

**BROCHURE OF**  
**STONEWATER CAPITAL LLC**

A Delaware Limited Liability Company registered with the Securities and Exchange  
Commission as an Investment Adviser (CRD # 134195)

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**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF STONEWATER CAPITAL LLC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT 212-231-0040 OR JCANALES@STONEWATERCAP.COM.**

**NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION, NOR THE STATE OF DELAWARE, NOR ANY STATE SECURITIES AUTHORITY, HAS PASSED UPON THE ADEQUACY OR ACCURACY OF THIS BROCHURE. REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING. ADDITIONAL INFORMATION ABOUT STONEWATER CAPITAL LLC ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.**

The Date of this Brochure is

March 15, 2013

The delivery of this Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Brochure will supersede all other such documents containing information about our Firm.

**Item 2.**

**Material Changes**

There have been no material changes in the business operations, private funds, or investment philosophy and process of StoneWater Capital LLC in the last twelve months. There have been no material changes to the Principals of the firm or their backgrounds in the last twelve months.

**Item 3.**

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## I. Part 2A – FIRM BROCHURE

### Item 4. Advisory Business:

(A) **Operational and Organizational Information:** StoneWater Capital LLC (“Firm” or “StoneWater”), a U.S. Securities and Exchange Commission (“SEC”) registered investment adviser, is the investment manager of certain private pooled investment vehicles, currently: (i) StoneWater Capital Offshore Ltd, a Cayman Islands exempted company; (ii) StoneWater Capital Asia (Ex-Japan) LLC, a Delaware limited liability company; (iii) StoneWater Capital Greater China LLC, a Delaware limited liability company; and; (iv) StoneWater Capital Opportunities Fund LP, a Delaware limited partnership (collectively, “Funds”). StoneWater Capital Holdings, LLC, a Delaware limited liability company (“General Partner”), is the general partner of StoneWater Capital Opportunities Fund LP and has discretion over the management and administration of its business. The Funds invest with selected fund managers (“Underlying Funds” and/or “Managers”). As stated on the cover page of this Brochure, registration as an investment adviser does not imply a level of skill or training. Firm has been in business since December 13, 2004. The principal owner of Firm is Frank Brochin.

(B) **Types of Advisory Services Offered:** Firm provides investment management services to the Funds on a discretionary basis. The Funds operate as pooled investment vehicles that invest with Underlying Funds and Managers. Firm recommends investments in Underlying Funds and Managers that may include private investment funds and managed accounts. Firm also offers separately managed accounts. No assurance can be given, however, that the Funds or separately managed accounts will achieve their objectives, and investment results may vary substantially over time and from period to period. **Note:** For purposes of this Brochure, “Client” may include the Funds, investors in the Funds, and separately managed account Clients. “Limited Partners” refers to investors in the Funds.

Firm holds itself out as specializing in selecting investments in Underlying Funds and Managers. Please review Firm’s investment guidelines, specified immediately below under “Client Investment Guidelines and Parameters,” and Section 8, “Methods of Analysis, Investment Strategies and Risk of Loss.”

(C) **Client Investment Guidelines and Parameters:** Advisory services include among other things, providing advice regarding

asset allocation and the selection of investments. Decisions relating to investment advice are based on an analysis of the merits of the investment involved and on the investment guidelines and restrictions of the Client. Firm provides discretionary investment advisory services to all fee paying Client accounts.

The following is a general description of the principal types of trades and investments which Firm currently contemplates engaging in, certain techniques that it may employ, the investment criteria that it plans to apply, and the guidelines that it has established regarding the composition of its investment portfolio. The following description is merely a summary and you should not assume that any descriptions of specific activities are intended in any way to limit the types of investment activities Firm may undertake: For a separately managed account, Firm assists the Client in determining its investment objectives and needs, and the account is managed in accordance with those objectives and needs. Advisory services include among other things, providing advice regarding asset allocation and the selection of investments. The Funds operate as pooled investment vehicles that invest with Underlying Funds and Managers. Firm recommends investments with Underlying Funds and Managers that may include private investment funds and managed accounts that engage in all forms of securities and derivatives trading, and which invest primarily in developing Asia and emerging markets using a variety of investment strategies including, but not limited to, long-only equity, long-biased equity, long/short equity, fixed income arbitrage, event-driven, distressed debt, high-yield debt, and volatility trading.

- (D) **Wrap Fee Programs:** Firm does not participate in wrap fee programs.
- (E) **Client Assets Under Management:** *(rounded to the nearest \$100,000)*
  - (i) Discretionary: \$124,744,000 as of March 1, 2013.
  - (ii) Non-discretionary: \$0 as of March 1, 2013.

**Item 5. Fees and Compensation:**

- (A) **Generally:** All fees are individually negotiated. Circumstances considered when negotiating fees may include, without limitation, customary market rates, specialized guidelines, and other

performance/incentive allocation or fee arrangements with the Client.

Management fees for pooled investment vehicles and separately managed accounts are calculated based on a percentage of the value of the assets under management (referred to herein as “Management Fees”).

In addition, Firm may collect incentive allocations and/or fees based on the performance of investments. Please refer to Item 6, below, for a more detailed description of performance or incentive allocations and/or fees and related conflicts of interest.

- (B) **Payment of Fees:** Management Fees are billed periodically as specified in the relevant investment management agreement or applicable pooled vehicle transaction document.

*Funds:* The basic fee schedule for StoneWater’s services is a fixed monthly or quarterly Management Fee equal to an annual rate generally in the range of 1% to 1.5% of assets under management. Different fee structures may be negotiated under certain circumstances. Generally, StoneWater’s fees are payable quarterly in advance. Note that the Managers or Underlying Funds in which Funds invest normally will be entitled to a fee based on net assets under management of the applicable Manager or Underlying Fund (typically ranging from 1% to 2% annually).

*Separately Managed Accounts:* Firm charges Management Fees based on a percentage of the market value of the assets under management. Firm receives a mutually agreed upon Management Fee, as specified in the relevant investment management agreement, and Management Fees are billed as specified in the relevant investment management agreement.

- (C) **Additional Fees and Expenses:** The Funds shall pay or reimburse Firm and its affiliates for: (A) expenses incurred in connection with the ongoing offer and sale of interests, including, but not limited to, documentation of performance and the admission of Limited Partners; (B) all operating expenses of the Funds such as tax preparation fees, governmental fees and taxes, fees to the administrator, communications with Limited Partners, and ongoing legal, accounting, auditing, bookkeeping, consulting and other professional fees and expenses; (C) personnel costs of analysts who perform research and analysis for Firm; (D) in-house administrative personnel costs of Firm or its affiliates that are directly related to the Funds’ investment programs when such costs

are less than the costs of using outside administrative personnel for similar services (as determined by Firm in its sole discretion); (E) all research, due diligence on Managers and Underlying Funds and investment related costs and expenses (e.g., expenses related to the acquisition of information needed to evaluate, select and monitor Managers and Underlying Funds); (F) liability insurance for the General Partner, Firm and their members, officers, directors and employees (including, but not limited to, errors and omissions and directors and officers liability insurance); and (G) all fees and other expenses incurred in connection with the investigation, prosecution or defense (including costs of settlement and/or appeal) of any claims (made or threatened), assertion of rights or pursuit of remedies, by or against the Funds, including, without limitation, professional and other advisory and consulting expenses and travel expenses.

Separately managed account Clients will also bear any agreed upon expenses as set forth in the relevant investment management agreement.

- (D) **Fees Paid in Advance:** For the Funds, the Management Fee is generally payable quarterly *in advance*. For a separately managed account, Management Fees are billed as specified in the relevant investment management agreement.

***Termination of Services:*** Investment management agreements between StoneWater and its Clients generally will be terminable by either party upon written notice to the other party. If the agreement is canceled other than at the end of a quarter, StoneWater's fee for that quarter will be prorated based upon the number of days during the quarter that StoneWater rendered services to the Client and the balance of any advance fees refunded to the Client. Early withdrawal fees may apply. There may be restrictions on withdrawals with respect to illiquid investments held in side pocket accounts. Clients in the Funds managed by StoneWater may withdraw in accordance with the governing documents of the relevant Fund. For separately managed accounts, please refer to the applicable investment management for details.

- (E) **Additional Compensation of Supervised Persons:** No supervised person accepts compensation for the sale of securities or other investment products.

- (i) This practice presents a conflict of interest and gives Firm or its supervised persons an incentive to recommend investment products based on the compensation received,

rather than on a particular Client's needs. Firm endeavors to disclose herein all conflicts of interest which could impair the rendering of unbiased and objective advice. Lower fees for comparable services may be available from other sources. N/A

- (ii) All Clients have the option to purchase investment products that Firm recommends through other brokers or agents that are not affiliated with Firm and/or not used by Firm. N/A
- (iii) If commissions provide more than 50% of Firm's revenue or compensation, disclose: N/A
- (iv) Firm does/does not reduce advisory fees to offset the commissions and/or markups that it receives, as follows: N/A

**Item 6. Performance Based Fees and Side-by-Side Management:**

*Funds:* In addition to the Management Fee, Firm is compensated for its investment management services through an incentive allocation and/or fee, also known as a performance-based allocation and/or fee ("Performance Fee"). Under this arrangement, a Client will be charged a fee contingent upon the performance within the Client's account. Clients who reside in the United States and who are charged Performance Fees are required to be qualified clients as defined under the Investment Advisers Act of 1940 ("Advisers Act"). The Performance Fee will be tied to the capital appreciation within the account as evaluated at the end of each applicable period. The Performance Fee will be payable annually, in arrears. Firm shall also receive the Performance Fee upon any withdrawal by an investor, whether voluntary or involuntary, and upon dissolution of a Fund. However, the Performance Fee shall not include any change in the value of an illiquid investment held in a side pocket account, until such illiquid investment (or the proceeds thereof) is reallocated from the side pocket account to the capital accounts of participating Clients. The Performance Fee will be calculated in the range of 5% to 10% of profits, on an annual basis. Firm, in its sole discretion, may waive or reduce the Performance Fee with respect to any investor for any period of time, or agree to modify the Performance Fee for that investor. Firm may, in its discretion, reallocate a portion of the Performance Fee to certain investors. The Managers or the Underlying Funds in which the Funds invest may be entitled to performance compensation based on the appreciation (usually including unrealized appreciation) in the value of the respective Fund's account with the Underlying Fund or Manager (ranging from 0% to 20% of net profits).



*Separately Managed Accounts:* Firm may receive from Clients a mutually agreed upon Performance Fee, as specified in the relevant investment management agreement. Clients who reside in the United States and who are charged Performance Fees are required to be qualified clients as defined under the Advisers Act.

*Generally:* In order for Firm to receive a Performance Fee, Firm must achieve capital appreciation within the account. Firm will charge Performance Fees in adherence to a high water mark, which means that no Performance Fee will be earned unless the performance exceeds the previously achieved high water mark where Performance Fees were charged. The high water mark will be used in order to prevent a scenario whereby Firm could receive a Performance Fee merely for recouping prior losses. A full description of the entire fee arrangement will be disclosed to the Client in such Client's investment management agreement. Fees generally are deducted directly from the Client's account, as specified in the relevant investment management agreement. Firm's receipt of Performance Fees is intended to align Firm's interests with those of Firm's Clients and to provide Firm with a greater incentive to manage assets well. The nature of the Performance Fee, however, creates a potential conflict of interest among Firm, its associated persons, and Clients.

Such fees will be structured and charged in a manner consistent with the requirements of applicable law, including the Advisers Act and ERISA. An incentive fee arrangement may create an incentive for Firm to make investments that are riskier or more speculative than would be the case in the absence of a Performance Fee. Where any part of Firm's compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, Firm shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently. To the extent Firm values any such securities or instruments, it has a conflict of interest as Firm will receive higher Management Fees and Performance Fees if it gives such securities and instruments higher valuations. Firm does not represent that the amount of the Performance Fees or the manner of calculating the Performance Fees is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The Performance Fees charged by Firm may be higher or lower than the Performance Fees charged by other investment advisers for the same or similar services.

In addition, in the event that Firm manages an account from which it collects Performance Fees and also manages at the same time an account from which it does *not* collect Performance Fees, Firm has an incentive to favor accounts for which it receives Performance Fees because it will receive a greater profit from the accounts that are charged Performance

Fees. Therefore, Firm has an incentive to allocate investments that are expected to be more profitable to accounts from which it collects Performance Fees, on the one hand, and that are riskier on the other hand, since in both scenarios, Firm may receive greater fees if the investment generates a positive return. Notwithstanding the foregoing, Firm does not favor accounts that pay Performance Fees.

**Item 7. Types of Clients:**

Firm's Clients are separately managed accounts and private investment funds whose investors are individuals and institutions. The minimum investment in the Funds is \$1,000,000 and the minimum subsequent investment is \$100,000. The minimum investment for a separately managed account is typically \$25,000,000. In each case, however, Firm has discretion to accept lesser amounts.

**Item 8. Methods of Analysis, Investment Strategies and Risk of Loss:**

**(A) Methods of Analysis and Investment Strategies:**

*General:* Firm's investment objective is to provide investors with superior risk-adjusted long-term capital appreciation through a diversified portfolio of assets. Firm will offer the advantage of diversification among Underlying Funds that individual investors may not be able to accomplish directly due to such Underlying Funds' minimum initial investment requirements and limitations on the number of investors. In industry parlance, each Fund that Firm provides investment advisory services to is a "fund-of-funds." A fund-of-funds (or multi-manager fund) is a fund that allocates capital to more than one investment pool or other alternative investment vehicle (or investment manager). StoneWater's Funds are professionally staffed multi-manager funds that will seek to offer value through research, access to Managers and Underlying Funds, Manager and Underlying Fund selection and due diligence, and on-going monitoring processes.

The following description is merely a summary, and you should not assume that any descriptions of the specific activities in which Firm may engage are intended in any way to limit the types of investment activities which the Funds may undertake or the allocation of Fund capital among such investments. Firm reserves the right to alter any Fund investment policy or strategy as deemed appropriate from time to time in its discretion without obtaining prior Client approval.

The Funds will invest in a diversified portfolio of Underlying Funds managed by various managers selected by StoneWater, which will employ a wide range of investment strategies, both traditional and/or alternative, including, but not limited to, the following: equity long only, equity long-biased, equity long/short; fixed-income long/short; arbitrage, including equity, fixed-income or convertible arbitrage; event-driven; high-yield; distressed; merger arbitrage; volatility trading; and multi-strategy. StoneWater intends to screen, review and invest in these and other strategies on behalf of the Funds as it feels fit for the overall benefit of the investment portfolio. Firm intends to focus its efforts on Underlying Funds investing primarily in developing and emerging markets. Firm believes that significant inefficiencies can be found in such markets that may make it possible to generate superior risk-adjusted returns.

***Strategies of the Underlying Funds:*** StoneWater believes that an active allocation approach is critical in seeking to deliver consistently high returns. Strategies of Underlying Funds will include (but not be limited to) the following:

*“Equity Long Only”* and *“Equity Long-Biased”* are strategies that focus on long-term fundamental investing (“LTFI”). The typical characteristic of this management style is to invest like a private equity investor by having a two- to five-year investment horizon and seeking to optimize risk/return through the selection of companies with strong business franchises, attractive and growing markets, limited competition, strong excess cash flow, quality management, demonstrated respect for minority shareholders and governance, and compelling valuations. Another distinguishing characteristic of LTFI managers is their willingness to hold cash when they cannot find strong companies selling at compelling prices.

*“Equity Long/Short”* is the “classic” hedge fund strategy. Underlying Funds may take both long and short positions in the equity markets to construct a portfolio that can potentially benefit in both rising and falling markets.

*“Fixed Income Long/Short”* is another “classic” hedge fund strategy. Underlying Funds may take both long and short positions in the fixed income markets to construct a portfolio that can potentially benefit in both rising and falling fixed income markets.

*“Equity Arbitrage”* is a strategy that seeks to take advantage of temporary price differentials between related securities, such as an

equity index versus its underlying constituents.

*“Fixed Income Arbitrage”* strategies aim to profit on pricing differences between related debt securities. These strategies may include interest rate arbitrage, yield curve arbitrage, asset-backed arbitrage, as well as sovereign debt arbitrage.

*“Convertible Arbitrage”* is a strategy that focuses on the purchase of a corporation’s convertible debt while simultaneously shorting such corporation’s equity. The aim of this strategy is to capture the income, as well as the profit, from changes in the relative values of the corporation’s debt and equity.

*“Event-Driven”* strategies invest in companies currently or prospectively involved in corporate transactions of a wide variety, including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from senior debt to junior or subordinated debt, and may involve additional derivative securities. Event-Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Event-Driven strategies employ a fundamental approach predicated on a specific development exogenous to the existing capital structure.

*“High-Yield Debt”* is a strategy in which managers invest in non-investment grade debt. Objectives may range from high current income to acquisition of undervalued instruments. Emphasis is placed on assessing the issuer’s credit risk. Some of the available high-yield instruments include extendible/reset securities, increasing-rate notes, pay-in-kind securities, step-up coupon securities, split-coupon securities and usable bonds.

*“Distressed Securities”* strategies invest in securities of companies that are in financial trouble and are frequently undervalued due to investor risk-aversion. Underlying Funds seek to identify situations where the price of a company’s securities is lower than the value of its underlying assets and seek to take advantage of this disparity.

*“Merger Arbitrage”* focuses on the securities of corporations involved in mergers and acquisitions. This strategy seeks to profit from the successful completion of a transaction by purchasing securities at a discount relative to the value that will probably be realized upon completion of the transaction.

*“Volatility Trading”* strategies trade volatility as an asset class, employing arbitrage, directional, market-neutral or a mix of strategies, and include exposures which can be long, short, neutral or variable to the direction of implied volatility, and can include both listed and unlisted instruments.

*“Multi-Strategy”* employs an investment approach that is predicated on the use of two or more distinct investment strategies that are expected to perform independently of each other, regardless of market influences. These strategies may include components of fixed income, derivative, equity, real estate, merger and convertible arbitrage strategies, among others. These strategies are typically quantitative in nature.

StoneWater will regularly evaluate and monitor both existing and potential Managers and Underlying Funds based upon performance, personnel and operational stability, their adherence to their investment strategy, and market conditions. The investment styles and/or geographical focus the Funds tend to favor may shift depending on the current economic and investment environment.

#### Criteria for Selecting Underlying Funds:

**Process:** StoneWater intends to use the following approach and considerations in selecting Underlying Funds:

**Underlying Funds Sourcing:** The best investment managers typically limit the scale of their funds, and often close to new capital within several years of inception. This is especially true of long/short equity hedge funds investing in developing and emerging markets that typically close to new capital at between \$150 million to \$500 million of assets under management, due to the limited breadth and depth of these markets compared to the markets in the United States. In addition, such investment managers typically prefer investing to marketing.

Firm believes that sourcing Underlying Funds is best done by a combination of qualitative screening and high quality networking. Firm’s sources may include specialized databases, the handful of prime brokers who service the majority of hedge funds, and – most importantly – Firm’s proprietary network of individuals adept at recognizing exceptional investment managers.

**Underlying Funds Screening:** When reviewing an investment manager or firm for a potential investment, Firm considers, among other items, the following characteristics:

**Insight & Foresight:** Investment returns are ultimately driven by one's ability to buy (or sell short) securities whose current price does not reflect the likelihood of a significant, if not obvious, change. When executed successfully, this strategy can produce attractive upside returns without commensurate downside risk.

**Intellectual Independence:** Exceptional investment managers are independent thinkers. However, most managers are trend followers or closet indexers and so deliver only market returns.

**Risk Mitigation:** The best investment managers are good at reducing risk, typically by rigorous analysis, buy/sell price discipline, and portfolio balance.

**Discipline:** Maintenance of discipline can be as difficult as deriving a winning strategy. No strategy is good enough to succeed with undisciplined execution.

**Training, Relevant Experience:** Because emerging investment managers may have limited track records to evaluate, Firm intends to focus heavily on such managers' experience and training, and how their backgrounds contribute to their strategy.

**Organizational Quality, Risk Controls:** Quality investment managers are always supported by quality personnel providing analytical support and risk control.

**Sound Business Operations:** The best investment managers hire professionals to manage the non-investment aspects of their business. Firm will investigate the operational aspects of the managers' businesses with the same depth and insight as it investigates the managers' investment strategies.

**Investors – Not Asset Gatherers:** Firm has a strong bias towards investment managers who focus on investing as opposed to scaling their funds (and fees). Beyond a certain point, scale usually works against returns.

**Underlying Funds Monitoring:** On-going monitoring is essential to (i) protect against the risk that a quality Underlying Fund degrades over time (or that Firm chose a poorly performing Underlying Fund in the first place), and (ii) to enable rebalancing

appropriate to macroeconomic and market changes. Firm believes that performance deterioration is typically caused by one or more of the following:

**Size:** Most investment disciplines are inherently size limited. Many successful investment managers succumb to the appeal of asset gathering.

**Macro Changes:** As the macroeconomic environment changes, the risk profile of a particular investment discipline also changes. Because successful investing typically requires a disciplined adherence to style, some investment managers may be unable to adapt their investment process to the new market conditions.

**Excessive Ego, Complacency, and Distractions:** These are often the product of success. All invariably produce deterioration in performance.

**Limited Management Experience:** Many investment managers have no management experience and can find it difficult to scale their organizations. Even limited growth requires hiring good people and delegation.

**Overlay Investments:** Firm will monitor macroeconomic and market changes and, in the event that Firm believes that certain markets are either significantly under- or over-priced, may make direct investments to hedge or modestly leverage the overall portfolio of the Funds.

*Investing in securities involves risk of loss that Clients should be prepared to bear.*

(B) **Risks Associated with Firm's Investment Strategies:**

**Investments in Securities and Other Assets Believed to Be Undervalued:** Firm may invest its assets in Underlying Funds that invest a portion of their assets in undervalued securities. The identification of such investment opportunities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While such investments offer the opportunities for above-average capital appreciation and/or current yield, they also involve a high degree of financial risk and can result in substantial losses. Returns generated from an Underlying Fund's investments may not adequately compensate for the business and financial risks assumed. Such investments can

sometimes include bonds and other fixed income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities. It is likely that a major economic recession could severely disrupt the market for such investments and severely impact on their value. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such obligations to repay principal and pay interest thereon and increase the incidence of default for such securities. Additionally, there can be no assurance that other investors will ever come to realize the value of some of these investments, and that they will ever increase in price. Furthermore, the Underlying Fund may be forced to hold such investments for a substantial period of time before realizing their anticipated value.

**Small Companies:** Firm may invest its assets in Underlying Funds that invest a portion of their assets in small and/or unseasoned companies with small market capitalization. Such companies generally have potential for rapid growth, but they often involve higher risks because they may lack the management experience, financial resources, product diversification and/or competitive strength of larger and/or more established companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, an Underlying Fund may have to sell portfolio holdings of such companies at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities.

**Volatility of Currency Prices:** The profitability of a portfolio of an Underlying Fund sometimes depends, in part, upon the future price movements of currencies. However, price movements of currencies are influenced by, among other things, changing supply and demand relationships; governmental, trade, fiscal, monetary and exchange control programs and policies; national and international political and economic events; and changes in interest rates. Governments from time to time intervene in certain markets in order to influence prices directly.

**Leverage Used by the Funds:** Firm may, in its sole discretion, employ leverage in order to achieve its investment objectives. Such leverage may take the form of loans for borrowed money, derivative transactions and trading in instruments that may be inherently leveraged. A Fund may enter into credit arrangements



with lenders, and, in connection with such borrowings, may be required to pledge as collateral all or a portion of the assets of the Fund.

**Leverage Used by the Underlying Funds:** When appropriate and subject to applicable regulations, an Underlying Fund may use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, or total return swaps, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent an Underlying Fund purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect Firm's operating results. If the interest expense on borrowings were to exceed the net return on the investments made with borrowed funds, an Underlying Fund's use of leverage would result in a lower rate of return than if such Underlying Fund did not use leverage.

If the amount of borrowings which an Underlying Fund may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of its portfolio will have disproportionately large effects in relation to the Underlying Fund's capital and the possibilities for profit and the risk of loss will therefore be increased.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss. While Firm will be mindful of the amount, if any, of leverage that an Underlying Fund generally employs in deciding what Underlying Funds to invest with, investors should be aware that an investment program utilizing leverage is inherently more speculative, with a greater potential for losses, than a program that does not utilize leverage.

**Short Sales:** An Underlying Fund may sell securities short. Short selling involves the sale of a security that the seller does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, the seller must borrow securities from a third party lender. The seller subsequently

returns the borrowed securities to the lender by delivering to the lender securities it previously owned or by purchasing securities in the open market. The seller must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays the seller a fee for the use of the seller's cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. The Underlying Funds, and therefore the Funds, may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

**Risks of Trading Futures:** Trading futures is a highly risky strategy. Whenever an Underlying Fund purchases a particular future, there is a possibility that the Underlying Fund may sustain a total loss of its purchase price. The prices of futures are, in general, much more volatile than prices of securities such as stocks and bonds. As a result, the risk of loss in trading futures is substantially greater than in trading those securities. Prices of futures react strongly to the prices of the underlying commodities. The prices of these underlying products, in turn, rise and fall based on changes in interest rates, international balances of trade, changes in governments, wars, weather and a host of other factors that are entirely beyond the Underlying Fund's control and that are very difficult (and perhaps impossible) to predict.

**Options and Other Derivative Instruments:** The Underlying Funds may invest in derivative instruments. The prices of many derivative instruments, including many options and swaps, are highly volatile. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the securities, currencies or other assets underlying them. The Underlying Funds are also subject to the risk of the failure of any

of the exchanges on which their positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities, currencies or other assets. Accordingly, options on highly volatile securities, currencies or other assets may be more expensive than options on other investments.

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument or asset on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument or asset at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument or asset at the exercise price.

If a put or call option purchased by an Underlying Fund were permitted to expire without being sold or exercised, the Underlying Fund would lose the entire premium it paid for the option. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying instrument or asset caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold to the Underlying Fund at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying instrument or asset caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold by the Underlying Fund at a lower price than its current market value.

Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks. In particular, the writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument or asset above the exercise price of the option. This risk is enhanced if the instrument or asset being sold short is highly volatile and there is a significant outstanding short interest. These conditions exist in the stocks of many companies. The instrument or asset necessary to satisfy the exercise of the call option may be unavailable for purchase, except at much higher prices. Purchasing instruments or assets to satisfy the exercise of the call option can itself cause the price of the instruments or assets

to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by an Underlying Fund of all or a substantial portion of its assets.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

**Hedging Transactions:** Investments in financial instruments such as forward contracts, options, commodities and interest rate swaps, caps and floors, and other derivatives are commonly utilized by investment funds to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates, interest rates and/or the equity markets or sectors thereof. Any hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for an Underlying Fund to hedge against a fluctuation at a price sufficient to protect the Underlying Fund's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying instruments or assets. Accordingly, options on highly volatile instruments or assets may be more expensive than options on other instruments or assets and of limited utility in hedging against fluctuations in their prices.

The Underlying Funds are not obligated to establish hedges for portfolio positions and may not do so. To the extent that hedging transactions are effected, their success is dependent on the ability of the Underlying Funds to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof.

**Counterparty and Settlement Risk:** To the extent an Underlying Fund invests in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, the Underlying Fund may take a credit risk with regard to parties with which it trades and may also bear the risk of settlement default. These risks may

differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

**Custody Risk:** It is anticipated that a portion of the Underlying Funds' assets will be invested in currency forward contracts, futures, options, swaps or similar financial instruments which are not capable of being "custodied" in the traditional sense. Accordingly, at any given time, an Underlying Fund's accounts may only contain a small amount of cash and/or direct investments, with the majority of such Underlying Fund's assets posted as collateral or otherwise held at the various banks, brokerage firms and other financial institutions with which it has effected investment transactions. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Underlying Fund, and hence the Underlying Fund should not be exposed to a credit risk with respect to such parties. However, it may not always be possible to achieve this segregation and there may be practical or timing problems associated with enforcing the Underlying Fund's rights to its assets in the case of an insolvency of any such party, particularly as regards to parties located in non-U.S. jurisdictions.

**Market or Interest Rate Risk:** The price of many fixed income securities move in the opposite direction of the change in interest rates. For example, as interest rates rise, the prices of fixed income securities fall. If an Underlying Fund holds a fixed income security to maturity, the change in its price before maturity may have little impact on the Underlying Fund's performance. However, if the Underlying Fund has to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss to the Underlying Fund, and therefore to the Funds.

**Call Option Risk:** Many bonds, including agency, corporate and municipal bonds, and all mortgage-backed securities, contain a provision that allows the issuer to "call" all or part of the issue before the bond's maturity date. The issuer usually retains this right to refinance the bond in the future if market interest rates decline below the coupon rate. There are three disadvantages to the call provision. First, the cash flow pattern of a callable bond is not known with certainty. Second, because the issuer will call the bonds when interest rates have dropped, the Underlying Fund is

exposed to reinvestment rate risk – the Underlying Fund will have to reinvest the proceeds received when the bond is called at lower interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

**Maturity Risk:** In certain situations, an Underlying Fund may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, such Underlying Fund will make an adjustment to account for the interest rate risk differential in the two bonds. This adjustment, however, makes an assumption about how the interest rates at different maturities will move. To the extent that the yield movements deviate from this assumption, there is a yield-curve or maturity risk. Another situation where yield-curve risk should be considered is in the analysis of bond swap transactions where the potential incremental returns are dependent entirely on the parallel shift assumption for the yield curve.

**Inflation Risk:** Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if an Underlying Fund purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation-linked bonds, adjustable bonds or floating rate bonds, the Underlying Fund is exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

**High Yield Securities:** Underlying Funds may invest in “high yield” bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to a greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can

adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions of lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

**Systemic Risk:** Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds and/or an Underlying Fund interacts on a daily basis. Systemic risk could result in increased volatility of financial markets and a greater risk of counterparty default. To the extent that systemic risk occurs, it could result in large losses to Underlying Funds and the Funds.

**Special Situations:** Underlying Funds may invest in companies that are involved in (or are the target of) acquisition attempts or tender offers, or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which will be less than the purchase price to the Underlying Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Underlying Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Underlying Fund may invest, there is a potential risk of loss to the Underlying Fund (and therefore to the Funds) of its entire investment in such companies.

**Investments in Non-U.S. Investments:** Underlying Funds intend to invest and trade a significant portion of the relevant Underlying Funds’ assets in non-U.S. securities and other assets, which will give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and non-U.S. issuers and markets are subject. Such risks may include:

- Political or social instability, the seizure by non-U.S. governments of company assets, acts of war or terrorism, withholding taxes on dividends and interest, high or confiscatory tax levels, and limitations on the use or transfer of portfolio assets.
- Enforcing legal rights in some foreign countries is difficult, costly and slow, and there are sometimes special problems enforcing claims against non-U.S. governments.
- Non-U.S. securities and other assets often trade in currencies other than the U.S. dollar, and the Underlying Funds may directly hold non-U.S. currencies and purchase and sell non-U.S. currencies through forward exchange contracts. Changes in currency exchange rates will affect an Underlying Fund's net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of investments. An increase in the strength of the U.S. dollar relative to these other currencies may cause the value of an Underlying Fund's investments to decline. Some non-U.S. currencies are particularly volatile. Non-U.S. governments may intervene in the currency markets, causing a decline in value or liquidity of an Underlying Fund's non-U.S. currency holdings. If an Underlying Fund enters into forward non-U.S. currency exchange contracts for hedging purposes, it may lose the benefits of advantageous changes in exchange rates. On the other hand, if an Underlying Fund enters forward contracts for the purpose of increasing return, it may sustain losses.
- Non-U.S. securities, commodities and other markets may be less liquid, more volatile and less closely supervised by the government than in the United States. Foreign countries often lack uniform accounting, auditing and financial reporting standards, and there may be less public information about the operations of issuers in such markets.

**Developing and Emerging Markets:** Investing in developing and emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include, among others: (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty (including war); (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of securities markets; (v) greater volatility in



currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economies; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards, which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of the Underlying Funds' securities and cash with non-U.S. brokers and securities depositories.

**Illiquid Investments by Underlying Funds:** All or a portion of the investments made by an Underlying Fund may be in illiquid securities or direct loans which are difficult to value and, therefore, could affect the ability of such Underlying Fund to meet withdrawal requests from the Funds.

**Risk of Default or Bankruptcy of Third Parties:** The Underlying Funds may engage in transactions in securities, commodities, financial instruments and other assets that involve counterparties. Under certain conditions, the Underlying Fund could suffer losses if a counterparty to a transaction were to default or if the market for certain securities, instruments and/or assets were to become illiquid. In addition, the Underlying Fund could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which the Underlying Fund does business, or to which securities, instruments and/or assets have been entrusted for custodial purposes.

Separately managed account Clients are subject to substantially similar risks as those described in Item 8.(B) above.

(C) **Security-Specific Risks:** Please refer to Item 8.(B) above.

**Item 9. Disciplinary Information:**

Legal and disciplinary events in which Firm or any supervised persons have been involved that are material to a Client's or prospective client's evaluation of Firm's advisory business or management are listed below (see response after each event).

- (A) A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which Firm or a management person:
- (i) Was convicted of, or pled guilty or nolo contendere (“no contest”) to: (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses. **N/A**
  - (ii) Is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses. **N/A**
  - (iii) Was found to have been involved in a violation of an investment-related statute or regulation. **N/A**
  - (iv) Was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order. **N/A**
- (B) An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which Firm or a management person:
- (i) Was found to have caused an investment-related business to lose its authorization to do business. **N/A**
  - (ii) Was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority:
    - a. Denying, suspending, or revoking the authorization of Firm or a management person to act in an investment-related business. **N/A**
    - b. Barring or suspending Firm’s or a management person’s association with an investment-related business. **N/A**

- c. Otherwise significantly limiting Firm's or a management person's investment-related activities. **N/A**
  - d. Imposing a civil money penalty of more than \$2,500 on Firm or a management person. **N/A**
- (C) A self-regulatory organization (SRO) proceeding in which Firm or a management person:
  - (i) Was found to have caused an investment-related business to lose its authorization to do business. **N/A**
  - (ii) Was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500. **N/A**

**Item 10. Other Financial Industry Activities and Affiliations:**

- (A) Firm has no existing or pending affiliations with a broker-dealer or a registered representative of a broker-dealer.
- (B) Firm has no existing or pending affiliations with a Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), or Commodity Trading Advisor (CTA).
- (C) Firm and/or its management persons have a relationship or arrangement that is material to its advisory business or to its Clients with any related person as discussed below:
  - (i) Broker-dealer, municipal securities dealer, or government securities dealer or broker. **N/A**
  - (ii) Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund). *N/A except as discussed at Item 4 and Item 8.*
  - (iii) Other investment adviser or financial planner. *N/A except as discussed at Item 4 and Item 8.*

- (iv) Futures commission merchant, commodity pool operator, or commodity trading advisor. **N/A**
- (v) Banking or thrift institution. **N/A**
- (vi) Accountant or accounting firm. **N/A**
- (vii) Lawyer or law firm. **N/A**
- (viii) Insurance company or agency. **N/A**
- (ix) Pension consultant. **N/A**
- (x) Real estate broker or dealer. **N/A**
- (xi) Sponsor or syndicator of limited partnerships. **N/A**
- (D) Firm recommends or selects other investment advisers for Clients: *N/A except as discussed at Item 4 and Item 8.*

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

A copy of the code of ethics (“Code of Ethics”) is available upon request to Clients or prospective clients.

- (A) The Code of Ethics is based upon the premise that all Firm personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory service. The Code of Ethics requires all personnel to (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of Firm; (3) observe Firm’s personal trading policies so as to avoid conflicts of interests between Firm and its Clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by Firm’s chief compliance officer and that personnel who violate the Code of Ethics are subject to sanctions by Firm, up to and including termination.

*Participation or Interest in Client Transactions:* Firm recognizes that the personal securities transactions of its employees demand the application of a high code of ethics, and Firm requires that all such transactions be carried out in a way that does not endanger the interest of any Client. At the same time, Firm believes that if investment goals are similar for Clients and for employees of Firm,

it is logical and even desirable that there be common ownership of some securities. Firm and its related persons may invest their personal funds in the Funds. Therefore, in order to address conflicts of interest, Firm has adopted a set of procedures, included in its Code of Ethics, with respect to transactions effected by its officers, directors and employees (hereafter in this section, "Employees") for their personal accounts. In order to monitor compliance with its personal trading policy, Firm has adopted a quarterly securities transaction reporting system for all of its Employees. For purposes of the policy, an Employee's "personal account" generally includes any account (a) in the name of the Employee, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which the Employee is a trustee or executor, or (c) which the Employee controls, including Firm's Client accounts which the Employee controls and in which the Employee or a member of his/her household has a direct or indirect beneficial interest.

Associated persons of Firm may recommend to Clients the purchase or sale of investment products in which it or a related person may have some financial interest, including but not limited to, the receipt of compensation. Records will be maintained of all securities bought and sold by associated persons and related persons.

Additionally, the Code of Ethics sets forth Firm's policies and procedures with respect to material, non-public information and other confidential information, and the fiduciary duties that Firm and each of its Employees has to each of its Clients. The Code of Ethics is circulated at least annually to all Employees, and each Employee, at least annually, must certify in writing that he or she has received and followed the Code of Ethics and any amendments thereto.

*Other Activities of Firm and its Affiliates:* Neither Firm, nor any affiliate or employee, is required to manage Client accounts as its sole and exclusive function. Each of them may engage in other business activities, including competing ventures and/or other unrelated employment. In addition to managing Client accounts, Firm, and its respective affiliates or employees may provide investment advice to other parties and may manage other accounts in the future.

*Privacy Policy:* Firm has adopted a privacy policy that explains the manner in which Firm collects, utilizes and maintains

nonpublic personal information about Clients, as required under federal legislation.

Collection of Information and Disclosure of Nonpublic Personal Information: To provide Clients with superior service, Firm may collect several types of nonpublic personal information about Clients, including:

- Information from forms that Clients may fill out, such as subscription forms, questionnaires and other information provided by Clients in writing, in person, by telephone, electronically or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications;
- Information Clients may give orally;
- Information about transactions within Firm, including account balances, investments and withdrawals;
- Information about the amount Clients have invested, such as initial investment and any additions to and withdrawals from an investment in the Funds; and
- Information about any bank accounts Clients may use for transfers to or from separately managed accounts.

Firm does not sell or rent Client information. Firm uses this information to conduct business with its Clients: to develop or enhance its products and services; to understand the financial needs of its Clients so that Firm can provide such Clients with quality products and superior service; and to protect and administer its Clients' records, accounts and funds. Firm does not disclose nonpublic personal information about its Clients to nonaffiliated third parties or to affiliated entities, except as permitted or required by law. For example, Firm may share nonpublic personal information in the following situations:

- To service providers in connection with the administration and servicing of Firm; this may include attorneys, accountants, auditors and other professionals. Firm may also share information in connection with the servicing or processing of Fund transactions;
- To affiliated companies in order to provide Clients with ongoing personal advice and assistance with respect to the

products and services Clients have purchased through Firm and to introduce Clients to other products and services that may be of value to such Clients;

- To respond to a subpoena or court order, judicial process or regulatory authorities;
- To protect against fraud, unauthorized transactions (such as money laundering), claims or other liabilities; and
- Upon consent of a Client to release such information, including authorization to disclose such information to persons acting in a fiduciary or representative capacity on behalf of the Client.

Protection of Information:

Firm's policy is to require that all employees, financial professionals and companies providing services on its behalf keep Client information confidential.

Firm maintains safeguards that comply with federal standards to protect Client information. Firm restricts access to the personal and account information of Clients to those employees who need to know that information in the course of their job responsibilities. Third parties with whom Firm shares Client information must agree to follow appropriate standards of security and confidentiality. Firm's privacy policy applies to both current and former Clients. Firm may disclose nonpublic personal information about a former Client to the same extent as for a current Client.

Changes to Privacy Policy:

Firm may make changes to its privacy policy in the future. Firm will not make any change affecting an individual without first sending that individual a revised privacy policy describing the change.

- (B) If Firm or a related person recommends to Clients, or buys or sells for Client accounts, securities in which Firm or a related person has a material financial interest, describe Firm's practice and discuss the conflicts of interest it presents. Describe generally how Firm addresses conflicts that arise. *Please refer to Item 11.(A).*
- (C) If Firm or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that Firm or a related person recommends to Clients, describe Firm's practice and discuss the conflicts of interest this presents and generally how

Firm addresses the conflicts that arise in connection with personal trading. *Please refer to Item 11.(A).*

- (D) If Firm or a related person recommends securities to Clients, or buys or sells securities for Client accounts, at or about the same time that Firm or a related person buys or sells the same securities for Firm's own (or the related person's own) account, describe Firm's practice and discuss the conflicts of interest it presents. Describe generally how Firm addresses conflicts that arise. *Please refer to Item 11.(A).*

**Item 12. Brokerage Practices:**

- (A) **Selection of Broker-Dealers:** Generally, StoneWater is not involved in selecting the broker-dealers used by Managers or Underlying Funds. Factors the Managers may consider in selecting or recommending broker-dealers for transactions and determining the reasonableness of their compensation are generally described below:

- (i) **"Soft Dollar" Policy:** In addition to research services, Managers may be offered other non-monetary benefits by broker-dealers that they may engage to execute securities transactions on behalf of Underlying Funds. These benefits may take the form of special execution capabilities, clearance, settlement, online pricing, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, online access to computerized data regarding Managers' accounts, performance measurement data, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, efficiency of execution and error resolution, quotation equipment and services, the availability of stocks to borrow for short trades, custody, travel, record keeping and similar services. These other services may also include payment of all or a portion of the Managers' or their affiliates' administrative costs and expenses of operation, such as: office rent; office equipment and supplies; utilities (e.g., electricity, gas, oil, water); taxes; storage; employee salaries, *including, but not limited to*, bonuses, contingent salaries, and any other form of compensation determined by the Managers, and benefits (including medical, dental and worker's compensation insurance); temporary help; recruiting services; newswire and quotation equipment and services (e.g., Reuters,



Bloomberg, Bridge, First Call); data processing charges; periodical subscription fees (e.g., The Financial Times, The Wall Street Journal, The New York Times, Investors Business Daily); computer equipment used for brokerage or research purposes (e.g., computers, computer hardware, software, hard drives, monitors, PDAs, LANs) and related technical support, repair and maintenance; television and cable services used for research purposes; telephone and facsimile charges, equipment and installation and maintenance costs (e.g., telephones, telephone lease, telephone and facsimile lines, cellular phones used for business purposes, telephone call recording equipment, headsets, cordless phones, speaker phones, telephone switchboards and monthly and long distance telephone charges); facsimile machines and facsimile rental and repair costs; account record-keeping and related clerical services; printing services; messenger services; postal and courier expenses; car service; expenses incurred in connection with investigating and researching issuers of securities and attending research conferences (e.g., airfare, car rentals, taxi fares, conference fees and related expenses, hotel accommodations and meals); economic consulting services; placement fees and other marketing costs; legal and accounting fees; and other reasonable expenses as determined by the Managers.

The foregoing benefits may be available for use by the Managers in connection with transactions in which Clients will not participate. The availability of these benefits may influence Managers to select one broker rather than another to perform services for them.

Managers have the option to use “soft dollars” to pay for the research and non-research related services described above. The term “soft dollars” refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of the investment adviser’s Clients. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Section 28(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”),

provides a “safe harbor” to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. In the event a Manager elects to use its soft dollars for payment of all or a portion of their own or their affiliates’ administrative costs and expenses of operation such as office rent, office equipment and supplies, utilities, employee benefits and salaries, newswire and quotation equipment, data processing charges, periodical subscription fees, computer equipment, telephone and facsimile charges and equipment costs, record-keeping services, consulting fees, issuer due diligence expenses, placement fees and other marketing costs, and legal and accounting fees, as more fully described above, such uses of soft dollars are not within the safe harbor afforded by Section 28(e) of the Exchange Act.

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of investment advisers or their affiliates creates a conflict of interest between investment advisers and investors because the investors pay for such products and services that are not exclusively for the benefit of investors and that may be primarily or exclusively for the benefit of the investment adviser. To the extent that an investment adviser is able to acquire these products and services without expending its own resources (including management fees paid by investors), such investment adviser’s use of soft-dollars would tend to increase its profitability. In addition, the availability of these non-monetary benefits may influence such an investment adviser to select one broker rather than another to perform services for investors. An investment adviser has an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on an investor’s interest in receiving the most favorable execution. Moreover, an investment adviser may cause investors to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits.

- a.** When a Manager uses brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Manager receives a benefit

because it does not have to produce or pay for the research, products or services. *Please refer to Item 12.(A)(i).*

- b. A Manager may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its investors' (including Firm's) interest in receiving most favorable execution. *Please refer to Item 12.(A)(i).*
- c. A Manager may cause its investors (including Firm) to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up). *Please refer to Item 12.(A)(i).*
- d. Managers may use soft dollar benefits to service all investors or only those investors that paid for the benefits. Managers may or may not seek to allocate soft dollar benefits to investors proportionately.
- e. The types of products and services Firm or any related persons acquired with Client brokerage commissions (or markups or markdowns) within Firm's last fiscal year were: **N/A**
- f. The procedures Firm used during its last fiscal year to direct transactions to a particular broker-dealer in return for soft dollar benefits Firm received were: **N/A**

(ii) **Brokerage for Client Referrals:**

- a. An Underlying Fund may direct some brokerage business to brokers who refer prospective investors to that Underlying Fund. Because such referrals, if any, are likely to benefit that Underlying Fund and its affiliates but will provide an insignificant (if any) benefit to investors in the Underlying Fund (including Firm), the Underlying Fund will have a conflict of interest with its investors when allocating brokerage business to a broker who has referred investors to the Underlying Fund.

- b. The procedures used during the last fiscal year to direct Client transactions to a particular broker-dealer in return for Client referrals were: **N/A**

Separately managed account Clients will typically be subject to brokerage practices in a similar fashion to those stated above.

(iii) **Directed Brokerage:**

- a. Does Firm recommend, request or require a Client to direct Firm to execute transactions through a specified broker-dealer: **N/A**
- b. Does Firm permit a Client to direct Firm to execute transactions through a specified broker-dealer: **N/A**

- (B) **Aggregation of Orders:** Firm does not aggregate purchases or sales of securities for Clients -- due to Firm's fund of funds strategy, this is not applicable.

**Item 13. Review of Accounts:**

- (A) StoneWater's senior managers review the Funds, as well as the Underlying Funds, and the performance thereof, generally on a continuous basis regarding performance and compliance with Firm's strategies and guidelines.
- (B) Reviews may also be triggered by, among other things, Client capital injections and/or withdrawals. From an investment management perspective, reviews may be triggered by economic factors, analyst commentary, news, and financial results of an Underlying Fund.
- (C) Clients in the Funds receive reports as described in the offering documents of the Funds. Generally, these Clients receive monthly flash reports informing them of the performance of their investment, monthly capital balance statements, quarterly newsletters and a Schedule K1 annually. Additionally, within 180 days of year end, Fund investors receive GAAP-compliant audited financial statements. Separately managed account Clients receive such reports as are agreed upon with the relevant Client.

**Item 14. Client Referrals and Other Compensation:**

- (A) Firm does not receive, from any non-Client, any economic benefit associated with advising Clients.

- (B) From time to time Firm enters into arrangements whereby Firm pays to third parties who introduce Clients to Firm a portion of the fees received by Firm from such Clients. Such arrangements are fully disclosed to Clients and are in accordance with, and otherwise comply with, Rule 206(4)-3 under the Advisers Act.

**Item 15. Custody:**

Client funds and securities are maintained with a qualified custodian. The administrator will send monthly account statements directly to Clients, which Clients should carefully review. The Funds send GAAP-compliant audited financial statements to their investors within 180 days of their fiscal year-end.

**Item 16. Investment Discretion:**

Firm has discretionary investment authority over Client assets that are managed by Firm.

**Item 17. Voting Client Securities:**

- (A) **Funds:** Given that StoneWater generally recommends investments in vehicles or accounts managed by third parties, such third parties, and not StoneWater, typically receive and are entitled to vote on proxies in respect of the underlying securities held in such vehicles or accounts. However, StoneWater has adopted policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. These policies and procedures are designed to ensure that proxies received with respect to securities in Client accounts where StoneWater exercises voting discretion are voted in the best interests of such Clients and that StoneWater maintains records of its proxy voting in compliance with the Advisers Act. Unless otherwise instructed by a Client, StoneWater will vote Client proxies consistent with general guidelines that StoneWater has adopted and which StoneWater believes reflect the best interests of Clients, after taking into consideration all relevant facts and circumstances at the time of the vote. StoneWater will provide to any Client at no cost a copy of these voting policies and procedures and information regarding how such Client's proxies have been voted in the past. Clients wishing to receive this information should contact StoneWater by telephone during normal business hours.

- (B) **Separately Managed Accounts:** See response to Item 17.(A).

**Item 18. Financial Information:**

- (A) Firm solicits prepayment of Management Fees on a quarterly basis from the Funds. Firm does not solicit prepayment of more than \$1200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.
- (B) Because Firm has discretionary authority over and/or custody of Client funds or securities, Firm has disclosed, as follows, any financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients: **None.**
- (C) Firm has not been the subject of a bankruptcy petition during the past ten years.

**Item 19. Requirements for State-Registered Advisers: N/A**

## **II. Part 2B – BROCHURE SUPPLEMENT**

Cover page for:

**Frank Brochin**

StoneWater Capital LLC  
(CRD # 134195)

60 East 42nd Street  
Suite 3014  
New York, NY 10165  
Tel. 212-231-0055

Tel. 212-231-0040  
Fax. 212-231-0041

**This supplement provides information about Mr. Brochin that supplements the StoneWater Capital LLC brochure (our “Brochure”). You should have received a copy of our Brochure. Please contact James P. Canales at 212-231-0054 if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

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

The date of this Brochure is

March 15, 2013



**Item 2. Educational Background and Business Experience:**

**Frank Brochin**, born 1965, currently serves as Senior Managing Member and Chief Investment Officer of StoneWater Capital LLC (“Firm”).

**Education Background:**

Mr. Brochin holds a B.S from ENST, a Ph.D. from Princeton University in Electrical Engineering and an M.B.A. from the Harvard Graduate School of Business Administration.

**Business Background:**

Mr. Brochin, Senior Managing Member, was previously a Partner of Warburg Pincus, where he was responsible for investments in the enterprise software, information technology and communications sectors. Prior to Warburg, Mr. Brochin was a research engineer with Nippon Telegraph and Telephone in Tokyo, and a manager of the Advanced Technology group in Nortel Networks’ first R&D center in Asia Pacific.

**Item 3. Disciplinary Information:**

Mr. Brochin (the “supervised person”) has not been involved with any legal or disciplinary events material to a client’s or prospective client’s evaluation of the supervised person.

**Item 4. Other Business Activities:**

- (A) The supervised person is not actively engaged in any investment-related business or occupation, including being registered, or having an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (“FCM”), commodity pool operator (“CPO”), or commodity trading advisor (“CTA”), nor is the supervised person an associated person of an FCM, CPO, or CTA.
- (B) The supervised person is not actively engaged in any business or occupation for compensation not discussed in response to Item 4.(A), above, that provides a substantial source of the supervised person’s income or involves a substantial amount of the supervised person’s time.

**Item 5. Additional Compensation:**

The supervised person does not receive, from any non-client, any economic benefit associated with advising clients (such as sales awards and prizes, any bonus that is based on number or amount of sales, client referrals or new accounts (not including salary)).

**Item 6. Supervision:**

The Chief Compliance Officer (“CCO”) supervises the communications of the supervised person. All written communications with clients are reviewed by the CCO in advance as well as other members of Firm for accuracy, consistency and compliance. The CCO of Firm is James P. Canales.

**Item 7. Requirements for State-Registered Advisers: N/A**

Cover page for:

**James P. Canales**

StoneWater Capital LLC  
(CRD # 134195)

60 East 42nd Street  
Suite 31014  
New York, NY 10165  
Tel. 212-231-0054

Tel. 212-231-0040  
Fax. 212-231-0041

**This supplement provides information about Mr. Canales that supplements the StoneWater Capital LLC brochure (our “Brochure”). You should have received a copy of our Brochure. Please contact Mr. Canales if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

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

The date of this Brochure is

March 15, 2013

**Item 2. Educational Background and Business Experience:**

**James P. Canales**, born 1958, currently serves as Managing Member, Chief Operating Officer and Chief Compliance Officer of StoneWater Capital LLC (“Firm”).

**Education Background:**

Mr. Canales holds a B.S. degree in Economics from Santa Clara University and completed the executive education program in Advanced Management at the Stanford University Graduate School of Business.

**Business Background:**

Mr. Canales was previously with Octane Research Inc. where, during various periods, he served as Chief Investment Officer, Chief Operating Officer, and Head of Risk for this Switzerland-based fund of hedge funds group. Mr. Canales previously was Chief Operating Officer of Parker Global Strategies, LLC, a Connecticut-based fund of funds, as well as a Partner at Aletheia Research and Management, a predominantly long-only manager. Prior to entering the financial industry, he spent twenty years in various senior management roles with firms in the distribution and manufacturing sectors.

**Item 3. Disciplinary Information:**

The supervised person has not been involved with any legal or disciplinary events material to a client’s or prospective client’s evaluation of the supervised person.

**Item 4. Other Business Activities:**

- (A) The supervised person is not actively engaged in any investment-related business or occupation, including being registered, or having an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (“FCM”), commodity pool operator (“CPO”), or commodity trading advisor (“CTA”), nor is the supervised person an associated person of an FCM, CPO, or CTA.
- (B) The supervised person is not actively engaged in any business or occupation for compensation not discussed in response to Item 4.(A), above, that provides a substantial source of the supervised person’s income or involves a substantial amount of the supervised person’s time.

**Item 5. Additional Compensation:**

The supervised person does not receive, from any non-Client, any economic benefit associated with advising Clients (such as sales awards and prizes, any bonus that is based on number or amount of sales, Client referrals or new accounts (not including salary)).

**Item 6. Supervision:**

The Senior Managing Member supervises the communications of the supervised person. All written communications with Clients are reviewed by the Senior Managing Member in advance as well as other members of Firm for accuracy, consistency and compliance. The Senior Managing Member of Firm is Frank Brochin.

**Item 7. Requirements for State-Registered Advisers: N/A**

Cover page for:

**Ernest H. Pomerantz**

StoneWater Capital LLC  
(CRD # 134195)

60 East 42nd Street  
Suite 3014  
New York, NY 10165  
Tel. 212-231-0044

Tel. 212-231-0040  
Fax. 212-231-0041

**This supplement provides information about Mr. Pomerantz that supplements the StoneWater Capital LLC brochure (our “Brochure”). You should have received a copy of our Brochure. Please contact James P. Canales at 212-231-0054 if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

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

The date of this Brochure is

March 15, 2013

**Item 2. Educational Background and Business Experience:**

**Ernest H. Pomerantz**, born 1941, currently serves as Managing Member and Chairman of StoneWater Capital LLC (“Firm”).

**Education Background:**

Mr. Pomerantz holds a B.S. in Management Engineering from Rensselaer Polytechnic, an M.A. in International Relations from the London School of Economics/University of Southern California, and an M.B.A. from New York University.

**Business Background:**

Mr. Pomerantz was previously a Managing Director of MESA Partners, LLC for five years. Prior, Mr. Pomerantz was a Partner of Warburg Pincus for 20 years, working in a range of industries including automotive, energy, financial services, retail, and media. Prior to this, he was a public market equities portfolio manager and security analyst at both Warburg Pincus and Kuhn Loeb for 11 years after serving as a Lieutenant in the U.S. Navy. He has served as a director of public companies and currently serves as a director of private companies and non-profit organizations.

**Item 3. Disciplinary Information:**

The supervised person has not been involved with any legal or disciplinary events material to a client’s or prospective client’s evaluation of the supervised person.

**Item 4. Other Business Activities:**

- (A) The supervised person is not actively engaged in any investment-related business or occupation, including being registered, or having an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (“FCM”), commodity pool operator (“CPO”), or commodity trading advisor (“CTA”), nor is the supervised person an associated person of an FCM, CPO, or CTA.
- (B) The supervised person is not actively engaged in any business or occupation for compensation not discussed in response to Item 4.(A), above, that provides a substantial source of the supervised person’s income or involves a substantial amount of the supervised person’s time. The supervised person is a member of the Board of Directors of several privately-held companies in which he is an investor. He is not an executive manager in any of these companies and his primary role is that of an advisor to the executive management.

**Item 5. Additional Compensation:**

The supervised person does not receive, from any non-Client, any economic benefit associated with advising Clients (such as sales awards and prizes, any bonus that is based on number or amount of sales, Client referrals or new accounts (not including salary)).

**Item 6. Supervision:**

The Chief Compliance Officer (“CCO”) supervises the communications of the supervised person. All written communications with Clients are reviewed by the CCO in advance as well as by other members of Firm for accuracy, consistency and compliance. The CCO of Firm is James P. Canales.

**Item 7. Requirements for State-Registered Advisers: N/A**



Cover page for:

**John Santoleri**

StoneWater Capital LLC  
(CRD # 134195)

60 East 42nd Street  
Suite 3014  
New York, NY 10165  
Tel. 212-231-0042

Tel. 212-231-0040  
Fax. 212-231-0041

**This supplement provides information about Mr. Santoleri that supplements the StoneWater Capital LLC brochure (our “Brochure”). You should have received a copy of our Brochure. Please contact James P. Canales at 212-231-0054 if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

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

The date of this Brochure is

March 15, 2013

**Item 2. Educational Background and Business Experience:**

**John Santoleri**, born 1963, currently serves as Managing Member of StoneWater.

**Education Background:**

Mr. Santoleri holds a B.S. in Economics from The Wharton School of the University of Pennsylvania.

**Business Background:**

Mr. Santoleri is a partner in StoneWork Capital, a long/short hedge fund. Previously, he was a Partner of Warburg Pincus, a leading global private equity/venture capital firm. During his 15-year tenure with Warburg, Mr. Santoleri was responsible for investments in a broad range of industries including business services, information technology, financial services, retail and consumer products, and real estate. Prior to Warburg, Mr. Santoleri was Vice President for The Harlan Company, a New York-based real estate consulting firm.

**Item 3. Disciplinary Information:**

The supervised person has not been involved with any legal or disciplinary events material to a client's or prospective client's evaluation of the supervised person.

**Item 4. Other Business Activities:**

(A) If the supervised person is engaged in any investment-related business or occupation, including if the supervised person is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, Futures Commission Merchant ("FCM"), Commodity Pool Operator ("CPO"), Commodity Trading Advisor ("CTA"), or an associated person of an FCM, CPO, or CTA, disclose this fact and describe the business relationship, if any, between the advisory business and the other business relationship, if any, between Firm and other business. The supervised person is a partner in StoneWork Capital LLC, which manages a long/short equity hedge fund that is operated out of the same office as Firm. There is no business relationship between Firm and StoneWork Capital, LLC other than sharing of office facilities. Neither Firm nor the Funds invest in the investment product managed by StoneWork Capital, LLC.

(i) No relationship between the advisory business and the supervised person's other financial industry activities creates a material conflict of interest with clients.

- (ii) The supervised person does not receive commissions, bonuses or other compensation based on the sale of securities or other investment products, including as a broker-dealer or registered representative, and including distribution or service (“trail”) fees from the sale of mutual funds.
- (B) The supervised person is not actively engaged in any business or occupation for compensation not discussed in response to Item 4.(A), above, that provides a substantial source of the supervised person’s income or involves a substantial amount of the supervised person’s time

**Item 5. Additional Compensation:**

The supervised person does not receive, from any non-Client, any economic benefit associated with advising Clients (such as sales awards and prizes, any bonus that is based on number or amount of sales, Client referrals or new accounts (not including salary)).

**Item 6. Supervision:**

As it relates to the activities of Firm and its Clients, the Chief Compliance Officer (“CCO”) supervises the communications of the supervised person. All written communications with Clients are reviewed by the CCO in advance as well as other members of Firm for accuracy, consistency and compliance. The CCO of Firm is James P. Canales.

**Item 7. Requirements for State-Registered Advisers: N/A**