

BROCHURE OF
Prophecy Asset Management, Inc.

A Delaware Limited Liability Company registered with the Securities and Exchange
Commission as an Investment Adviser IARD #134556/SEC No.801-64225

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THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF PROPHECY ASSET MANAGEMENT, INC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT 212-328-9564/JEFFREY.SPOTTS@PROPHECYFUND.COM.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION (“SEC”), NOR THE STATE OF NEW YORK, 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 PROPHECY ASSET MANAGEMENT, INC. ALSO IS AVAILABLE ON THE SEC’S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.

The Date of this brochure (“Brochure”) is

March 31, 2011

The delivery of the 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 documents containing information about our firm.

Material Changes to Brochure

There are no material changes to the brochure since the last annual update.

Part 2A – Disclosures about Prophecy Asset Management, Inc.

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I. Part 2A – DISCLOSURE ITEMS ABOUT FIRM

Item 4. **General Information about Firm:**

(A) **Operational and Organizational Information:** PROPHECY ASSET MANAGEMENT, INC. (“Firm”), a U.S. Securities and Exchange Commission (“SEC”) registered investment adviser. 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 April, 2001. The principal owner of Firm is Jeffrey Spotts.

(B) **Types of Advisory Services Offered:** Firm provides investment management services relating to Prophecy Capital Management, LP (“Fund”), a Delaware limited partnership and separately managed accounts such as individuals, pensions and profit sharing plans, trusts, estates, charitable organizations, corporations and other private investment vehicles (together with the Fund, the “Clients”). Firm invests on a discretionary or non-discretionary basis. The advisory services include, among other things, providing advice regarding asset allocation and the selection of investments and performance monitoring.

Firm does not hold out as specializing in a particular type of advisory service. Please review Firm’s investment guidelines, specified below under “Client Investment Guidelines and Parameters.”

(C) **Client Investment Guidelines and Parameters:** In certain instances, upon client request, Firm may tailor its advisory services to the individual needs of separately managed accounts. Clients may also impose restrictions on investing in certain securities or types of securities by specifying such restrictions in a written notice to Firm. Firm provides discretionary and/or non-discretionary investment advisory services to all fee paying clients’ accounts. In connection with managing the investments of its separate account clients, such account’s investment management agreements provide investment guidelines and parameters that provide the context within which Firm renders its investment management services, subject to such investment decisions being approved by the relevant client. Guidelines, parameters and restrictions on investment are submitted to the client in writing, via the Private Placement Memorandum (PPM) and/or the Portfolio Management Agreement (PMA).

(D) **Wrap Fee Programs:** Firm does not participate in wrap fee programs.

(E) **Client Assets Under Management:**

(i) Discretionary: \$ 5,000,000 as of 3/31/11

(ii) Non-discretionary: \$ 13,000,000 as of 3/31/11

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 fee arrangements with the client.

Management fees for separately managed or pooled investment accounts are calculated based on an annual percentage of the value of the assets under management.

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

(B) **Payment of Fees:** Management fees are billed periodically (monthly or quarterly) as specified in the relevant investment management agreement or applicable pooled vehicle transaction document. Management fees are deducted at the beginning of each quarter. Incentive fees are deducted approximately two weeks after the end of the calendar year.

Additional Fees and Expenses: In addition, Firm is responsible for the placement of the portfolio transactions of Fund and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price. Firm will not commit to provide any level of brokerage business to any broker. Firm may utilize the services of one or more introducing brokers who will execute Fund's brokerage transactions through the prime broker (or other broker and custodian who will clear Fund's transactions).

Securities transactions for Fund are executed through brokers selected by Firm in its sole discretion and without the consent of Fund. In placing portfolio transactions, Firm will seek to obtain the best execution for Fund, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; special execution capabilities; clearance; settlement; reputation; on-line pricing; block trading and block positioning capabilities; willingness to execute related or unrelated difficult transactions in the future; order of call; on-line access to computerized data regarding Clients' accounts; performance measurement data; the quality, comprehensiveness and frequency of available research and related services considered to be of value; the availability of stocks to borrow for short trades; and the competitiveness of commission rates in comparison with other brokers satisfying Firm's other selection criteria.

- **Organizational Expenses:** Fund may, in the General Partner's discretion, pay or reimburse the General Partner, Firm and/or their respective affiliates for all expenses related to the organization and initial offering of Fund, including, but not limited to, legal and accounting fees, printing and mailing expenses and government filing fees (including blue sky filing fees).
- **Operating Expenses:** Fund shall pay, or reimburse the General Partner, Firm and their respective affiliates for, (i) all expenses incurred in connection with the ongoing offer and sale of Interests, including, but not limited to, marketing expenses, documentation of performance and the admission of Clients, (ii) all operating expenses of Fund such as tax preparation fees, governmental fees and taxes, administrator fees, communications with Clients, and ongoing legal, accounting, auditing, bookkeeping, consulting and other professional fees and expenses, (iii) all Fund trading and investment related costs and expenses (e.g., brokerage commissions, margin interest, expenses related to short sales, custodial fees, clearing and settlement charges), and (iv) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims, assertion of rights or pursuit of remedies, by or against Fund, including, without limitation, professional

and other advisory and consulting expenses and travel expenses, and whether or not pursuant to bankruptcy or other legal proceedings, or participation in informal committees of creditors or other security holders of an issuer.

Each, the General Partner, Firm or any of their respective affiliates, in its sole discretion, may from time to time pay for any of the foregoing Fund expenses. The General Partner and Firm may elect to be reimbursed for such expenses, or to waive their right to reimbursement for any such expenses, as well as terminate any such voluntary payment or waiver of reimbursement. Any separately managed account clients will also bear any agreed upon expenses as set forth in the relevant investment management agreement.

Termination of Services: Termination terms are specified in the relevant Partnership offering documents and separately managed account investment management agreement. Generally, services may be terminated effective as of the close of business on the last day of any fiscal year by giving Firm not less than 30 days' written notice after the one year anniversary of the investment, or otherwise as Firm may determine in its sole discretion.

- (D) **Fees Paid in Advance:** Firm does not permit clients to pay any fees in advance.
- (E) **Additional Compensation of Supervised Persons:** No supervised person accepts compensation for the sale of securities or other investment products.
1. 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. **Not Applicable.**
 2. 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. **Not Applicable.**

3. If commissions provide more than 50% of Firm's revenue or compensation, disclose: **Not Applicable.**
4. Firm does/does not reduce advisory fees to offset the commissions and/or markups that it receives, as follows: **Not Applicable.**

Item 6. Performance Based Fees:

Partnerships: 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, the client will be charged a fee contingent upon the performance within the client's account. The Performance Fee will be tied to the capital appreciation within the account as evaluated at the end of each calendar year. 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 Partnership. The Performance Fee shall be in addition to the proportionate allocations of income and profits, or losses, to Firm and/or its affiliates based upon their capital accounts relative to the capital accounts of all investors. The Performance Fee will be calculated 20% of net capital appreciation attained within the client's account (net of all expenses, including any commissions, etc.). 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.

Separate Accounts: Firm receives from clients a mutually agreed upon annual performance fee, which typically is 20% of such clients' net income for the year in excess of any previously recovered net losses, although Firm reserves the right to modify such fees on a case by case basis. Advisory 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.

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 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 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 between 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. 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 a higher valuation. 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.

Firm 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 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.

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 the Performance Fee because it will receive a greater profit from the accounts which 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:

The types of clients that are provided advisory services include separate managed accounts and private investment funds. Separate managed accounts are required to have a \$100,000.00 (\$100 thousand) minimum. There are no restrictions for maintaining account sizes, contributions or other such requirements.

The Fund was formed to pool investment funds of its Clients for the purpose of investing and trading in a wide variety of securities and financial instruments, domestic and foreign, primarily focusing on publicly traded equity securities. For investment into the Fund, there is a \$1,000,000.00 (\$1 million) minimum.

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

- (A) **Methods of Analysis and Investment Strategies:** The Firm's investment objective is to seek consistent absolute returns primarily through capital appreciation, while also attempting to preserve capital and mitigate risk through hedging activities. The Firm applies technical and fundamental analysis and will invest and trade in a wide variety of securities and financial instruments, domestic and foreign, of all kinds and descriptions, whether publicly traded or privately placed, 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), currencies, monetary instruments and cash and cash equivalents.

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

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

Competition. The securities industry and the varied strategies and techniques to be engaged in by Firm are extremely competitive and each involves a degree of risk. The Fund will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

Market Volatility. The profitability of the Fund substantially depends upon Firm correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the

movements of interest rates. The Fund cannot guarantee that Firm will be successful in accurately predicting price and interest rate movements.

Fund's Investment Activities. The Fund's investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by Firm. Such factors include a wide range of economic, political, technological, competitive and other conditions (including acts of terrorism or war) which may affect investments in general or specific industries or companies. The securities markets may be volatile, which may adversely affect the ability of the Fund to realize profits. As a result of the nature of the Fund's investing activities, it is possible that the Fund's financial performance may fluctuate substantially from period to period.

Accuracy of Public Information. Firm selects investments for the Fund, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to Firm by the issuers or through sources other than the issuers. Although Firm evaluates all such information and data and sometimes seeks independent corroboration when Firm considers it is appropriate and when it is reasonably available, Firm is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Investments may not perform as expected if information is inaccurate.

Investments in Securities and Other Assets Believed to Be Undervalued. Firm's investment program contemplates that a portion of the Fund's portfolio may be invested in securities and other assets that Firm believes to be undervalued. 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 the Fund's investments may not adequately compensate for the business and financial risks assumed. Such investments 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 disrupt severely 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 Fund may be forced to hold such investments for a substantial period of time before realizing their anticipated value. During this period, a portion of the Fund's funds would be committed to the investments made, thus possibly preventing the Fund from investing in other opportunities.

Investments in Small Capitalization and Unseasoned Companies. Firm's investment program contemplates that a portion of the Fund's portfolio may be invested in small and/or unseasoned companies with small market capitalization. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger 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, the Fund may have to sell portfolio holdings 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.

Leverage. When deemed appropriate by Firm and subject to applicable regulations, the Fund may incur leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, 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. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Fund. If the interest expense on this leverage were to exceed the net return on the investments made with borrowed funds, the Fund's use of leverage would result in a lower rate of return than if the Fund were not leveraged.

If the amount of leverage which the Fund may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Fund's portfolio will have disproportionately

large effects in relation to the Fund's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional leverage will generally cause the net asset value of the Fund to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the leveraged capital fails to cover its cost to the Fund, the net asset value of the Fund will generally decline faster than would otherwise be the case.

Certain of the Fund's trading and investment activities in securities and other financial instruments may be subject to U.S. Federal Reserve Board ("FRB") margin requirements, which are computed each day. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer. When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a "margin call" on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer's position may be closed out. In the event of a precipitous drop in the value of the assets managed by the Fund, the Fund might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. With respect to the Fund's trading activities, the Fund, and not the Clients personally, will be subject to margin calls.

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. 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. Firm's investment program contemplates that a portion of the Fund portfolio may be invested, from time to time, in selling securities short. Although Firm may sell short a variety of assets, such as bonds and currencies, it expects most short trades to be in equity securities. Short selling involves the sale of a security that the Fund 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 Fund must borrow securities from a third party lender. The Fund 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 Fund 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 his right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays the Fund a fee for the use of the Fund'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 Fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Options and Other Derivative Instruments. Firm may invest, from time to time, in options and derivative instruments, including buying and writing puts and calls on some of the securities held by the Fund in an attempt to supplement income derived from those securities. The prices of many derivative instruments, including many options and swaps, are highly volatile. The value of options and swap agreements also depends upon the price of the securities, currencies or other assets underlying them. 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. Additionally, the Fund is subject to the risk of the failure of any of the exchanges on which its 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 the Fund were permitted to expire without being sold or exercised, the 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 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 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 the 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 its portfolio positions as a result of changes in currency exchange rates, in interest rates and in 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 the Fund to hedge against a fluctuation at a price sufficient to protect the 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.

Firm is 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 Firm's ability to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof.

Market or Interest Rate Risk. The Fund may invest, from time to time, in fixed income securities and instruments. The price of most 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 the Fund holds a fixed income security to maturity, the change in its price before maturity may have little impact on the Fund's performance. However, if the Fund has to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss to the Fund.

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 Fund is exposed to reinvestment rate risk – the 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, the Fund may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, the 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 the 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 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.

Investments in Non-U.S. Investments. The Fund may invest and trade a portion of its assets in non-U.S. securities and other assets (through American Depositary Receipts and otherwise), 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 foreign issuers and markets are subject. Such risks may include:

- Political or social instability, the seizure by foreign 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 foreign governments.

- Foreign securities and other assets often trade in currencies other than the U.S. dollar, and the Fund may directly hold foreign currencies and purchase and sell foreign currencies through forward exchange contracts. Changes in currency exchange rates will affect the 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 the Fund's investments to decline. Some foreign currencies are particularly volatile. Foreign governments may intervene in the currency markets, causing a decline in value or liquidity of the Fund's foreign currency holdings. If the Fund enters into forward foreign currency exchange contracts for hedging purposes, it may lose the benefits of advantageous changes in exchange rates. On the other hand, if the 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.

Currency Control. It is sometimes the case that emerging market governments alter the exchange rate policy of a currency without advance notice. While Firm will seek to assess the political sentiment on this topic on an ongoing basis in an effort to preempt a change in policy, such foresight is not always possible.

Emerging Markets. In addition to risks generally associated with trading securities, Firm may invest in emerging markets which are subject to significant risks due to the general lack of infrastructure in their legal, judicial, regulatory and settlement systems. Investors in emerging market securities are subject to uncertainty regarding their rights and legal recourse. Investing in emerging market securities exposes the Fund to higher risk/reward parameters.

Political and Economic Risks of Emerging Markets. Many emerging nations are undergoing rapid institutional change, involving the restructuring of economic, political, financial and legal systems in ways that are not always simple to interpret. In such nations, there is an increased risk of political instability and diplomatic or economic events, which might adversely affect trading activities, and the enforceability of contractual obligations.

Regulatory and tax environments are subject to rapid or frequent change without review or appeal in even the most stable common law jurisdictions. Many emerging markets suffer from underdeveloped capital markets, corporate governance, tax codes and clearing and settlement arrangements. Firm intends to remain abreast of regulatory developments in markets where it invests and, as such, attempt to mitigate these risks accordingly.

Exchange Rate Fluctuations. Investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. The Fund intends to value its holdings and to make distributions in U.S. dollars. Thus, changes in currency exchange rates adverse to the U.S. dollar may affect adversely the value of such holdings. Among the factors that may affect currency values are trade balances, the appropriateness of interest rates, the shape of the yield curve, the degree of central bank independence and credibility, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Investment Manager will monitor these risks and may opportunistically hedge currency exposure.

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

Volatility of Currency Prices. The profitability of the Fund's portfolio depends, in part, upon Firm correctly assessing the future price movements of currencies. However, price movements of currencies are difficult to predict accurately because they 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. The Fund cannot guarantee that Firm will be

successful in accurately predicting currency price and interest rate movements.

- (C) **Security-Specific Risks:** Please see the response to Item 8(B), above.

Item 9. Disciplinary Information:

The firm requires its employees to immediately disclose, in writing, any complaint, written or oral, regarding their dealings with the investor(s).

Neither Firm nor any supervised person has been involved in any legal or disciplinary event that is material to a client's or prospective client's evaluation of Firm's advisory business or management as indicated in the responses to Item 9(A) – 9(C), below.

- (A) A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which Firm or a management person:
1. 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. **Not Applicable.**
 2. 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. **Not Applicable.**
 3. Was found to have been involved in a violation of an investment-related statute or regulation. **Not Applicable.**
 4. 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. **Not Applicable.**
- (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:

1. Was found to have caused an investment-related business to lose its authorization to do business. **Not Applicable.**
 2. 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. **Not Applicable.**
 - (b) Barring or suspending Firm's or a management person's association with an investment-related business. **Not Applicable.**
 - (c) Otherwise significantly limiting Firm's or a management person's investment-related activities. **Not Applicable.**
 - (d) Imposing a civil money penalty of more than \$2,500 on Firm or a management person. **Not Applicable.**
- (C) A self-regulatory organization (SRO) proceeding in which Firm or a management person:
1. Was found to have caused an investment-related business to lose its authorization to do business. **Not Applicable.**
 2. 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. **Not Applicable.**

Item 10. Other Financial Industry Activities and Affiliations:

- (A) Neither Firm nor its management persons has existing or pending affiliations with a broker-dealer or registered representative of a broker-dealer.
- (B) Neither Firm nor its management persons has existing or pending financial industry affiliations, such as with a broker-dealer, Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), Commodity Trading Advisor (CTA) or other investment adviser.

(C) Firm and/or its management persons have a relationship or arrangement that is material to its advisory business or to its clients with the related persons as discussed below.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker. **Not Applicable.**
2. 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). **Not Applicable except as discussed at Item 4.(A)**
3. Other investment adviser or financial planner. **Not Applicable.**
4. Futures commission merchant, commodity pool operator, or commodity trading advisor. **Not Applicable.**
5. Banking or thrift institution. **Not Applicable.**
6. Accountant or accounting firm. **Not Applicable.**
7. Lawyer or law firm. **Not Applicable.**
8. Insurance company or agency. **Not Applicable.**
9. Pension consultant. **Not Applicable.**
10. Real estate broker or dealer. **Not Applicable.**
11. Sponsor or syndicator of limited Funds. **Not Applicable.**

(D) Does Firm recommend or select other investment advisers for your clients and receive compensation from those advisers that creates a conflict of interest? Does Firm have other business relationships with such advisers that create a conflict of interest? If so, describe all conflicts of interest and how Firm will address them. **Not Applicable.**

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

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

(A) **Code of Ethics:** The code of ethics of Prophecy (“Code of Ethics”) is based upon the premise that all Prophecy 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 the clients’ interests ahead of those of Prophecy; (3) observe Prophecy’s personal trading policies so as to avoid “front-running” and other conflicts of interests between Prophecy 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 the Chief Compliance Officer and that personnel who violate the Code of Ethics are subject to sanctions by Prophecy, including termination.

Other Policies and Procedures of Firm

1. **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.
2. **Trade Error Policy:** Firm has internal controls in place to prevent trade errors from occurring. On those occasions when such an error nonetheless occurs, Firm will use reasonable efforts to correct the error. If the error cannot be corrected, Firm does not intend to make any adjustment, regardless of whether the error works to the benefit or detriment of the Fund. Firm will endeavor to maintain a record of each trade error, including information about the trade and how such error was corrected or attempted to be corrected.
3. **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 Fund; and
- Information about any bank accounts clients may use for transfers to or from 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.

Opt Out Provision: Please be advised that clients have the right to "opt out" of the information sharing as set forth above.

- (B) In investment funds where Firm will serve as general partner and/or investment adviser, Firm may make investments in those funds available to qualified clients whose investment strategies are consistent with those of the investment funds. Firm does not intend to advise clients as to the appropriateness of investing in such private investment funds, and Firm will not receive any compensation for doing so (except to the extent that Firm receives advisory and other fees from the private investment funds) or for selling interests in such private investment funds. However, because of the relationship between Firm and such private investment funds, Firm could be considered to have recommended the investment should a person who is otherwise a client of Firm invest.

Personnel of Firm may trade in the same securities traded for advisory clients. However, it is the policy of Firm not to give preference to orders for personnel associated with the firm regarding such trading. Firm and its employees (collectively for the purposes of this paragraph, "Firm") may personally invest in the same securities that are purchased for clients and may own securities that are subsequently purchased for clients. If a security is purchased or sold for clients and Firm on the same day, either the clients and Firm will pay or receive the same price, or the clients will receive the more favorable price. Firm may also buy or sell a specific security for their own account based on personal investment considerations, which Firm does not deem appropriate to buy or sell for clients.

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. 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, “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.

- (C) 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.

See our response to Item 11(B), above.

- (D) 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 its own (or the related person's own) account.

See our response to Item 11(B), above.

Item 12. Brokerage Practices:

The factors that Firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation are described below:

- (A) **Factors Considered in Selecting or Recommending Broker-Dealers:** Securities transactions for clients are executed through brokers selected by Firm in its sole discretion and without the consent of clients, unless, if specified in the applicable investment management agreement, a particular separately managed account client is authorized to instruct Firm to execute some or all securities transactions for its account with or through one or more brokers designated by such client (please see Item 12.(A)3.(b) below]. In placing portfolio transactions, Firm will seek to obtain best execution, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; special execution capabilities; clearance; settlement; reputation; on-line pricing; block trading and block positioning capabilities; willingness to execute related or unrelated difficult transactions in the future; order of call; on-line access to computerized data regarding clients' accounts; performance measurement data; the quality, comprehensiveness and frequency of available research and related services considered to be of value; the availability of stocks to borrow for short trades; and the competitiveness of commission rates in comparison with other brokers satisfying Firm's other selection criteria.

1. **"Soft Dollar" Policy:** In addition to research services, Firm may be offered other non-monetary benefits by broker-dealers that it may engage to execute securities transactions on behalf of clients. 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

clients' 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 clients' or Firm's or its 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 Firm, 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 leases, 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 Firm.

The foregoing benefits may be available for use by Firm in connection with transactions in which clients will not participate. The availability of these benefits may influence Firm to select one broker rather than another to perform services for clients. Nevertheless, Firm will attempt to assure either that the fees and costs for services provided to clients by

brokers offering these benefits are not materially greater than they would be if the services were performed by equally capable brokers not offering such services or that clients also will benefit from the services.

Firm has the option to use “soft dollars” generated by clients 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 (the “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 Firm elects to use its soft dollars for payment of all or a portion of Firm’s or its 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 Firm or its affiliates creates a conflict of interest between Firm and clients because the clients pay for such products and services that are not exclusively for the benefit of clients and that may be primarily or exclusively for the benefit of Firm. To the extent that Firm is able to acquire these products and services without expending its own resources (including management fees paid by clients), Firm’s use of soft-dollars would tend to increase Firm’s profitability. In

addition, the availability of these non-monetary benefits may influence Firm to select one broker rather than another to perform services for clients. Firm 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 a client's interest in receiving the most favorable execution. Moreover, Firm may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits. In the event that Firm uses soft dollar benefits, Firm will use such benefits to service all client accounts rather than only those accounts that paid for the benefits.

Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce clients to Firm, provided that any such fee or commission will be paid solely by Firm or its affiliates and no portion thereof will be paid by clients.

- (a) When Firm uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Firm receives a benefit because Firm does not have to produce or pay for the research, products or services. *Please refer to Item 12.(A)(1).*
- (b) Firm may have an incentive to select or recommend a broker-dealer based on Firm's interest in receiving the research or other products or services, rather than on Clients' interest in receiving most favorable execution. *Please refer to Item 12.(A)(1).*
- (c) Firm may cause Clients 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)(1).*
- (d) Firm may use soft dollar benefits to service all Clients or only those Clients that paid for the benefits. Firm may or may not seek to allocate soft dollar benefits to Clients proportionately to the soft dollar credits the accounts generate. *Please refer to Item 12.(A)(1).*

- (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: *Please refer to Item 12.(A)(1).*
- (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: *Please refer to Item 12.(A)(1).*

2. Brokerage for Client Referrals:

- (a) Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce clients to Firm, provided that any such fee or commission will be paid solely by Firm or its affiliates and no portion thereof will be paid by clients. As a result, Firm may have an incentive to select or recommend a broker based on Firm's interest in receiving client referrals rather than on clients' interest in receiving most favorable execution. Because such referrals, if any, are likely to benefit Firm but will provide an insignificant (if any) benefit to clients, Firm will have a conflict of interest with clients when allocating client brokerage business to a broker who has referred investors to a client [and/or the Fund]. To prevent client brokerage commissions from being used to pay referral fees, Firm will not allocate client brokerage business to a referring broker unless Firm determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to clients.
- (b) The procedures used during the last fiscal year to direct client transactions to a particular broker-dealer in return for Client referrals were: *Please refer to Item 12.(A)(2)a.*

3. **Directed Brokerage:**

Firm may also direct some of Fund brokerage business to brokers who refer prospective investors to Fund. Because such referrals, if any, are likely to benefit Firm, the General Partner and their affiliates but will provide an insignificant (if any) benefit to Clients, Firm may have a conflict of interest with Fund when allocating Fund brokerage business to a broker who has referred investors to Fund. To prevent Fund brokerage commissions from being used to pay investor referral fees, Firm will not allocate Fund brokerage business to a referring broker unless Firm determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to Fund. Please also refer to the response to Item 12(A) above:

- (a) Firm does not recommend, request or require a client to direct Firm to execute transactions through a specified broker-dealer.
- (b) Firm does not permit a client to direct Firm to execute transactions through a specified broker-dealer.

- (B) **Aggregation of Orders:** Transactions implemented by Firm for accounts may be effected independently or on an aggregated basis. Firm anticipates that frequently it will decide to purchase or sell the same securities for several clients at approximately the same time. Firm will aggregate orders when it believes aggregation may prove advantageous to clients. When Firm aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and execution cost and will be allocated among Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When Firm aggregates client orders for the purchase or sale of securities, including securities in which its associated person(s) may invest, Firm will do so in a fair and equitable manner. It should be noted that Firm does not receive

any additional compensation or remuneration as a result of aggregation.

Allocation of Trades: Firm may at times determine that certain securities will be suitable for acquisition by clients and by other accounts managed by Firm, possibly including Firm's own accounts or accounts of an affiliate. If that occurs, and Firm is not able to acquire the desired aggregate amount of such securities on terms and conditions which Firm deems advisable, Firm will endeavor in good faith to allocate the limited amount of such securities acquired among the various accounts for which Firm considers them to be suitable. Firm may make such allocations among the accounts in any manner which it considers to be fair under the circumstances, including but not limited to allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

Item 13. Review of Accounts:

- (A) All accounts managed by Firm are reviewed on a monthly basis by Mr. Jeffrey Spotts, 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. Separate account clients are responsible for keeping Firm informed as to any changes in their personal financial condition. Firm cannot make any material changes to a client's portfolio if it is not informed of the client's particular developments.
- (B) The calendar is the main triggering factor of a review of an account, although more frequent reviews may be also be triggered by changes in a client's circumstances, client request, or unusual market activity. Clients may be contacted periodically by Advisor to discuss the management and performance of their Account.
- (C) Reports showing performance are sent to clients monthly by Firm and by the qualified custodian. In addition, realized gains/losses, interest and dividends earned are reported to clients annually. Each investor in the Fund also will receive the following: (i) annual financial statements of the Fund, audited by an independent certified public accounting firm; (ii) in the discretion of Firm or an affiliate of Firm, a periodic letter and/or report discussing the results of the accounts; (iii) copies of such investor's Schedule K-1 to the Fund's tax returns; and (iv) other reports as determined by Firm or an affiliate of Firm in its sole discretion.

Item 14. Client Referrals and Other Compensation:

- (A) Firm does not receive, from any non-Client, any economic benefit associated with advising Clients.
- (B) Firm may use independent third party solicitors to refer investors to Fund and pay a portion of its advisory fees to such solicitors, in accordance with the Advisers Act. Firm may engage underwriters, brokers, dealers or finders to assist in the offering of interests in Fund. Except for commissions on brokerage transactions (which will be paid by Clients), Firm 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 Fund (Refer to Item 12: Directed Brokerage).

Item 15. Custody:

Firm maintains Client funds and securities at a qualified custodian. The qualified custodian will send monthly account statements directly to the Fund. Firm and/or the Fund sends GAAP-compliant audited financial statements to its investors within 120 days of its fiscal year-end.

Item 16. Investment Discretion:

Firm has discretionary and non-discretionary investment authority over client assets that are managed by Firm.

Item 17. Voting Client Securities – Proxy Policy:

- (A) Firm monitors corporate actions of those securities it has purchased on behalf of investors in Fund. Receipt of proxy materials is logged into a proxy control sheet. Proxy votes will generally be submitted electronically but may be submitted by mail. A record of the proxy votes cast will be made and retained by Firm. Investors can obtain information on how the proxies were voted and a detailed description of Firm's policies and procedures regarding proxy voting by requesting such information from Mr. Churchill.

Firm understands and appreciates the importance of proxy voting. To the extent that Firm has discretion to vote the proxies of its investors, Firm will vote any such proxies in the best interests of investors and in accordance with the procedures outlined below.

In evaluating how to vote a proxy, Firm will first determine whether there is a conflict of interest related to the proxy in

question between Firm and its Clients. This examination will include (but will not be limited to) an evaluation of whether Firm (or any affiliate of Firm has any relationship with the company (or an affiliate of the company) to which the proxy relates outside an investment in such company by an investor. If a conflict is identified and deemed “material” by Firm, or a Proxy Voting Committee organized by Firm, Firm will determine whether voting in accordance with these proxy voting guidelines is in the best interests of investors (which may include utilizing an independent third party to vote such proxies). With respect to material conflicts, Firm will determine whether it is appropriate to disclose the conflict to affected investors.

- (B) Firm’s general policy is to not vote proxies on behalf of clients, unless specifically negotiated and set forth in the individual client agreement. In the absence of such an agreement whereby Firm does vote proxies, it is the responsibility of each such client to vote all proxies for securities held in the separate account. Separate account clients will receive proxies directly via their preferred delivery method, which is established at the time that the client opens the account with Firm. **Not Applicable.**

Item 18. Financial Information:

- (A) Firm solicits prepayment of Management Fees on a monthly basis from the Fund. 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 fund 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 Investment Advisers: Not Applicable.