

BROCHURE OF
Prophecy Asset Management, Inc.

[A Delaware Corporation registered with the [Securities and Exchange Commission] as
an Investment Adviser] (IARD #134556/SEC No. 801-64225)

641 Lexington Avenue
13th Floor
New York, NY 10022

Tel. 212-328-9564

Fax. 212-659-0103

www.prophecyfund.com

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION[, NOR THE STATE OF [INSERT STATE],] 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 is

[3/1/2013]

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.

TABLE OF CONTENTS

Part 2A – Disclosures about [Prophecy Asset Management]

Item number	Page number
Item 1 – Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 – General Information about Firm.....	4
Item 5 – Fees and Compensation.....	5
Item 6 – Performance-Based Fees and Side-by-Side Management.....	6
Item 7 – Types of Clients.....	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9 – Disciplinary Information.....	13
Item 10 – Other Financial Industry Activities and Affiliations.....	14
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	14
Item 12 – Brokerage Practices.....	18
Item 13 – Review of Accounts.....	24
Item 14 – Client Referrals and Other Compensation.....	25
Item 15 – Custody.....	25
Item 16 – Investment Discretion.....	25
Item 17 – Voting Client Securities – Proxy Policy.....	26
Item 18 – Financial Information	27

Part 2B – Information about our advisory personnel.....

Item 1 – Cover Page.....	27
Item 2 – Educational Background and Business Experience.....	28
Item 3 – Disciplinary Information	28
Item 4 – Other Business Activities.....	30
Item 5 – Additional Compensation	30
Item 6 – Supervision.....	31

I. Part 2A – DISCLOSURE ITEMS ABOUT FIRM

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

- (A) **Operational and Organizational Information:** PROPHECY ASSET MANAGEMENT, INC. (“Firm”), an 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, a Delaware limited partnership. The firm also provides investment advisory services to Prophecy Prism Advisors LP, and Prophecy Trading Advisors LP and separate managed accounts. (each a “Fund” and collectively, the “Funds”), and to clients, including individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other private investment vehicles (together with the Funds, the “Clients”), 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.
- (C) [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.”]
- (D) **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).

(E) **Wrap Fee Programs:** Not applicable.

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

(i) Discretionary: \$93,000,000 as of 12/29/12

(ii) Non-discretionary: 0 as of 12/29/12

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.

(C) **Additional Fees and Expenses:** 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 born by clients and investors in pooled investment vehicles managed by Firm in addition to any fees directly charged by Firm. The expenses and fees of the Underlying Funds are in addition to the expenses, the management fees and incentive fees charged by Firm. In addition, where Firm invests in affiliated Underlying Funds, Firm 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 Firm 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 Firm or its affiliates in their capacity as a noncontrolling equity owner of such investment manager.]

In addition, clients will incur brokerage and other transaction costs. Clients should review carefully Item 12, which discusses conflicts of interest related to brokerage practices. [Brokerage commissions and/or transaction ticket fees charged by the custodian will be billed directly to the client. Firm will not receive any portion of such commissions or fees from the custodian or client. In addition, clients may incur certain charges imposed by third parties other than Firm in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12(b)-1 fees, and surrender charges, and IRA and qualified retirement plan fees. Management fees and/or performance allocations charged by Firm are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus.]

- **Organizational Expenses:** A Partnership may, at Firm's discretion, pay or reimburse Firm and/or its affiliates for all expenses related to the organization and initial offering expenses of a Partnership, including, but not limited to, legal and accounting fees, printing and mailing expenses and government filing fees (including blue sky filing fees).
- **Operating Expenses:** A Partnership shall pay or reimburse Firm and its 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 Limited Partners, (ii) all operating expenses of a Partnership such as tax preparation fees, governmental fees and taxes, administrator fees, communications with Limited Partners, and ongoing legal, accounting, auditing, bookkeeping, consulting and other professional fees and expenses, (iii) all Partnership 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 a Partnership, 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.

(D) **Fees Paid in Advance:** Firm does not permit clients to pay any fees in advance.

(E) **Additional Compensation of Supervised Persons:**

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. In addition, clients may be able to invest directly in the mutual funds in which Firm invests clients' accounts and thereby avoid the additional fees charged to client by Firm.
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.

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.

For investment into the Prophecy Capital Management, LP, there is a \$1,000,000.00 (\$1 million) minimum. Prophecy Prism Advisors, LP has a \$25,000.00 (\$25 thousand) minimum. Prophecy Trading Advisors, LP has a \$250,000 (\$250 thousand) minimum. 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.

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

- (A) **Methods of Analysis and Investment Strategies:** The firm apply 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 [CLIENTS] [INVESTORS] should be prepared to bear.**

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

Market Volatility: The profitability of the investments chosen by Firm substantially depend upon Firm correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. Firm cannot guarantee that it will be successful in accurately predicting price and interest rate movements.

Risks Associated with Investing in Options and Derivatives:

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 client accounts 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 depend primarily upon the price of the securities, indexes, commodities, currencies or other instruments underlying them. Price movements of options contracts and payments pursuant to swap agreements are also influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The 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 at the exercise price.

If a put or call option purchased on behalf of a client account by Firm were permitted to expire without being sold or exercised, the

client account 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 Firm on behalf of the client account 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 Firm on behalf of the client account 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 client account 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.

Short Selling: When deemed appropriate by Firm, it will sell securities short on behalf of client accounts. Short selling involves the sale of a security that the client account 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 client account must borrow securities from a third party lender. The client account subsequently returns the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities

in the open market. The client account must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities.

Risks Associated with Leverage: In the event that Firm determines that leverage is appropriate in its investment program, Firm may use borrowed funds and/or 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. To the extent Firm purchases securities for a client account with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of an account. If the interest expense on borrowings were to exceed the net return on the investments made with borrowed funds, Firm's use of leverage would result in a lower rate of return than if an account was not leveraged.

If the amount of borrowings outstanding for a client account at any one time is large in relation to such account's capital, fluctuations in the market value of the account will have disproportionately large effects in relation to the account's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of a client account to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies borrowed fails to cover their cost to a client account, the net asset value of the account will generally decline faster than would otherwise be the case.

Certain of Firm's trading and investment activities may be subject to U.S. Federal Reserve Board ("FRB") margin requirements, which are computed daily by a self-clearing broker-dealer. 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 client. 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 client is made. If the client does not deposit additional funds with the broker to meet the margin call within a reasonable time, the client’s position may be closed out. In the event of a precipitous drop in the value of the assets managed by Firm, Firm 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 Firm’s trading activities on behalf of a client account, the account, and not Firm, 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. Clients 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.

Risks Associated with Non-Diversification: Firm intends to hold diversified positions, however, Firm is not subject to any formal policies regarding diversification. Firm may sometimes concentrate holdings in industries, geographic regions or companies which, in light of investment considerations, market risks and other factors, Firm believes will provide the best opportunity for attractive risk-adjusted returns. The concentration of assets in a small number of issuers, in any one industry or a small number of industries, or in a single industry would subject clients to a greater degree of risk with respect to the failure of one or a few investments or with respect to economic variations in relation to such industry or industries.

(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.

Item 10. Other Financial Industry Activities and Affiliations:

- (A) Neither Firm nor its management persons has any existing or pending affiliations with a broker-dealer or registered representative of a broker-dealer.
- (B) Neither Firm nor its management persons has any 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 do not have a relationship or arrangement that is material to its advisory business or to its clients.

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

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.

- (A) **Code of Ethics:** A copy of the code of ethics (the “Code of Ethics”) is available upon request to clients or prospective clients [and investors in the Fund] (collectively herein, “Clients”).

The Code of Ethics is based upon the premise that all Firm personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory service. The Code of Ethics requires all personnel to: (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of Firm; (3) observe Firm's personal trading policies so as to avoid “front-running” and other conflicts of interests between Firm and its Clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the

Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by Jeffrey Spotts and that personnel who violate the Code of Ethics are subject to sanctions by Firm, up to and including termination in the discretion of Jeffrey Spotts.

(B)

Participation or Interest in Client Transactions and Personal

Trading: 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) Our firm and or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security (ies) which may also be recommended to a client. It is the policy of the firm that no person employed by us may purchase or sell any security prior to a transaction being implemented for the fund or an account, preventing such employee(s) from benefitting from transactions placed on behalf of the fund or advisory accounts.
- (D) [If you or a *related person* recommends securities to *clients*, or buys or sells securities for *client* accounts, at or about the same time that you or a *related person* buys or sells the same securities for your own (or the *related person's* own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.]

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.

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 the Partnerships are executed through brokers selected by Firm in its sole discretion and without the consent of the Partnerships. In placing portfolio transactions, Firm will seek to obtain the best execution for the Partnerships, 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 lease, telephone and facsimile lines, cellular phones used for business purposes, telephone call recording equipment, headsets, cordless phones, speaker phones, telephone switchboards and monthly and long distance telephone charges); facsimile machines and facsimile rental and repair costs; account record-keeping and related clerical services; printing services; messenger services; postal and courier expenses; car service; expenses incurred in connection with investigating and researching issuers of securities and attending research conferences (e.g., airfare, car rentals, taxi fares, conference fees and related expenses, hotel accommodations and meals); economic consulting services; placement fees and other marketing costs; legal and accounting fees; and other reasonable expenses as determined by Firm.

The firm has received benefits which include payments for Bloomberg terminal fees, HGSI research fees, rent, salaries, health insurance, legal fees relating to the administration of the fund, audit fees relating to the administration of the fund, regulatory and exchange fees, record-keeping services, communication charges, internet, research conference expenses, workers compensation, etc. Two broker dealers handle the majority of “soft-dollar” related transactions due to the fact that these BDs receive 95% of the fund’s trading flow. A standing letter which states the policy of the fund to utilized soft dollars is attached to an invoice from the vendor, along with directions for payment.

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)(i).*
- (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)(i).*
- (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)(i).*
- (d) Firm uses soft dollar benefits to service all clients that paid for the benefits. Firm does not seek to allocate soft dollar benefits to Clients proportionately to the soft dollar credits the accounts generate.

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. Although this has not occurred. 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.

3. Directed Brokerage:

- (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 [except, for a separately managed account client, if agreed to in the relevant investment management agreement].

(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, the 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 Fund and separate accounts managed by Firm are reviewed on a monthly basis by the chief compliance officer of Firm, 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 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 clients and/or investors to the 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 the 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 the Fund.

Item 15. Custody:

Firm maintains client funds and securities at a qualified custodian. As stated above in Item 13, Review of Accounts, Firm's [and Fund's] qualified custodian will send [monthly/quarterly] account statements directly to clients which clients should carefully review. Clients are urged to compare statements that are received from the qualified custodian to statements received directly from Firm.

Item 16. Investment Discretion:

Firm has 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 its clients. 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. Clients 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 the chief compliance officer.

Firm understands and appreciates the importance of proxy voting. To the extent that Firm has discretion to vote the proxies of its advisory clients, Firm will vote any such proxies in the best interests of clients, investors and in accordance with the policies of [ISS] and 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 a client of Firm. 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 affected clients (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 clients [and investors] and give clients [and investors] the opportunity to vote the proxies in question themselves, if applicable.

- (B) Firm’s general policy is to not vote proxies on behalf of [separately managed account 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.

Item 18. Financial Information:

- (A) Firm solicits prepayment of Management Fees on a [quarterly] basis from both Fund and from separate account clients.] [Firm does not solicit prepayment of more than \$500 in fees per client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.]
- (B) Because Firm has discretionary authority over and/or custody of client funds or securities, Firm has disclosed, as follows, any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients: None.

II. Part 2B – BROCHURE SUPPLEMENT FOR SUPERVISED PERSONS

Cover page for Jeffrey R. Spotts

641 Lexington Avenue, 13th Floor, New York, NY 10022
(212)-328-9564

Prophecy Asset Management, Inc.
(IARD #134556 /SEC No.)

This supplement provides information about [name of supervised person] that supplements the [name of advisory firm] brochure (our “Brochure”). You should have received a copy of our Brochure. Please contact [service center or name and/or title of your contact person] if you did not receive our Brochure or if you have any questions about the contents of this supplement.

Additional information about Mr. Spotts is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Educational Background and Business Experience:

Jeffrey R. Spotts, born October 26, 1966

Jeffrey R. Spotts currently serves as General Partner, Portfolio Manager and Compliance Officer of Firm

Education Background:

The Pennsylvania State University, Bachelor of Science, Business Administration, 1989

Business Background:

Prophecy Asset Management, Inc., April 2001-present
Merrill Lynch, June 1989 to March 2001

Item 3. Disciplinary Information:

Material facts regarding legal or disciplinary events material to a Client's or prospective client's evaluation of the supervised person are listed below (see response after each event).

- (A) A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which the supervised 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. [N/A]
 - (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. [N/A]
 - (3) Was found to have been involved in a violation of an investment-related statute or regulation. [N/A]
 - (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. [N/A]

- (B) An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which the supervised person:
- (1) Was found to have caused an investment-related business to lose its authorization to do business. **N/A**
 - (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 the supervised person to act in an investment-related business. **N/A**
 - (b) Barring or suspending the supervised person's association with an investment-related business. **N/A**
 - (c) Otherwise significantly limiting the supervised person's investment-related activities. **N/A**
 - (d) Imposing a civil money penalty of more than \$2,500 on the supervised person. **N/A**
- (C) A self-regulatory organization (SRO) proceeding in which the supervised person:
- (1) Was found to have caused an investment-related business to lose its authorization to do business. **N/A**
 - (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. **N/A**
- (D) Any other proceeding in which a professional attainment, designation, or license of the supervised person was revoked or suspended because of a violation of rules relating to professional conduct. If the supervised person resigned (or otherwise relinquished his attainment, designation, or license) in anticipation of such a proceeding (and the adviser knows, or should have

known, of such resignation or relinquishment), disclose the event.
N/A

Item 4. Other Business Activities:

(A) If the supervised person is engaged in any investment-related business or occupation, including if the supervised person is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, Futures Commission Merchant (“FCM”), Commodity Pool Operator (“CPO”), Commodity Trading Advisor (“CTA”), or an associated person of an FCM, CPO, or CTA, disclose this fact and describe the business relationship, if any, between the advisory business and the other business relationship, if any, between Firm and other business. N/A

(1) If a relationship between the advisory business and the supervised person’s other financial industry activities creates a material conflict of interest with clients, describe the nature of the conflict and generally how you address it.
N/A

(2) If the supervised person receives commissions, bonuses or other compensation based on the sale of securities or other investment products, including as a broker-dealer or registered representative, and including distribution or service (“trail”) fees from the sale of mutual funds, disclose this fact. If this compensation is not cash, explain what type of compensation the supervised person receives. Explain that this practice gives the supervised person an incentive to recommend investment products based on the compensation received, rather than on the client’s needs.
N/A

(B) If the supervised person is actively engaged in any business or occupation for compensation not discussed in response to Item 4.A, above, and the other business activity or activities provide a substantial source of the supervised person’s income or involve a substantial amount of the supervised person’s time, disclose this fact and describe the nature of that business. If the other business activities represent less than 10 percent of the supervised person’s time and income, you may presume that they are not substantial.
N/A

Item 5. Additional Compensation: None

Item 6. Supervision:

All correspondence is copied to the Supervisor. All electronic correspondence is monitored through the e-mail system. All transactions are reviewed for suitability, and if there are is a discrepancy, supervised person is interview as to reason for investment or advice. Compliance Officer: Jeffrey R. Spotts, (212)-328-9564