

# First Principles Capital Management, LLC

140 Broadway, 21st Floor  
New York, NY 10005  
212 380-2280  
[www.fpcmlc.com](http://www.fpcmlc.com)

March 31, 2017

Firm Brochure/Part 2A of Form ADV

This brochure provides information about the qualifications and business practices of First Principles Capital Management, LLC. If there are any questions about the contents of this brochure, please call 212 380-2280. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. First Principles Capital Management, LLC is a Registered Investment Adviser. Registration does not imply a certain level of skill or training.

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

---

## **Item 2 - Material Changes**

This is the annual 2017 update of First Principles Capital Management, LLC's ("FPCM's") Form ADV Part 2A Brochure. There are no material changes since the 2016 Brochure was filed on March 31, 2016.

## Item 3 - Table of Contents

Item 2 - Material Changes.....	2
Item 3 - Table of Contents .....	3
Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation.....	5
Item 6 – Performance-Based Fees and Side-By-Side Management .....	7
Item 7 - Types of Clients .....	8
Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss .....	9
Item 9 - Disciplinary Information .....	14
Item 10 - Other Financial Industry Activities and Affiliations .....	15
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	16
Item 12 - Brokerage Practices.....	18
Item 13 - Review of Accounts .....	20
Item 14 - Client Referrals and Other Compensation.....	21
Item 15 - Custody.....	22
Item 16 - Investment Discretion.....	23
Item 17 - Voting Client Securities .....	24
Item 18 - Financial Information.....	25

## Item 4 - Advisory Business

First Principles Capital Management, LLC (“FPCM”), a Delaware limited liability company, was formed in June 2003 and registered with the SEC as an investment advisor. In September 2015, FPCM was acquired by AIG Capital Corporation (“AIG”), after which FPCM continues to operate as a wholly-owned subsidiary of AIG.

FPCM is a fixed income investment management firm providing customized separately managed accounts and targeted funds. FPCM clients include endowments and foundations, financial institutions, corporations, pension funds, family offices, high net worth individuals, and trusts. FPCM tailors separate accounts to specific client objectives where FPCM will work with clients to establish specific investment guidelines, including permitted investment instruments, which are incorporated in the investment management agreement.

FPCM also provides investment advisory services to banks and thrift organizations that would like guidance on the strategies and trading of securities that may also be the same strategies provided to other separate account clients and private funds.

FPCM acts as the sponsor, administrator, and investment manager of private funds. As the manager of the funds, FPCM provides investment advisory services to the funds with respect to investment assets of the funds. All fund strategies and investment policies are included in the Private Placement Memorandum for each fund. FPCM provides advice on a discretionary basis to the funds primarily in respect of investments in fixed income-related investments. The investment decisions and advice with respect to each fund are subject to each fund’s investment objectives and guidelines, as set forth in its offering documents.

In addition, FPCM has the right to enter into agreements, such as side letters, with certain underlying investors of the funds that may provide additional obligations on FPCM to the investors than what is provided to other underlying investors of the funds.

FPCM does not participate in wrap fee programs.

As of December 31, 2016, FPCM managed the following client assets:

	U.S. Dollar Amount
Discretionary	\$7,971,000,000
Non-Discretionary	\$ 604,000,000
Total	\$8,575,000,000

## **Item 5 - Fees and Compensation**

FPCM charges clients and private fund investors an investment management fee for the advisory services it provides. A number of factors are considered in determining the fees including, but not limited to, portfolio type, type of security held, portfolio size, client service needs, existing relationship with FPCM, and other factors deemed relevant by FPCM. The fees paid by separate account clients are set forth in a written investment management agreement and, for private fund investors, in the fund's subscription documents. The specific manner in which fees are charged by FPCM is stated in the governing documents. The terms of such governing documents supersede this Brochure.

FPCM may receive the following fee types:

- Percentage of Assets Under Management
- Fixed/Flat Fees

### **Annual Percentage of Assets Under Management**

FPCM may charge a percentage of assets under management fee for its advisory services. Such fee will be paid in arrears on a period subject to negotiation with the client (typically monthly or quarterly). This fee is negotiable, but will generally range from 0.20% to 2.50% annually. The fee to a particular client, along with the payment frequency and timing, will be detailed in the investment management agreement or fund subscription documents. Once fees are paid they are non-refundable.

### **Fixed Fees**

FPCM may charge a fixed fee for its advisory services. FPCM's fixed fee is negotiable based on the client's needs, payable over time. The services that may correspond to the designated fixed fee amount may vary. Advisory services that are anticipated to be more complex will generally warrant a higher fixed-fee amount. Less complex services may generally result in a lower fixed-fee amount. Fees typically range between \$200,000 and \$1,000,000, annually.

FPCM's fixed fee for providing advisory services is determined based on anticipated work to be done. Since FPCM cannot accurately determine the fee amount until learning about the client's financial circumstance, it is FPCM's practice to provide an initial, no obligation, no cost meeting in order to become familiar with the client's circumstances. FPCM will obtain information from the client verbally and on any current information gathering documents approved for use by FPCM. The information gathered during this session will assist FPCM in determining the fee amount for the client's advisory services.

### **Trade and Fund-Specific Expenses**

Clients typically bear expenses that are trade related ("Trade Expenses"), or a fund's administrative and operating expenses ("Fund-Specific Expenses").

Trade Expenses may include:

- brokerage commissions, mark-ups, mark-downs, spreads and other transactional costs;
- trade-specific external legal expenses and other third-party fees and expenses incurred in connection with the evaluation of prospective transactions;
- redemption fees charged by other funds (if any);
- interest expense;
- fees and costs incurred with respect to securing access to markets, investments and investment opportunities; and
- custody costs and expenses.

Fund-Specific Expenses may include:

- third-party legal, audit and tax preparation expenses;
- other professional fees, administrator fees, director fees, registered office expenses and taxes;
- regulatory expenses incurred in connection with the funds' ongoing compliance with any laws, rules or regulations currently in effect or adopted in the future; and
- all expenses incurred in connection with any threatened, pending or anticipated litigation, examination or proceeding or as a result of the fund's obligation to indemnify FPCM, its affiliates, the administrator and certain other parties against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, the funds.

### **Side Letters and Other Agreements**

FPCM and the funds have entered into (and may enter into in the future) side letters and other agreements granting more favorable rights or terms to certain investors, including affiliates of FPCM. These rights or terms may include:

- investment capacity rights to make future investments in a fund, other investment vehicles or managed accounts;
- special liquidity or redemption or withdrawal rights relating to frequency, notice, fees, expedited payment of redemption or withdrawal proceeds and/or other terms;
- limitations on paying redemptions in kind;
- notice of certain regulatory events with respect to FPCM;
- rights to receive reduced rates of fees; and
- limits on expenses that can be charged to such investors.

These agreements could create preferences or priorities for certain investors as compared to other investors.

FPCM or the funds may enter into these separate agreements without the consent of, or notice to, other investors. Investors are not entitled to participate in any special arrangement without the prior approval of FPCM. Investors not offered a special arrangement do not have any right or claim against FPCM or the funds.

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

FPCM, under certain circumstances, has agreed to charge performance-based fees in its relationships. These fees may be charged to a separate account client or to a private fund investor as stated in the governing documents. All investors in a fund who are charged a performance fee meet the “Qualified Client” standard as set forth in Rule 205-3 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”). These charges will be subject to the contract or agreement made with each client. The typical performance-based fee would be 15% - 25% of the net profits from the assets under management, but the calculation for such fee and the actual amount will be subject to negotiation as part of each client agreement. Once fees are paid they are non-refundable.

The following are examples of the fees and methodology for some particular client fee structures:

### **Performance Fee for Catena Capital, LLC**

FPCM is entitled to receive an incentive allocation, if earned, subject to the covenants of the operating agreement, at the end of each fiscal quarter; 10% of the portion of the net profits, if any, credited to the capital account of each member during the fiscal quarter will be allocated to FPCM and charged against each member’s respective capital account.

FPCM may also receive a deferred incentive allocation equaling 10% of the base amount for all accounting periods. This calculation method is included in the Private Placement Memorandum and the Operating Agreement for the fund.

“Side-by-Side Management” refers to the simultaneous management of multiple types of accounts. FPCM does charge performance fees on some of its investment advisory accounts or funds and charges a fixed dollar or fixed basis point management fees on other investment advisory accounts. To the extent that a performance fee based account holds the same securities as a different pure management fee based account there could be conflicts favoring the performance based account. FPCM addresses those conflicts by implementing a trade allocation policy which ensures that portfolio managers allocate eligible securities on a pro-rata basis and rotate those allocations when a full pro-rata allocation is not practical. FPCM will allocate such investments among client accounts in a manner that FPCM determines, exercising its judgment in good faith, to be fair and equitable, taking into consideration all allocations among such client accounts taken as a whole.

## Item 7 - Types of Clients

FPCM provides investment advisory services to clients that include, but are not limited to:

- endowments and foundations
- financial institutions
- corporations
- pension funds
- family offices
- high net worth individuals
- trusts
- private funds

FPCM provides investment management services to pooled investment vehicles operating as private funds that are offered to investors on a private placement basis. The investors who receive investment supervisory advice are primarily comprised of qualified institutional and high net worth investors who are financially sophisticated and able to bear investment risks.

Generally, FPCM shall impose an engagement balance or an annual minimum fee for its investment advisory services. Any deviation of these minimum investment amounts will be subject to manager's discretion and approval. FPCM's minimum investment size varies by fund for investment advisory services provided to the individual funds. All minimum investment amounts for private funds can be identified in the fund Private Placement Memorandum.



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

FPCM's fixed income investment philosophy is to:

- Pursue a solutions-oriented investment process by first understanding client objectives and constraints, then designing portfolios that meet those objectives. Because the firm focuses on customized and limited client-centric mandates, there tends to be familiarity with a client's circumstance and/or regulatory context.
- Align FPCM's interests with client interests in the form of our compensation, which is often directly linked to specific performance metrics or client objectives.
- Manage value-oriented portfolios by focusing on net realized risk adjusted cash flows to be earned over an investment horizon. This approach helps FPCM to avoid pro-cyclical market environments.
- Focus on investment goals, not the perpetuity of the investment business. The experience allows the firm to participate actively across multiple fixed income markets, cash and derivatives, including US Treasuries & Agencies, MBS, Corporate Credit, ABS and Municipals. This approach allows FPCM to act with confidence when it decides to return capital to clients when their objectives have been met.

FPCM has a solutions-oriented approach which allows it to tailor the investment management process for each portfolio, taking into account the investment objectives and guidelines established for each client. A more detailed description of the key aspects of the investment strategy that FPCM will utilize on behalf of the clients, a description of the types of investments in which the clients invest, and a discussion of risk management procedures are set forth in the governing documents of the clients.

The choice of market sector and securities within that sector is driven by fundamental analysis of the risk-return characteristics of that sector relative to other sectors, and by performing detailed, fundamental cash-flow and structural analysis of each fixed income instrument with respect to credit, pre-payment, and structure (senior/subordinated). Cash flows and structure differentiate fixed income from equity and other markets. FPCM combines this fundamental analysis with an understanding, and a view, of the technical supply and demand drivers in each of these markets to make final portfolio construction decisions. Although FPCM is attuned to these technical drivers, the firm is not a momentum driven manager, and does not pretend to predict when the market will realize that an asset is undervalued.

Portfolio managers make buy and sell decisions and execute the trades in each portfolio sector as part of the investment process for a given portfolio.

Proprietary research is very important to the investment process at FPCM. Portfolio managers and analysts perform their own fundamental credit, interest rate/curve, prepayment, and other structural analysis. FPCM has never relied solely upon external dealer research, credit ratings from rating agencies, third party dealer MBS pre-payment or other derivative models to draw final conclusions on how to position a portfolio. In fact, by understanding the weaknesses of third party models and analysis through

the benefit of our years of experience in these markets, combined with our understanding how the providers of research operate, FPCM is better able to benefit from the combination of proprietary research and access to third party research.

**Proprietary Research:** Internally generated models include options models, e.g., interest rate options, first-to-default structures on portfolios of names, etc. In addition to models, FPCM uses fundamental analysis of corporate credit, mortgage prepayments, structure of MBS, asset-backed securities or municipal bonds.

**Third party research:** FPCM utilizes published Broker/Dealer strategy and fundamental credit and equity research, specific vendor research such as “Capital IQ”, rating agency research, company filings, conference calls, monthly agency pre-payment data and RMBS remittance reports, models and data available through broker/dealer websites, Bloomberg, or other specific sources.

Many of FPCM professionals have experience in the derivatives marketplace and were among the founding members of various derivative businesses at J. P. Morgan.

FPCM makes extensive use of derivatives in mandates where applicable and prudent. FPCM utilizes all fixed income and credit OTC derivatives, including basis swaps, options, and first-to-default credit derivatives. Conversely, FPCM portfolio managers also understand when not to use certain derivatives, such as highly customized, illiquid derivative contracts, which make it difficult and sometimes impossible, to rebalance the portfolio when desired.

Each Investment process starts with a “top down” view of relative value of all sectors or sub-sectors permitted in the investment guidelines.

The “bottom up” process evaluates risk inherent in each security prior to purchase. Understanding individual security risk (credit–spread & default, liquidity, interest rate, prepayment, and other call risks) is crucial in avoiding loss and creating value.

FPCM believes that its investment process and its business model provide FPCM with a unique competitive advantage in the marketplace – ultimately benefiting its clients.

### **Risk of Loss**

*The following risk factors may not be applicable to all clients. For Fund investors, the offering documents contain descriptions of certain of the risks associated with client investments. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment. These risk factors include those risks FPCM believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by FPCM.*

**General Investment and Trading Risks.** An investment in the clients involves various degrees of risk, which vary depending upon the particular investment strategies. Depending upon the mandate FPCM could invest in financial instruments using strategies and investment techniques with significant risk characteristics, including (for certain clients) the risks of leverage, the potential illiquidity of financial instruments, and the risk of loss from counterparty defaults. There is no guarantee that a client will achieve its targeted returns.

**Interest Rate Risk.** The value of an interest-bearing investment will change due to changes in the general level of interest rates in the market. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income securities or instruments.

**Prepayment and Extension Risk.** The frequency at which prepayments occur on a client's investments will be affected by a variety of factors, including the prevailing level of interest rates. In general, "premium" loans and securities (loans and securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" loans and securities (loans and securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments.

**Credit/Market Risk of Corporate Securities.** FPCM may, for certain accounts, invest in high yield bonds, which are generally unsecured and may be subordinated to certain other obligations of the obligor. The lower rating of financial instruments in the high yield sector reflects a greater probability of default. Due to potential market volatility, the market value of such high yield bonds may vary substantially, from the price at which such high yield bonds were initially purchased. Investment grade debt securities, although generally of higher credit quality than high yield bonds, are subject to downgrade or default risk which could lead to price depreciation and loss due to changes in official NRSRO rating changes or anticipated credit downgrades. FPCM assesses credit quality of each obligor independent of official NRSRO ratings.

**Municipal Securities Risk.** Municipal securities can be significantly affected by political or economic changes, as well as uncertainties in the municipal market related to taxation, changes in interest rates, relative lack of information about certain issuers of municipal securities, legislative changes or the rights of municipal security holders. Municipal securities backed by current or anticipated revenues from a specific project or specific assets can be negatively affected by the inability to collect revenues for the project or from the assets.

**Liquidity of Futures Contracts Risk.** In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day.

**Non-U.S. Investments Risk.** A client's portfolio may include non-U.S. investments. Such investments require consideration of certain risks typically not associated with investing in the U.S. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the U.S. or non-U.S. governments, limitations on the removal of funds or other assets, policies of governments. In addition, settlement of trades in some non-U.S. markets may be slower and more subject to failure than in U.S. markets. There also may be less extensive regulation of the financial markets in particular countries than in the U.S.

**Leverage and Financing Risk.** In accounts where FPCM employs leverage, there is a risk of increased volatility and that explicit secured financing arrangements could require more collateral or be terminated in times of increased market stress.

**Derivative Instruments Risk.** FPCM may invest in derivative instruments for certain accounts. Generally, derivatives can be characterized as financial instruments whose performance is derived, from the performance of an underlying asset or assets. Types of derivatives include options, futures contracts, options on futures, forward contracts, and swaps.


Derivatives provide implicit leverage and therefore can be volatile and involve various degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives may permit FPCM to increase or decrease the level of risk, or change the character of the risk, to which a portfolio is exposed in much the same way as FPCM can increase or decrease the level of risk, or change the character of the risk, of the clients' portfolios by making investments in specific securities. Other risks that derivative instruments in general may entail include imperfect correlation between the value of such instruments and the underlying assets, known as basis risk, or the possible default of the other party to the transaction. Thus, the use of derivative instruments may result in losses greater than if they had not been used and may limit the amount of appreciation the clients can realize on an investment. Additionally, amounts paid from a client's assets as premiums and cash or other assets held in margin accounts with respect to derivative instruments are not otherwise available to the client for investment purposes.

Derivatives may be purchased on established exchanges or through privately-negotiated transactions referred to as over-the-counter ("OTC") derivatives. Economic payouts on exchange-traded derivatives generally are guaranteed by the clearing agency which is the issuer or counterparty to such derivatives. This guarantee is usually supported by a daily payment system (i.e., margin requirements) operated by the clearing agency in order to reduce overall credit risk. As a result, unless the clearing agency defaults, there is relatively little counterparty credit risk associated with derivatives purchased on an exchange. OTC derivatives are either exchanged-cleared, similar exchange-traded derivatives described above, or bilateral which is directly between two counterparties. Bilateral OTC derivatives contracts are subject to potential loss due to counterparty default. Daily variation margin payment requirements mitigate the severity of loss under a counterparty default scenario.

**Liquidity Risk.** The lack of liquidity in certain investments may significantly impede FPCM's ability to respond to adverse changes in the performance of such investments and may adversely affect the value of a client's interests. Because certain investments may be illiquid, FPCM's ability to promptly sell one or more such investments in response to changing economic, financial and investment conditions is limited.

**Liquidity of Fixed Income Markets Risk.** At times, the fixed income markets may experience significant reductions in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, FPCM may not be able to sell assets in the clients' portfolios or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of a client's portfolio, and may be difficult or impossible to hedge against.

**Counterparty Risk.** FPCM may establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit a client to invest in a variety of markets. The main risk is one of loss



due to non-performance of a counterparty in an existing financing or derivatives transaction due to default of that counterparty. The other type of risk is the opportunity cost of not being able to maintain a leveraged position due to a loss of secured financing for a particular securities position. A bankruptcy or fraud at one of the counterparties may cause a fund to lose its assets held by the counterparty or to be unable to access those assets for an extended period of time.

---

## **Item 9 - Disciplinary Information**

FPCM has no information to disclose. The firm and its employees have not been involved in any legal or disciplinary events that are material to a client's evaluation of FPCM's advisory business or the integrity of FPCM's management.

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

FPCM is registered as a commodity pool operator, and commodity trading adviser and certain persons are registered as associated persons. FPCM operates the funds pursuant to the requirements of Commodity Futures Trading Commission (“CFTC”) Rule Section 4.7. The CFTC does not pass upon the merits of a particular pool or upon the adequacy or accuracy of any offering memorandum or other disclosure statement.

FPCM and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

FPCM does not have business relationships with other investment advisors that create material conflicts of interest.

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

FPCM, we take great pride in our commitment to serving our clients' needs and the integrity with which it conducts business. Recently, the financial services industry has come under significant scrutiny, especially in the area of the inherent responsibility of financial professionals to behave in the best interests of their clients.

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, FPCM has developed a Code of Ethics ("Code") as a means of memorializing our vision of appropriate and professional conduct in carrying out the business of providing investment advisory services. The Code governs a number of potential conflicts of interest which may exist when providing advisory services to clients. This Code is designed to ensure that FPCM meets its fiduciary obligation to the clients (or prospective clients) and to instill a culture of compliance within FPCM. FPCM supplements the Code with on-going monitoring of personnel activity. All personnel must also comply with all applicable federal securities laws. Our Code addresses issues such as the following:

- Standards of conduct and compliance with applicable laws, rules, and regulations
- Protection of material non-public information
- The addressing of conflicts of interest
- Employee disclosure and reporting of personal securities holdings and transactions
- The firm's IPO and private placement policy
- The reporting of violations of the Code
- Educating employees about the Code
- Enforcement of the Code

FPCM's representatives have been furnished with a copy of our Code at the time of hire and have signed their names to a written acknowledgement attesting to their understanding of the Code and acceptance of its terms. All representatives are required to attest that they are in compliance with the Code on a quarterly basis. The Code is available to any current or prospective client upon request.

FPCM is the manager of private investment funds as well as separate account advisory clients. Both FPCM and its related persons may be investors in a fund that is a client of FPCM. Therefore FPCM, or related persons of FPCM, may purchase these private placement securities for themselves, as owners of their proportionate share of the funds that FPCM is also recommending to clients, which may be endowments and foundations, financial institutions, corporations, pension funds, family offices, and high net worth individuals. In these situations, where FPCM related persons are co-investing with other outside investors in a fund, there is an alignment of interests between FPCM related person investors and outside investors.



---

FPCM related persons are required to obtain pre-approval from the Chief Compliance Officer when purchasing a security which is on the firm's Restricted List, to ensure that there is no violation associated with the use of material, non-public information related to those companies. The policies and procedures regarding material non-public information are designed to provide for the proper handling of both material non-public information about companies or other issuers and proprietary information of FPCM and prevent violations of laws and regulations prohibiting the misuse of material non-public information about companies or other issuers and/or proprietary information of FPCM. There may be certain instances where FPCM receives material non-public information due to various activities on behalf of the clients and may be restricted from purchasing or selling securities or other instruments of or for the clients. FPCM will seek to minimize those cases whenever possible, consistent with applicable law, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

FPCM provides investment advisory services to clients primarily in respect of investments in fixed income-related investments. FPCM may agree to offer advisory services on an immaterial (in the context of overall assets under management) amount of individual equity assets, and FPCM will not participate in IPO's or "hot issues" when making recommendations or exercising discretion in investment advisory activities related to these equity assets.

FPCM representatives and related persons may hold/transact in equity or fixed income securities which are also held in client accounts with the stipulation that the client account has priority, whether there is a purchase or a sale. All FPCM representatives' and related persons' securities transactions are reviewed, a minimum, quarterly to ensure compliance with this rule. All of FPCM's client-related transactions are conducted at arm's-length with a registered broker-dealer.

## Item 12 - Brokerage Practices

FPCM has complete discretion, without obtaining specific client consent, to: (i) buy or sell investments; (ii) the amount of the investments to be bought or sold; (iii) the broker or dealer to be used in such purchase or sale; and (iv) the commission rates paid in connection with such purchase or sale.

From time to time, FPCM may suggest that clients use specific brokers, dealers, or banks for the purposes of the effecting of securities transactions. For details as to what factors FPCM may consider in selecting such institutions, see below.

FPCM will use unaffiliated firms to solicit investors for the purpose of distributing private placement securities managed by FPCM. Such firms shall generally be broker-dealers or banks that may also maintain registrations that allow such firms to engage in other types of businesses outside of their broker-dealer or banking activities.

FPCM's best execution policies require that a client's investments or trades be placed for execution only with approved brokers or dealers. FPCM maintains a list of approved broker-dealers eligible to effect the clients' transactions. The factors considered in selecting and approving brokers-dealers that may be used to execute trades for a client's accounts include, but are not limited to: (i) quality of execution – accuracy and timeliness of execution, clearance and error/dispute resolution; (ii) reputation, financial strength and stability; (iii) willingness to execute transactions on terms requested or required; (iv) access to investment opportunities; (v) on-going reliability; (vi) overall costs of execution (i.e., net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the firm's knowledge of negotiated transaction costs available in the market; (vii) nature of the investment or security and the available market makers; (viii) desired timing of the transaction and size of transaction; (ix) confidentiality of execution; and (x) market knowledge. In seeking best execution, the determinative factor is not always the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer or bank services. Accordingly, although FPCM will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for the client's transactions.

FPCM's general policies relative to the execution of the client's securities and brokerage transactions are as follows:

Transactions for the client's account generally will be effected independently, unless FPCM can purchase or sell the same securities for several clients at approximately the same time. FPCM may (but is not obligated to) combine or "batch" such orders when it determines, exercising its judgement in good faith, that batching is fair and equitable and would allow FPCM to obtain best execution and to negotiate more favorable transaction rates. To the extent that FPCM elects to aggregate client orders for the purchase or sale of securities, including securities in which FPCM's principal(s) and/or associated person(s) may invest, FPCM shall generally do so in accordance with the parameters set forth in SEC No-Action Letter, SMC Capital, Inc. When aggregating orders, all clients will be treated in a fair and equitable manner, trades will be allocated on a timely basis, transaction prices and costs will be averaged and allocated *pro rata* among all funds participating in a trade, and accurate and complete records of all batched trades will be maintained. Partially filled orders may be allocated *pro rata* or rotating basis subject to dollar

minimums and other client restrictions. FPCM shall not receive any additional compensation or remuneration as a result of the aggregation.

The client may direct FPCM to use a particular broker, dealer, or bank (subject to FPCM's right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such an event, the client will negotiate terms and arrangements for the account with that broker-dealer, and FPCM will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other brokers, dealers, or banks with orders for other accounts managed by FPCM. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Consistent with obtaining best execution, transactions for a client's account may be effected through other brokers, dealers, or banks in return for execution, research products and/or services, which assist the Firm in its investment decision-making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by client may be used to pay for research that is not used in managing the client's account. The account may pay to a broker-dealer or bank a commission greater than another qualified broker-dealer or bank might charge to effect the same transaction where the Firm determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received.

All transactions for clients where such "soft dollar" transactions will be effected shall be in compliance with Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Currently, FPCM does not enter into soft dollar arrangements.

FPCM strives to ensure that trades are executed in a timely and accurate manner. Yet, in the course of carrying out trading and investing responsibilities on behalf of the funds, FPCM's personnel may make trade errors. Trade errors may include: (i) placement of orders (either purchases or sales) in excess of the amount of investment that FPCM intended to complete; (ii) the sale of an investment when it should have been purchased; (iii) the purchase of an investment when it should have been sold; (iv) the purchase or sale of the wrong investment; (v) the purchase or sale of an investment contrary to regulatory restrictions or the investment guidelines or restrictions of a client; and (vi) incorrect allocation.

FPCM endeavors to detect trade errors prior to settlement and correct them in an expeditious manner. If an error should incur, FPCM will reimburse a client for losses suffered as a result of a trade error caused by FPCM's bad faith, fraud, willful misconduct or gross negligence. Generally FPCM and its personnel will not be liable to any client for any act or omission, absent bad faith, gross negligence, willful misconduct or fraud. In addition, the clients will likely be required to indemnify such persons against any losses they may incur by reason of any act or omission related to a client, absent bad faith, gross negligence, willful misconduct or fraud. As a result of these provisions, such client (and not FPCM) will be responsible for any losses resulting from trading and allocation errors and similar human errors, absent bad faith, gross negligence, willful misconduct or fraud.

## Item 13 - Review of Accounts

FPCM will review the client's account(s) on a quarterly basis. A Designated Principal (identified below) or his/her designee shall review the client accounts for best execution, suitability, and service and to assess systemic, portfolio-level and position-specific risks.

Review with portfolio managers for best execution for all clients, both funds and individuals, will be conducted by a Designated Principal on a quarterly basis.

Reviews for suitability and service will be conducted in regularly scheduled meetings, at least once a quarter, with oversight by a Designated Principal.

Transaction suitability with respect to investment guidelines and client objectives will be reviewed.

For fund clients, a Designated Principal will review investment activity and compare executed transactions to the relevant fund document, such as Private Placement Memorandum.

For non-fund clients, the client's investment objectives will be used to review for suitability.

As part of the quarterly review, transactions that may not fit a particular client's stated investment objectives or FPCM's understanding of the client's objectives will be flagged and reviewed in more detail.

Investors in the funds receive unaudited reports on a monthly or quarterly basis, providing summary financial and other information about the fund in which they are invested. Investors in the funds receive audited financial statements of the fund in which they are invested annually.

Number of Reviewers: 5

Name and Title of Designated Principals:

Michael Baek, Managing Director

Richard Dolan, Chief Executive Officer

Robert Lewis, Managing Director

Stephen Miller, Chief Risk Officer

Mark Lieberman, Managing Director

---

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

FPCM may enter into agreements with various independent solicitors or limited partners (collectively “solicitors”) that refer investors for investment advisory services or to private investment funds for which FPCM provides investment advisory services. FPCM may charge investors introduced by solicitors a premium on the fees or costs charged by the fund versus other investors who were not introduced by the solicitors. Any such agreements must be handled in accordance with the provisions of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended.

## Item 15 - Custody

For all investment advisory accounts, clients receive either a regular monthly/quarterly statement from a qualified custodian or a monthly/quarterly report from the fund administrator. In the case where investors are receiving fund administrator statements, there is annual audit of the fund which is furnished to fund investors upon request. FPCM provides supplemental regular reporting, recognizing that clients should view custodian and fund administrator statements as their primary source of information.

In connection with the management of investments for certain investors, FPCM may have, or may be deemed to have, custody of certain funds or securities of clients. Rule 206(4)-2 (the “Custody Rule”) of the Advisers Act, defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client’s accounts or ownership of or access to client funds or securities (such as through fee deductions).

The Custody Rule imposes on advisers, with custody of clients’ funds or securities, certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, the adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle: (i) is audited at least annually by an independent public accountant; and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end.

## Item 16 - Investment Discretion

FPCM may exercise discretion over the following areas/items:

- The specific securities to be bought or sold on the client's behalf
- The amount of securities to be bought or sold on the client's behalf
- The particular broker or dealer to be used for arranging client securities transactions

FPCM will have general authority to exercise its full discretion on the above named factors without restriction. FPCM shall observe any specific limitations that may be imposed by the client in relation to this discretionary authority. The limits on the discretionary authority on securities and amounts to be bought or sold will be identified in the Investment Management Agreement and the operating policy statement and the investment objectives of the fund. The limits on the types of securities are to those available under the Investment Management Agreement and the operating agreement specific to each fund, which is a client. There are no limits on the amounts of such securities purchases.

FPCM will review brokers, dealers, and banks for their financial wherewithal and ongoing operational strength as part of making a decision on the purchase of investments from such firms. FPCM may operate in its full discretion to select such brokers or dealers because there may be only a few, select firms in which the value of products, research, and services to be given to FPCM are a factor in that FPCM looks to purchase the investment products that best serve the needs of the funds and FPCM's other clients. FPCM does receive research and services from such brokers, dealers, or banks; however, such factors are negligible in the overall discretionary decision to use such broker, dealer, or bank. Research is generally used; however, and each client typically is restricted to certain investment products, therefore, certain specific research or services received may only be applicable to a singular client.

---

## **Item 17 - Voting Client Securities**

FPCM may vote proxies on client securities depending upon the client agreement, and if permitted by the client. FPCM will endeavor to vote proxies in a manner consistent with the best interests of the clients. While the decision whether or not to vote a proxy must be made on a case-by-case basis, FPCM may determine not to vote a proxy if FPCM believes the proposal is not adverse to the best interests of the clients. FPCM has procedures and policies for voting proxies, a copy of which is available upon request.

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of its clients and not subrogate any client interests to its own interests. Rule 206(4)-6 under the Advisers Act places specific requirements on registered investment advisers with proxy voting authority.





## **Item 18 - Financial Information**

FPCM does not require or solicit prepayment of advisory fees.

FPCM does not have any financial conditions that are likely to impair our ability to meet any contractual commitments to clients.

FPCM has not been the subject of a bankruptcy petition at any time.