the investment manager for the Funds, RK Capital may be entitled to an annual performance fee – in most cases 20% of net profits during a calendar year. Separately managed accounts may negotiate differing performance fee arrangements. The performance fee is described in more detail in the offering memorandums specific to each Tessera Fund or in the subadvisory agreements specific to an SMA.

At our discretion, we may alter, reduce, or waive any portion of the performance fee applicable to any shareholder, partner, employee, principal, or our affiliate, or their respective family members, trusts, foundations, or affiliates.

Our performance fees are subject to a “high water mark” limitation. A “high water mark” determines if any performance allocation may be assessed. Thus, after the first year in which a performance allocation is earned, the performance allocation for later years only applies to the extent that an investor’s pro rata share of net profits measured on a cumulative basis, net of any losses, for all years since admission exceeds the highest level of cumulative net profits achieved through the close of any prior year since admission. If an investor makes a withdrawal at a time when his capital account balance is below its historic “high water mark” level, the level is ratably reduced to reflect the withdrawal.

The performance allocation is generally calculated and charged to each Limited Partner at the end of each fiscal year. A performance allocation is also calculated and charged (i) with respect to any investor permitted or required to withdraw, and (ii) with respect to an investor making a partial withdrawal of the investor’s capital account, as of any time other than the close of a year on the basis of net profits allocated to the Limited Partner through the withdrawal date (but only with respect to the amount withdrawn on a pro rata basis if there is a partial withdrawal).

. A more detailed discussion of the high water mark can be found in each Tessera Fund’s respective offering documents. Details regarding the high water mark for the SP16 are found in the subadvisory agreement for the SP16.

In measuring clients’ assets for the calculation of performance fees, we include realized and unrealized capital gains and losses. Performance fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. As all the Funds are managed *pari passu* (with the SP16 having larger relative position sizes as noted in **Item 4** above), there is a minimal likelihood of a conflict of interest where one client may be treated differently than another with respect to performance fees.

## **Item 7 – Types of Clients**

RK Capital provides portfolio management services to pooled investment vehicles, specifically hedge funds and separately managed accounts. Generally, the Tessera Funds have a minimum initial investment of \$500,000. The SP16 has a minimum initial investment amount of \$250,000. We have a minimum initial investment of \$25,000,000 for a new client. However, client and investor minimums, if applicable, may be altered or waived at our sole discretion.

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

RK Capital’s primary method of analysis and investment strategy involves conducting fundamental research on publicly traded companies in an effort to uncover attractive investment opportunities. Because we invest both long and short, we search both for stocks we think will increase in value and for stocks we think will decline in value – either on an absolute basis or at times relative to other stocks.

Through our research process, we attempt to identify discrepancies between our estimate of fair market value and the actual market price. Generally speaking, if our research suggests an estimate of fair market value that is materially *above* the current market price, we may conclude to make an investment in that company (or in other words, establish a “long” position in the publicly traded stock of that company) with the expectation that the stock price will *rise* over time (to a price that may be closer to our estimate of fair market value). Conversely, if our research indicates an estimate of fair market value that is materially *below* the current market price, we may conclude to sell short shares in that company (or in other words, establish a “short” position in the publicly

traded stock of that company) with the expectation that the stock price will *fall* over time (to a price that may be closer to our estimate of fair market value).

RK Capital utilizes a variety of research methods in conducting its fundamental research. We may use, among other methods, any or all of the following:

- review, study and analysis of public company filings – such as SEC filings;
- review, study and analysis of company sponsored information such as press releases, presentations, product descriptions, etc.;
- attendance and meetings with public company executives at industry conferences;
- visits to company locations and meetings/interviews with senior management of target companies (by target companies, we are referring to companies in which we are already invested or considering investing);
- visits with senior executives of target companies in our office in Denver;
- regular dialogue with company executives via telephone and email;
- conversations and interviews with industry experts, such as brokerage research analysts;
- research on the target company's customers, suppliers, competitors and partners;
- participation in public company conference calls and review of transcripts of such calls;
- use of various investment software – such as Bloomberg – which aggregate and organize historical company and industry financial data and disclose industry analyst estimates of future company revenues or profits;
- use and study of published research from various brokerage firms on subjects including publicly traded companies, industries, sectors or broader research such as research on small cap equities;
- analysis of historical company and industry financial data; and/or
- proprietary forecasts of future profits and cash flow of target companies.

A majority of the investment candidates in the Fund's long portfolio will be small-cap U.S. equities, generally those having market capitalizations under approximately \$2 billion. While the Fund's short portfolio may be comprised of companies of all capitalization sizes, including mid- and large-cap companies, a significant portion of the positions will generally be small-cap. Our investment horizon varies but is generally several months to several years. From time to time, our investment horizon may be shorter. Our investment strategy includes buying and selling short publicly traded equities but may include trading options and other instruments. We may use margin to trade securities.

These strategies may result in reduced investment performance due to higher brokerage and transaction costs. As well, certain of the small cap stocks in which we invest may be thinly traded and may place limitations on our ability to exit a position either when executing a portfolio strategy or when necessary to raise capital for redemptions. Such occurrences could have a negative impact on investment performance.

The Funds' investing activities may involve a high level of trading, generating significant position and portfolio turnover which may in turn lead to substantial transaction costs and/or tax liability. The Funds may engage in this level of trading activity regardless of their profitability and/or tax consequences.

It is important to note that investing in securities involves risk of loss that clients and their investors, if applicable, should be prepared to bear. An investment placed with RK Capital is speculative, may not be suitable for all clients or their investors, and is intended for sophisticated clients and their investors who can accept the risks associated with the Funds' investments.

All investment programs have certain risks that are borne by the clients. Our investment approach keeps the risk of loss in mind. Clients face the following investment risks:

- Liquidity risk – Low trading volume and small floats (i.e. a small number of shares that are freely tradable) can lead to large bid/ask spreads and difficulty entering or exiting a position.
- Delisting risk – Stocks may be taken off an exchange because they fail to meet financial and technical specifications established by the stock exchange, such as minimum market capitalization or minimum trading volume requirements. A delisting decreases a stock's following and liquidity; however, it usually continues trading on the OTCBB.
- Volatility risk – Small-cap stocks tend to have greater standard deviations.
- Competitive risk – Small-cap companies may not be as financially sound as more well-established companies, and may face a competitive disadvantage in regards to economies of scale.
- Information risk – With less or no research coverage, a good company that is underpriced may not be discovered (value trap), and an apparently good company may be overvalued.
- Market Risk: The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil companies depend on finding oil and then refining it - a lengthy process - before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Use of Leverage: As noted above, margin may be used in the management of client accounts. Leverage may increase client returns; however, the use of leverage exposes clients to additional levels of risk including: (i) greater losses from investments than would otherwise have been the case had leverage not been used; (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions; (iii) losses on investments where the investment fails to earn a return that equals or exceeds the cost of leverage related to such investments; and (iv) fluctuations in interest rates on borrowings may have a negative effect on profitability. In case of a sudden, precipitous drop in the value of a client's assets, RK Capital may not be able to liquidate client assets quickly enough to repay borrowings, which could further magnify losses. Our investment portfolios are monitored by the portfolio management team.

RK Capital employs some or all of the following risk management strategies as part of the portfolio monitoring process:

- Avoidance of stocks that trade on short-term psychology rather than earnings and fundamentals;
- Beta-adjusted market/sector/industry/position real-time monitoring;
- Liquidity controls – ownership hurdles and real-time monitoring;
- Price targets and sell (close-out) discipline;
- Collaborative decision-making process and veto power;
- Diversification across sectors, industries, market caps and investment styles;
- Position size limits;

- Sector and industry exposure limits;
- Normally net exposure of 25-75%; and/or
- The beta of the Funds is typically well below 1.0.

A more complete discussion of risk factors specific to an investment in the Funds is included in offering memorandums specific to each Fund. Investors should review the appropriate offering memorandum in detail prior to making an investment decision.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of RK Capital or the integrity of our management. RK Capital has no disclosures applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Mr. Sonnett is a director of Tessera Offshore Fund, Ltd. and a member of the Board of Advisors to Tessera Master Fund, L.P.

No principals or employees of RK Capital are registered, or have an application pending to register as a broker/dealer or registered representative of a broker/dealer.

## **Item 11 – Code of Ethics**

All our employees are governed by, and must comply with our Code of Ethics (the “Code”) which is intended to protect each investor’s interest consistent with the Advisors Act, Rule 204A-1. Our Code is designed to uphold compliance with applicable laws and regulations; maintain integrity, honesty, loyalty, and good faith; prevent improper conduct; and to eliminate or reduce conflicts of interest. Our Code prohibits, limits, restricts, or avoids insider trading, improper gifts, outside employment, political contributions, and self-dealing.

Under the Code, each of our employees must comply with our written personal securities transaction policy (the “Policy”), which restricts all supervised persons’ activity related to trading of equity securities. No decision making authority person (a “DM” as defined in the Policy) may trade (except for pre-existing securities positions or related person employer securities) individual equity securities in any account in which they have beneficial interest (direct or indirect), discretionary control, and/or significant influence. DMs include all portfolio managers, assistant portfolio managers, and senior analysts.

While we strongly discourage non-DM access persons from trading individual equity securities, we may permit it, at our discretion, in an account but only under the following rules, procedures, and standards:

- No non-DM access person shall execute trades (buy, sell, sell short, buy to close) in any security in which any of the Funds either maintain a position (long or short) or in which we contemplate (based on all currently available information in our possession) could become a Fund position in the near future (defined as the next five (5) trading days).
- All reportable securities trades in any supervised person’s account must be pre-approved in writing by our chief compliance officer (the “CCO”). Any securities trades by the CCO must be pre-approved in writing by the back-up CCO.



- All supervised persons are required to report security holdings in brokerage accounts at least annually and must arrange for copies of statements and confirmations to be sent by their brokerage firms directly to the CCO.

Due to the nature of our investors, we may trade in securities our Funds' investors may issue, which may create a conflict of interest. If we become aware of an investor's position with a publicly-traded company, we will add that company to our list of names in which we may not trade (our "restricted list"). Having names on the restricted list may lead to the loss of investment opportunities beneficial to the fund.

Violations of the Code must be reported promptly to our Chief Compliance Officer, who is primarily responsible for administering the Code. Violations of the Code may result in sanctions up to and including termination of employment.

Copies of our Code are available at no cost to investors upon written request to [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com) or to *Investor Relations, RK Capital Management, LLC, 3033 E. 1<sup>st</sup> Avenue, Suite 401, Denver, CO 80206*.

As described in **Item 10** above, we may offer potential investors an opportunity to invest in a private investment partnership or offshore exempted company where we or a related person are the general partner or investment manager.

## **Item 12 – Brokerage Practices**

### **Investment Discretion**

Generally, we have authority to determine, without obtaining client consent, the securities to be purchased or sold, the amount of the securities to be purchased or sold, the broker/dealer to be used, and the commission rate applicable. We have complete discretion over the amount of assets to allocate to any investment and which securities will be bought or sold within the guidelines of the limited partnership and investment management agreements without obtaining specific investor consent.

Certain of our portfolio managers, employees and/or their related persons invest in the Partnerships and the Company but not in the SP16. These investments may create the appearance of or an actual conflict of interest as it could appear that the portfolio managers may have an incentive to favor the accounts in which they have an investment. However, positions in the Funds are allocated *pari passu* and are not allocated differently based on varying expectations of returns.

We manage the Tessera Funds similarly with the intent of holding the same investments at similar position sizes across the Funds (with the SP16 having larger relative position sizes as noted in **Item 4** above). In these cases, trades are allocated based on the size of each Fund with the separately managed account allocated a proportionally larger share size as described in **Item 4** above.

### **Brokerage Discretion**

We have discretion over the selection of the broker/dealer(s) to be used and will negotiate the commission rates to be paid. We seek to obtain best execution when we determine the broker/dealer(s) to be used for a particular trade by the Funds. Best execution involves many factors including obtaining the best price for execution services. In addition to best price, best execution may involve the full range and quality of a broker's services including significant factors like the number, quality, and relevance of company meetings offered; access to and attendance at research conferences; and one-on-one meetings at conferences.

Additional factors we may consider include, but are not limited to:

- the efficient placement of orders;

- clearance settlement;
- overall execution quality;
- promptness of execution;
- promptness and accuracy of oral, hard copy, or electronic reports of execution;
- ability and willingness to correct trade errors;
- ability to access various market centers;
- the market where the securities trades are executed;
- any expertise the broker/dealer may have in executing trades for particular types of securities;
- commission rates;
- reliability;
- soft dollar/client commission programs;
- execution and operational capabilities and its clearing firm;
- financial condition, creditworthiness and business reputation; or
- our overall assessment of a broker/dealer and the resultant “tier” of the broker/dealer as determined in our periodic broker review meetings.

We evaluate whether the broker/dealer’s service or product provides lawful and appropriate assistance to us in fulfilling our investment decision making obligations. It is difficult if not impossible to place a dollar value on the research services we receive from broker/dealers effecting transactions in the portfolios. Consequently, broker/dealers we select may be paid commissions for effecting portfolio transactions in excess of amounts other broker/dealers would have charged for effecting similar transactions. We allocate transactions to broker/dealers for execution on markets and at prices and commission rates which in our good faith judgment are in the best interest of the client. We regularly and periodically evaluate the quality of these brokerage services. Consistent with our policies and procedures, we will obtain brokerage services only from those firms which meet our acceptable standards with consistent reliability.

Analysts, officers, or other employees of broker/dealers may invest in any of the Funds, and their employer may conduct trades for the Funds. While this may create either the appearance of or an actual conflict of interest, we allocate transactions to broker/dealers seeking the best overall qualitative execution according to the factors previously described in the best interest of the client and not based on any investor’s investment in any of the Funds.

#### **Aggregate and Program Trades**

We attempt to manage the Funds as if they were a single fund. The investment strategy and decisions made for each Fund are generally the same in percentage terms. Except for unique monthly subscriptions and redemptions, investment positions in each Fund represent nearly the same percent of Fund assets (with the SP16 having larger relative position sizes as noted in **Item 4** above). There may also be with de minimis differences due to Fund level costs or benefits, investor flows and such as expense items or withdrawal penalties.

When initial orders are placed for new long or short positions, the investment is generally determined to be a certain target percentage size of the beginning of day assets of each Fund. The percentage is generally targeted to be as close to the same as possible for each Fund. As the Funds are managed similarly, we normally aggregate, or “bunch” trades for all Funds in one trade and then allocate the trades using beginning of day assets, so the percentage weighting of the investment in each Fund should be nearly identical (with small differences generally due to rounding orders and allocations to the nearest 100 shares). At times, these trades are done in a “program” fashion whereby a list of trades is given to a broker to execute. The Funds participating in these aggregated transactions each receive the same price and commission per share. If an aggregated order is filled

at different prices during a trading day, each Fund will pay or receive the same average price and pay the same commission rate for the transaction. If an aggregated order is partially filled during a trading day, securities will be allocated on a pro-rata basis among the Funds using beginning of day assets.

At times, we may rebalance share allocations between the Funds utilizing periodic rebalancing transactions. Such transactions experience market exposure. This market exposure may result in differences in execution between Funds.

### **Soft Dollars**

It is likely that from time to time we may pay a commission that exceeds the commission another broker/dealer would have charged. These higher commissions are paid complying with Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), and to compensate the broker/dealer for providing us with research and brokerage services (commonly referred to as using "soft dollars"). Research services can include access to analysts and traders, sponsored meetings with corporate executives, conferences, written reports and other services provided to us regarding companies, industries, market factors and other topics.

In 2015, RK Capital used soft dollars to obtain research, market commentary and insights related to, and including but not limited to:

- the global and national investment climate in general;
- macro investment strategy;
- equity strategy;
- quantitative analysis;
- historical market information;
- industry, sector and thematic research;
- companies and ideas;
- analysis of the investment climate; and/or
- analysis of political and regulatory trends and the impact on the markets, sectors and industry.

At times we may utilize broker/dealers who may provide low cost trade execution services but we pay that broker commission dollars beyond the pure execution costs. This is referred to as a commission sharing agreement. At the time of these trades, the broker/dealer receives both the portion of the commissions to compensate it for execution of the trade and also the portion of commissions beyond execution costs. The additional portion is credited to a broker share account for the purpose of purchasing research and brokerage services (using soft dollars) from other non-executing brokers (third parties).

Trading commissions are generally charged to each Fund on a pro-rata basis and, as such, soft dollars are generally charged to each Fund on a pro-rata basis. In the event of rebalancing due to investor subscription and redemption activity, certain Funds may be charged more or less than a pro-rata allocation of soft dollars. Even if such an instance occurs, all soft dollars are used for the benefit of all Funds managed by RK Capital. We believe that since all Funds use a similar investment strategy the allocation of these expenses on a pro-rata basis is appropriate since all Funds derive a similar benefit.

We allocate soft dollars to non-executing brokers to obtain research or brokerage services as permitted under the Exchange Act. The executing broker is solely obligated to pay non-executing brokers that provide research or brokerage services to RK Capital. The soft dollars in the broker share account cannot be used for any other services or obligations beyond those permitted under the Exchange Act. If any services are outside the parameters of the Exchange Act, we will pay for these services using RK Capital funds.

In addition, RK Capital has chosen in the past and may continue to choose to pay for various services directly rather than using soft dollars, even though payment of such services using soft dollars is permitted under the Exchange Act. We regularly and periodically review the amount and quality of research and brokerage services received from brokers. These reviews are in an effort to make a good faith determination that the soft dollar allocations are reasonable in relation to the value of the brokerage, execution, and research and brokerage services provided to us. Amounts allocated to particular research providers as a result of the review are paid directly to the providers from the broker share accounts established for the purpose of segregating soft dollars. Payments are made once the research providers present an invoice for payment to the broker share account. The broker share accounts are reconciled monthly and reporting is provided to certain members of the RK Capital research team.

Soft dollars can provide a benefit to RK Capital when these funds are used to obtain research products, as we do not have to produce these products on our own or pay for them using our funds. We may have an incentive to select firms for execution services based on the research products they provide. In some instances, the trade execution we receive may be less favorable than that which we could have received elsewhere. To help mitigate such a conflict, we have developed a process where we rate individual firms based on a variety of inputs. (See Brokerage Discretion section above in **Item 12** regarding factors for selecting broker/dealers).

We negotiate and determine all commission rates with the executing low cost broker as well as with all other brokers to determine if they are competitive with commissions paid for similar services. Research that we obtain generally benefits all of the Funds equally rather than just the one Fund executing a trade. Clients and their investors, if applicable, should consider if our use of soft dollars creates an actual conflict of interest arising from our receipt of research and brokerage services.

Our prime brokers, in addition to the range of services they offer, which include but are not limited to qualified custodial services and research services, may also provide capital introduction services on occasion. These services would generally involve introducing potential investors to the Funds. This service may create an incentive to select a broker that may not otherwise be selected were such a decision based solely on trading execution. We attempt to monitor trading execution and the value of research services on a regular basis and such consideration is the primary determinant of which broker is selected and utilized. Capital introduction is not a consideration in selecting brokers.

RK Capital does not solicit client referrals in exchange for using brokerage services. As well, our clients are not permitted to direct brokerage.

### **Item 13 – Review of Accounts**

The Investment Team reviews and manages the portfolio of investments on a real-time basis. In addition to regular team meetings, events in the markets or the world with the possibility of affecting the portfolio trigger ad-hoc meetings and discussions. Our Chief Compliance Officer reviews client account transactions on an ongoing basis to determine if they are in conformity with investment objectives and guidelines. These reviews generally consist of comparing actual statistics against contractual or other pre-determined guidelines. Operations staff review and reconcile the portfolio on a daily basis, but no formal reports are issued to the Tessera Funds themselves.

Separately managed accounts, like the SP16, will generally receive monthly account statements from their custodian(s) and administrator(s). RK Capital recommends the investment advisors to separately managed accounts carefully review such statements and compare them against reports received from RK Capital and/or the client's administrator(s).

The Tessera Funds' independent administrator, Mitsubishi UFJ Fund Services, Ltd, provides written acknowledgements to investors confirming subscriptions and redemptions and prepares monthly capital statements, which are made available to each investor. The capital statements indicate estimated capital balances and all subscription and redemption activity for the corresponding period. These statements are generated using information and data from the Tessera Funds' prime brokers (i.e. qualified custodians). Investors also receive other reports including periodic fund performance reporting, fund snapshots, assets under management, annual audited financial statements and tax information (tax information is only applicable to the two onshore funds). RK Capital urges investors to carefully review these statements and reports.

We also provide to the investors of the Tessera Funds and to our separately managed accounts a monthly statistical summary and a quarterly update letter, which provides commentary on the Tessera Funds and RK Capital Management, LLC. Certain information is only reported in relation to the Tessera Fund, L.P., as all Funds are managed similarly under the same strategy (with the SP16 having larger relative position sizes as noted in **Item 4** above).

At least annually we provide to the investors of the Tessera Funds audited financial statements of the Tessera Funds and information regarding valuations, profits, gains, and losses. In addition, we provide each investor in the two Partnerships tax-related information on an annual basis. Each investor may also receive upon written request, at no charge to the investor, a copy of our Form ADV Part 2A, a copy of our proxy voting policy and procedures, and a listing of how we voted any proxies in the Funds.

As well, investors are invited to contact us at any time with inquiries related to the Funds or the investment adviser. RK Capital maintains a website ([www.rkcap.com](http://www.rkcap.com)) which has general information on the investment adviser and employee biographies.

Certain separately managed accounts receive customized monthly portfolio weightings reports, which contain information that is not included in monthly statistical summaries or quarterly update letters, which are provided to the investors of the Tessera Funds. As all accounts under RK Capital's management are managed pari passu, any separately managed account that receives a customized monthly portfolio weightings report will generally receive greater transparency than the investors of such funds into RK Capital's non-public portfolio transactions and holdings, including, in aggregate, the transactions and holdings of the Tessera Funds,. RK Capital has a potential conflict of interest in providing customized monthly portfolio weightings reports to separately managed account clients, since the provision of such information benefits RK Capital by allowing it to maintain its advisory relationship(s) with these clients, but exposes the Tessera Funds to additional risk as the information in such reports could be used to the detriment of the Tessera Funds. RK Capital manages this potential conflict of interest by contractually requiring any separately managed account client who receives a customized monthly portfolio weightings report to treat the information in such reports as confidential.

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

Other than as described in response to Item 12 – Brokerage Practices, RK Capital does not receive compensation from outside parties for providing investment advice to the Funds.

From time to time, RK Capital may engage third-party firms to assist in marketing efforts. Such firms use their own efforts and resources to identify investors for the Tessera Funds. Investors introduced to the Tessera Funds by a third-party firm acknowledge in writing their business relationship with the third-party firm.

In return for introducing investors to the Tessera Funds, the third-party firms receive a fee as compensation for these introductions. This fee amount is negotiated between the third-party firm and RK Capital and generally is derived from some portion of the management fees and/or performance fee which is earned by RK Capital with

respect to the introduced investors. Such payments are made under an agreement between RK Capital and the third-party firm.

### **Item 15 – Custody**

All client funds and securities are held at qualified custodians, who make account statements available to RK Capital daily via their websites. Each private fund client's administrator also provides account statements to RK Capital and sends official statements on behalf of the client to each of its investors on a periodic basis, generally monthly, to their address of record. Additionally, all private fund clients are audited annually by an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board. Audited financial statements prepared in accordance with generally accepted accounting principles are sent to all investors within 120 days of the end of the respective private fund client's fiscal year. Investors are urged to carefully review such audited financial statements and to compare them to any reports received by RK Capital.

Our custodians provide various record keeping services and perform, among others, the following functions: arrange for the receipt and delivery (if needed) of securities purchased, sold, borrowed, and loaned; make and receive payments for securities; take custody of securities; and take custody of all cash, dividends and exchanges, distributions, and rights accruing to an account; and the delivery of cash to the Funds' bank accounts.

Other funds to which we provide advice, such as SP16, may choose to engage their own custodian. In such a case, our interaction with a separate custodian is guided by our management and advisory or sub-advisory agreements with the other funds.

### **Item 16 – Investment Discretion**

RK Capital exercises discretionary investment authority over all managed assets held in the Funds. Discretionary authority is granted to us based on the applicable Funds' Investment Management Agreements and Offering Documents.

### **Item 17 – Voting Client Securities**

The Funds have granted voting authority for proxies to RK Capital. On behalf of the Funds, we vote proxies received from companies in relation to the securities owned in those Funds. Clients do not have the ability to direct how we vote proxies. A summary of our proxy voting policy follows. Clients may obtain at no cost a copy of our proxy voting policies and procedures upon written request. Clients may also obtain information from RK Capital about how we voted any proxies in the Funds by contacting us at (303) 394-0101 or [investor-relations@rkcap.com](mailto:investor-relations@rkcap.com).

#### **Purpose**

We have adopted written policies and procedures (the "Proxy Policy") that are reasonably designed to ensure that we vote proxies in the Funds' best interests. The Proxy Policy establishes a mechanism to address conflicts of interests between our clients and us. Further, the Proxy Policy establishes how you may obtain information on how we voted the proxies.

#### **Determination of Vote**

We generally vote all proxy requests we receive. When we vote, we determine how to vote after an evaluation of the proxy materials and any other information or data that may be necessary or beneficial in determining the

appropriate vote. We make every effort to further the Funds' best interests and vote consistent with our investment strategy. We will cast votes for proxies on a case-by-case basis and will generally vote in favor of matters which follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders, and/or in support of compensation plans that are commensurate with enhanced manager performance and market practices, among other factors.

#### **Resolution of any Conflicts of Interest**

If a proxy vote creates a material conflict between the Funds' and our interests, we will contact the Funds before voting the proxies. We will disclose the conflict to the Funds and obtain consent to continue to handle the voting responsibility, or relinquish our delegated right to vote and instead seek an outside independent proxy voting firm or other qualified independent group to make a determination of the appropriate vote.

#### **Item 18 – Financial Information**

RK Capital does not require or solicit prepayment of advisory fees six months or more in advance. We are not aware of any financial condition reasonably likely to impair our ability to meet contractual and fiduciary commitments to clients or prospective clients. We have not been the subject of a bankruptcy proceeding petition at any time during the past ten years.