

Part 2A of Form ADV: Firm Brochure

**PROPHECY ASSET MANAGEMENT LP**

A Delaware Corporation registered with the Securities and Exchange Commission  
as an Investment Adviser (IARD #134556/SEC No. 801-75390)

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This brochure provides information about the qualifications and business practices of Prophecy Asset Management LP ("**Prophecy**"). If you have any questions about the contents of this brochure, please contact us at 212-328-9564. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

Registration does not imply a certain level of skill or training by this investment advisor.

This brochure was prepared on September 28, 2017.

## **Item 2 Material Changes**

The purpose of this Item 2 is to disclose material changes that have been made to this Brochure since the last annual update.

No material changes have been made since the last annual update dated March 29, 2016.

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## Item 4 Advisory Business

Prophecy was formed in Delaware on January 28, 2014 and became the successor advisor to Prophecy Asset Management, Inc. in October of 2014. The general partner of Prophecy is Prophecy Asset Management LLC, which is owned by Jeffrey R. Spotts and John Hughes. The two Class A partners of Prophecy are Jeffrey R. Spotts and John Hughes.

Prophecy currently provides discretionary investment advisory services to private investment funds (individually, a "**Fund**" and collectively as the "**Funds**"). Prophecy acts as the investment manager to each Fund. The detailed terms, strategies and risks applicable to the Funds are described in each Fund's organizational and offering documents regarding the investment of client funds based on the individual needs of the client. Details of the guidelines, parameters and restrictions on investments relating to the Fund clients may be found in the applicable Fund's Private Placement Memorandum.

As of December 31, 2016, the amount of regulatory assets under management on a discretionary basis was \$331,529,213. As of December 31, 2016, Prophecy has no regulatory assets under management on a non-discretionary basis.

## Item 5 Fees and Compensation

Prophecy is generally compensated for its services based on two types of fees: (i) a management fee assessed on total assets under management, and (ii) a performance fee as described below. Accounts initiated or terminated during a calendar quarter may be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

The management fee is based upon an annual percentage of assets under management and charged monthly by Prophecy to a client. This percentage varies by client, but is typically between 1 - 2% annually, payable in arrears, customarily at the beginning of each month. Management fees are deducted directly from clients' accounts.

The performance fee is a share of the net profits in the client's account. This percentage varies by client, but is typically 10% annually, net of expenses. Please refer to Item 6, below, for a more detailed description of performance or incentive fees, and related conflicts of interest.

The specific manner in which fees are charged by Prophecy is established in each client's written investment advisory agreement or within the private funds offering documents. All fees are subject to negotiation. All material terms of the relationship will be included in the written investment advisory agreement executed by the client. All fees and expenses assessed to the private funds are fully disclosed to investors in the respective fund's private placement memorandum or offering documents and in investor subscription documents.

All expenses incurred in connection with evaluating (regardless of whether such investments are ultimately made), purchasing, holding and disposing of investments in an underlying private investment fund ("**Underlying Fund**") (including, but not limited to, research reports, brokerage commissions, margin interest, expenses related to short sales, custodial fees, commissions on investments in underlying funds and clearing and settlement charges) will be borne by clients and investors in the relevant pooled investment vehicle managed by Prophecy in addition to any fees directly charged by Prophecy. The expenses and fees of the Underlying Funds are in addition to the expenses, the management fees and incentive fees charged by Prophecy. In addition, where Prophecy invests in affiliated Underlying Funds, Prophecy and its affiliates may collect multiple levels of fees and expenses. In the case of investments in Underlying Funds managed by investment managers in which Prophecy and/or its affiliates have a non-controlling equity interest (if any), in any such event, the invested client may be charged an additional performance allocation and/or management fee by the investment manager, which would effectively result in additional financial benefits accruing to Prophecy or its affiliates in their capacity as a non-

controlling equity owner of such investment manager. Specific information regarding our advisory fees as it relates to private funds can be found in the applicable Private Offering Memorandum or offering documents. All fees and expenses assessed to the private funds are fully disclosed to investors in the respective hedge fund's Private Placement Memorandum or offering documents and in Investor Subscription documents.

Prophecy's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients are responsible for the payment of these costs and expenses. Clients may also incur certain other charges imposed by custodians, brokers, third-party investment managers, and other third-parties, such as interest charges, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Clients are responsible for the payment of these costs and expenses. Mutual funds, exchange-traded funds, investment advisors and private funds also charge internal management fees, which are disclosed in a fund's prospectus or offering documents. Such charges, fees and commissions are exclusive of, and in addition to, Prophecy's advisory fees. Brokerage commissions and/or transaction ticket fees charged by the custodian will be billed directly to the client. Prophecy will not receive any portion of such commissions or fees from the custodian or client.

Please see Item 12, which discusses conflicts of interest related to brokerage practices.

Prophecy and its personnel do not receive any indirect or additional compensation.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

As noted in Item 5, Prophecy may receive an annual performance fee, which is calculated as a share of net profits (which includes unrealized appreciation of the client's assets) and determined on the last business day of each month. The performance fee is payable monthly in arrears (or upon termination if not at a month end) subject to a high water mark.

Prophecy shall also receive the performance fee upon any withdrawal by an investor from a Fund, whether voluntary or involuntary, and upon dissolution of a Fund. The performance fee shall be in addition to the proportionate allocations of income and profits, or losses, to Prophecy and/or its affiliates based upon their capital accounts relative to the capital accounts of all investors in a Fund.

Clients who reside in the United States and who are charged performance fees or allocations are required to be qualified clients as defined under the Advisers Act.

In order for Prophecy to receive a performance fee, Prophecy must achieve capital appreciation within the account. Prophecy will charge performance fees in adherence with 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 Prophecy 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 or private fund's offering document. Fees generally are deducted directly from the client's account, as specified in the relevant investment management agreement. Prophecy's receipt of performance fees is intended to align Prophecy's interests with those of its clients, and, to provide Prophecy with a greater incentive to manage assets well. The nature of the performance fee, however, creates a potential conflict of interest between Prophecy, its associated persons, and clients in that it may create an incentive for Prophecy to make investments that are riskier or more speculative than would be the case in the absence of a performance fee.

Such fees will be structured and charged in a manner consistent with the requirements of applicable law, including the Advisers Act and ERISA. To the extent Prophecy values any such securities or instruments it has a conflict of interest as Prophecy will receive higher management fees and performance fees if it gives such

securities and instruments a higher valuation. Prophecy may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account, depending on the specific time periods and the nature of any preferred returns. Where any part of Prophecy's compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, Prophecy shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently.

In addition, in the event that Prophecy 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, Prophecy has an incentive to favor accounts for which it receives the performance fee because it will receive a greater profit from the accounts which are charged performance fees. Therefore, Prophecy 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, Prophecy may receive greater fees if the investment generates a positive return. Notwithstanding the foregoing, Prophecy does not favor accounts that pay Performance Fees.

Prophecy 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 Prophecy may be higher or lower than the performance fees charged by other investment advisers for the same or similar services.

## **Item 7 Types of Clients**

Prophecy presently provides discretionary investment advisory services to private investment funds.

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

Prophecy's investment objective is to seek consistent absolute returns primarily through capital appreciation, while also attempting to preserve capital and mitigate risk.

For some clients Prophecy may allocate assets to one or more investment managers or sub advisors. In such instances in which Prophecy allocates client assets to other investment managers or sub-advisors, Prophecy retains the discretion and control over the client assets.

Whether by Prophecy, an investment manager or a sub-advisor, the investment program may utilize a diverse group of specialized investment strategies and invest the assets in a wide variety of securities and other financial instruments, including, but not limited to, common and preferred stocks, bonds and other debt securities, convertible securities, limited partnership interests, mutual fund shares, options, warrants, commodities, futures, derivatives (including swaps, forward contracts and structured instruments), collateralized loan obligations, securities lending and other lending structures, currencies, monetary instruments and cash and cash equivalents. Prophecy Management believes that an active allocation approach is critical to delivering consistent returns. Prophecy will regularly evaluate and monitor both existing and potential investment managers based upon performance, correlation and market conditions.

The investment strategies tend to favor will shift depending on the current economic and investment environment. Prophecy intends to consider investment managers and sub advisors employing a broad range of investment strategies, but primarily the assets will be invested in U.S. and Canadian equities, equity options and exchange traded funds using multiple styles.

Prophecy's portfolio will be constructed using the following principles:

- ***Strategy Due Diligence.*** Strategy selection and portfolio construction are a function of qualitative (and, to a lesser extent, quantitative) considerations. Qualitatively, Prophecy must believe that the underlying investment thesis of each strategy has the ability to generate excess return and that the investment

managers have the experience, intellect and resources to extract those returns. Realized and back-tested returns will be analyzed for market sensitivities and stability.

- ***Selection of Uncorrelated Strategies.*** The strategies should have: (i) independent alpha generation processes; (ii) varying market scenario sensitivities; (iii) theoretical risk exposure differences; and (iv) low, negative and mutually independent correlations.
- ***Asset Allocation Decision.*** Qualitatively, various factors such as business risks, execution risk, scalability, the potential for competitive degradation of returns, degree of discretion and projected return stability.

### ***Risk Management.***

If a investment manager breaches pre-determined contractual loss limits with respect to an account, such account will be closed until such investment manager adds new personal capital into that account or the account will be de-leveraged by Prophecy. There will be monthly and daily volatility guidelines for each investment manager account. Additionally, Prophecy will have live, 100% transparency of all positions from all investment managers.

Prophecy believes in an extensive analytical approach to the entire investment process, from researching the broad universe of available investment managers and identifying select investment managers for further consideration, to interviewing these select investment managers and monitoring their performance on an ongoing basis.

The development of an investment strategy is a continuous process, and Prophecy's investment strategy and methods may therefore be modified from time to time. The investment strategy for a specific client may be more specifically tailored to a client based upon the objectives stated by the client during consultations or in such client's written agreement.

There can be no assurances or guarantees that (i) Prophecy's investment strategy will prove successful, or (ii) clients will not lose all or a portion of their investment. Investing in securities is speculative and involves risk of loss that clients should be prepared to bear. All investment programs have certain risks that are borne by the investor. Prophecy's investment approach constantly keeps the risk of loss in mind. Some of the investment risks investors may face include:

**Investment and Trading Risks in General.** All securities investments risk the loss of capital. The value of a client's portfolio's assets will fluctuate as the stock or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.

**Management Risk.** Portfolios are subject to management risk because they are actively managed investment funds. Prophecy will apply its investment techniques and risk analyses in making investment decisions for all portfolios, but there is no guarantee that its techniques will produce the intended results. For research or investment techniques that incorporate, or rely upon, quantitative models, there is no guarantee that these mathematical models will generate accurate forecasts, reduce risks or otherwise produce the intended results.

**Regulatory Risk.** Statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures and federal and state regulatory agencies. The introduction of new legislation or amendments to existing legislation and regulations (including changes in how they are interpreted or implemented) by governments, the decisions of courts and tribunals and the rulings and decisions of regulatory authorities, can adversely impact Prophecy's returns. The regulatory environment for private investment funds is evolving, and changes in the regulation of these funds may adversely affect the value of investments held by Prophecy, the cost of compliance with applicable regulations, and the ability of Prophecy.

Investments in Securities and Other Assets Believed to Be Undervalued. Prophecy or the investment managers may invest 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, they also involve a high degree of financial risk and can result in substantial losses. Returns generated from such 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 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, Prophecy may be forced to hold such investments for a substantial period of time before realizing their anticipated value.

Short Sales. A short sale involves the sale of a security by Prophecy that a client does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. In the United States, when a short sale is made, the seller must leave the proceeds thereof with the broker and deposit with the broker an amount of cash or U.S. Government securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss.

Leverage. Prophecy may, subject to applicable regulations, leverage its client's capital. There are no restrictions on borrowing capacity other than limitations imposed by lenders and any applicable credit regulations. Using leverage usually results in a client's net assets increasing or decreasing at a greater rate than if borrowed money is not used.

Other Investments.

Prophecy may use some or all of the investment strategies described above or other investment strategies in its discretion.

Please note that there are many other circumstances not described here that could adversely affect a client's investment and prevent a portfolio from reaching its objective. Specifically, clients should review the objectives and risks of privately placed pooled vehicles detailed in the offering memoranda and subscription documents related to each of those vehicles, which are listed in Prophecy's Form ADV Part 1.

More detailed terms, strategies and risks applicable to the Funds are described in each Fund's organizational and offering documents.

## **Item 9 Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Prophecy or the integrity of its management.

Niether Prophecy nor any of its affiliates have reportable information applicable to this Item.



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

Jeffrey Spotts and John Hughes are the owners of partnership interests in Prophecy as well as the members of the general partner of Prophecy. In addition, Jeffrey Spotts is the principal owner and managing member of Prophecy Trading Advisors GP, LLC, the general partner of some Fund clients.

Investors to whom the Hedge Fund is offered will receive a private placement memorandum and other offering documents. You should refer to the offering documents for a complete description of the fees, investment objectives, risks and other relevant information associated with investing in the Hedge Fund. Persons affiliated with our firm may have made an investment in the Hedge Fund and may have an incentive to recommend the Fund over other investments.

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

Prophecy adheres to the code of ethics adopted pursuant to SEC rule 204A-1. Prophecy's Code of Ethics (the "**Code**") includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of cross-trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. Prophecy's employees and persons associated with Prophecy are required to follow the Code and each of them must acknowledge the terms of the Code annually, or as amended.

The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Prophecy will not interfere with (i) making decisions in the best interest of clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Prophecy's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Employee trading is continually monitored under the Code, and to reasonably prevent conflicts of interest between Prophecy and its clients. Prophecy's clients or prospective clients may request a copy of the Code by contacting John Hughes, Chief Compliance Officer at 212-328-9563.

Because Prophecy has allocated all or substantially all of its assets under management to investment managers or sub-advisors, there is little or no risk of conflicts of interest between Prophecy and its clients.

It is Prophecy's policy that it will not affect any principal cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account.

An agency cross transaction is a transaction in which an investment adviser acts as the broker for both the seller and purchaser of a security (and either the seller or the purchaser is a client). Prophecy or any of its affiliates may engage in agency cross transactions without obtaining the specific consent of the client if the conditions of Rule 206(3)-2 have been met. An Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Although it is not Prophecy's practice to do so, from time to time, Prophecy may seek to execute transactions between client accounts (including rebalancing trades between client accounts). Transactions between client accounts are not permitted if they would constitute principal trades or trades for which Prophecy or its affiliates are compensated as brokers unless each client's consent has been obtained.

Prophecy and its associated persons serve as the general partner or are affiliated with one or more private funds (private pooled investment vehicles) in which you may be solicited to invest. Persons associated with our firm may have significant investments in the private funds or have other financial interests (e.g. General Partner, Officers, Board Members, etc.) in the private fund(s). This is a conflict of interest because we have investments and/or are compensated by the private fund(s). If you are an investor in a private fund(s), please refer to the private funds' offering documents for detailed disclosures regarding the private fund(s).

## **Item 12 Brokerage Practices**

Currently, Prophecy will not allow clients to direct Prophecy to use a specific broker-dealer to execute transactions. Clients must use the broker-dealers that Prophecy recommends. Not all investment advisors require their clients to trade through specific brokerage firms. By requiring clients to use a directed broker, Prophecy believes it may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

Prophecy is not committed to continue its brokerage relationships with any particular brokers for any minimum period, and Prophecy may select other or additional brokers to act as broker for its clients.

The brokerage commissions and/or transaction fees charged by executing brokers are exclusive of and in addition to Prophecy's fees. Although the commissions paid by Prophecy's clients shall comply with Prophecy's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Prophecy determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. To fulfill this obligation, Prophecy generally must execute securities transactions in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances. In deciding what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution. In seeking best execution, Prophecy will consider the full range of the broker's services, including the value of research provided and execution capability, commission rate, financial responsibility and responsiveness.

Prophecy's securities transactions can be expected to generate substantial brokerage commissions and other compensation, all of which the client, and not Prophecy, will be obligated to pay. Prophecy has complete discretion in deciding which brokers and dealers a client will use and in negotiating the rates of compensation the client will pay.

Because Prophecy has allocated its assets under management to investment managers or sub-advisors, it does not have occasion to execute orders for multiple client accounts at the same time; and there is no risk, therefore, of Prophecy failing to fairly allocate or aggregate trades among clients.

In an unusual instance whereby multiple client accounts managed by Prophecy are participating in the same investment, Prophecy will use its reasonable efforts to execute orders for all of the participating accounts on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure levels, the investment objective and underlying portfolio positions of the client accounts. Prophecy may open "average price" accounts with brokers. In an "average price" account, purchase and sale orders placed during a trading day on behalf of the client accounts are combined, and securities bought and sold pursuant to such orders are allocated among such accounts on an average price basis. Orders may be combined for all participating accounts and if multiple orders are not filled at the same price, they may be allocated among participating accounts on an equitable basis. If Prophecy in such instance does not aggregate one client's

transactions with transactions on behalf of its other client accounts, the client accounts may be competing for similar positions, and depending on whose order is placed first, the difference in timing may result in some accounts receiving better execution than others.

In certain instances, a security to be sold by Prophecy for one client account may be considered appropriate for purchase by another client account. In such instances, Prophecy may elect to "cross" the corresponding sale(s) and purchase(s). Further, in order to balance the relative portfolio holdings between one client account and other client accounts, Prophecy may elect to "cross" the corresponding sale(s) and purchase(s). Any such security will be crossed at an independently determined market price which may incur commissions if required to be transacted on a local exchange. In addition, cross transactions might also be subject to customary custodian and transfer fees. No such transactions will be effected unless Prophecy determines that it is in the best interest of each client account. Prophecy will not accept commissions and/or fees generated from a cross transaction. No such transactions will be permitted with respect to any client account governed by the U.S. Employee Retirement Income Security Act of 1974, as amended.

### **Item 13 Review of Accounts**

All accounts managed by Prophecy are reviewed on a monthly basis by the chief compliance officer of Prophecy, to assure conformity with client objectives and guidelines. In addition, all accounts are reviewed in light of emerging trends and developments as well as market volatility.

Reports showing performance are sent to clients monthly by Prophecy and by the qualified custodian. In addition, realized gains/losses, interest and dividends earned are reported to clients annually. In addition, clients will have their annual audited financial statements sent to such Fund client's investors. Prophecy, or an agent of Prophecy, may communicate with its clients by using a variety of means including, but not limited to, telephone, e-mail, physical mail and facsimile.

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

Prophecy use independent third party solicitors to refer investors to a Fund and pay a portion of its advisory fees to such solicitors, in accordance with the Advisers Act. Prophecy may engage underwriters, brokers, dealers or finders to assist in the offering of interests in the Fund. Except for commissions on brokerage transactions (which will be paid by clients), Prophecy will pay (and will not charge clients) fees and commissions that may be payable to any such brokers or finders for assisting in the offering or sale of interests in such Fund.

Prophecy has a commission sharing arrangement (a "CSA") whereby it compensates certain licensed individuals (through their broker/dealer) who source managers to consult Prophecy on trades to be made on Prophecy's platform. Prophecy, the licensed individual, and Prophecy's Prime Brokers are parties to certain three-way agreements. All compensation goes directly from the Prime Brokers to the manager's broker/dealer. The CSA payment is made monthly from a portion of the commissions generated by the particular manager in connection with the transactions he makes in his trading account.

Prophecy never receives or pays directly the commissions and Prophecy Trading Advisors, LP (one of the Funds) ultimately absorbs these costs as part of its overall trading expenses. Since the managers of the trading accounts customarily receive 85% of the profits generated in their respective trading accounts, they ultimately receive 85% of the commissions. In a month in which there are no profits, the manger absorbs 100% of the commission cost.

## **Item 15 Custody**

Prophecy maintains client funds and securities at a qualified custodian. As stated above in Item 13, Review of Accounts. Prophecy's qualified custodian makes available to clients monthly account statements, which clients should carefully review.

Jeffrey Spotts and John Hughes are the owners of partnership interests in Prophecy as well as the members of the general partner of Prophecy. In addition, Jeffrey Spotts is the principal owner and managing member of Prophecy Trading Advisors GP, LLC, the general partner of some Fund clients. Prophecy is therefore deemed to have custody of clients' assets.

To ensure compliance with Rule 206(4)-2 under the Advisers Act, Prophecy reasonably believes that all investors in the Funds will be provided with audited financial statements, prepared by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles.

## **Item 16 Investment Discretion**

Prophecy typically receives discretionary authority from the client at the outset of an advisory relationship. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the individual client account. The only limitations that may be placed on Prophecy's investment discretion are those outlined in writing. Such limitations are typically included within, for example, the Funds' offering documentation (e.g. private placement memorandum). These limitations may include exclusions of certain types of industries and/or countries.

## **Item 17 Voting Client Securities**

Item 17 is not applicable to Prophecy. Prophecy does not vote proxy solicitations received on behalf of clients from the issuers of securities held in client accounts. Clients will receive voting materials directly from the broker-dealer and/or transfer agent of record.

## **Item 18 Financial Information**

Registered investment advisors are required in this section to provide certain financial information or disclosures about Prophecy's financial condition. Prophecy has no financial commitment(s) that are likely to impair its ability to meet contractual and fiduciary commitments to clients nor has it ever been the subject of a bankruptcy proceeding.