

**Part 2A of Form ADV: Firm Brochure**

**Item 1 Cover Page**

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**The date of this brochure is January 13, 2011**

**This brochure provides information about the qualifications and business practices of Locust Wood Capital Advisers, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 354-5404. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Locust Wood Capital Advisers, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Any reference to Locust Wood Capital Advisers, LLC as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.**

**Item 2 Material Changes**

*Not applicable.*

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**Item 4 Advisory Business**

- A. Locust Wood Capital Advisers, LLC ("Locust Wood") is a Delaware limited liability company that was formed in May 2002. Locust Wood is principally owned by Stephen J. Errico.
- B. Locust Wood provides discretionary investment advice to two private investment funds, Locust Wood Capital, LP (the "Domestic Fund") and Locust Wood Capital Offshore, Ltd. (the "Offshore Fund," and together with the Domestic Fund, the "Funds"). Locust Wood generally seeks to invest in equity of undervalued businesses in the public markets, however Locust Wood. also seeks to be opportunistic, recognizing that investment environments change and opportunities in different asset classes may arise, and may invest in a wide variety of securities and financial instruments, domestic and foreign, of all kinds and descriptions, whether publicly traded or privately placed.

- C. *Not applicable.*
- D. *Not applicable.*
- E. As of December 31, 2010, Locust Wood managed approximately \$379 million on a discretionary basis. Locust Wood does not manage any assets on a non-discretionary basis.

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

- A. The fees and compensation to Locust Wood are described in the advisory contracts with its clients. All clients are “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “1940 Act”).
- B. Locust Wood generally deducts management fees from client accounts quarterly in advance. Locust Wood Capital Management, LLC, an affiliate of Locust Wood, generally receives performance-based allocations from the Funds on an annual basis in arrears and upon redemptions and withdrawals by investors in the Funds.
- C. The Funds generally bear their own expenses including, the fees payable to Locust Wood; legal, audit and accounting expenses (including third party accounting services); organizational expenses; investment expenses such as commissions, research fees and expenses (including research-related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; administrator fees and expenses; directors’ fees and expenses; and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets. (*See Item 12 “Brokerage Practices” below.*)
- D. Management fees to Locust Wood are generally paid quarterly in advance. Generally, the management fees will be pro-rated for any period that is less than a full calendar quarter, and therefore a pro rated portion of the management fees, based on the number of days remaining in the applicable calendar quarter, will be refunded in the event that (i) investors in the Funds make redemptions or withdrawals from the Funds or (ii) if the advisory contract is cancelled, in each case prior to the end of a calendar quarter.
- E. *Not applicable.*

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

Locust Wood Capital Management, LLC, an affiliate of Locust Wood, generally receives annual performance-based allocations from the Funds, which are based on a percentage of the capital appreciation of client assets, equal to twenty percent (20%) of such capital appreciation, subject to a high watermark.

Currently, Locust Wood does not provide investment advisory services to any clients other than the Funds. Nevertheless, Locust Wood is not prohibited from advising other clients with terms applicable to performance-based fees and allocations to Locust Wood and its affiliates that differ from the terms applicable to the performance-based allocation made by the Funds. This could result in a conflict of interest if Locust Wood and its affiliates were to allocate trade opportunities among these accounts because Locust Wood and its affiliates may have an incentive to favor accounts that have higher performance-

based fees and allocations. To avoid such a conflict of interest Locust Wood will follow documented procedures in allocating trades among such accounts, which will not take into account the performance-based fees and allocations to which such accounts are subject (*see Item 12, Section A.4, "Allocation of Investment Opportunities" below*).

As the management fees and performance-based fees and allocations made to Locust Wood and its affiliates are based directly on the net asset value of the Funds, Locust Wood will have a conflict of interest in valuing the assets held by the Funds. Locust Wood will follow its documented valuation policies and consult with the third-party administrator to the Funds in order to mitigate this risk.

## **Item 7 Types of Clients**

Locust Wood currently provides investment advice to clients who are private investment funds. Investors in such private investment funds are generally institutional investors that qualify as "qualified purchasers" (as defined under the 1940 Act). The minimum investment in the Funds is generally \$1,000,000, provided, however that Locust Wood may reduce such minimum investment in its discretion. For example, Locust Wood has agreed that investors that invest in the Funds through certain third-party platforms may be permitted to invest less than this minimum investment.

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

### **A. Methods of Analysis and Investment Strategies Generally**

Locust Wood seeks to follow a predominately value-based investment philosophy. The investment process employed by Locust Wood focuses on finding undervalued businesses in the public markets. Locust Wood believes that the volatility in these markets, caused by participants seeking short term results, creates excellent opportunities for investors with a longer term time horizon. Locust Wood's investment ideas come from a variety of sources, including financial publications, a network of investment professionals that the principal of Locust Wood has established during 17 years of experience on Wall Street, SEC documents and public filings, and company conferences, visits and webcasts. Locust Wood seeks to identify factors that are anticipated to cause an improvement in a company's outlook, and subsequently its share price. Such factors may include, but are not limited to, turnaround situations, change of management, new products or services, and the spin off of subsidiaries. Locust Wood generally evaluates companies based on cash earnings and balance sheet analysis and pays attention to management's ownership and ethics.

From time to time, Locust Wood may employ short selling, although this is not expected to be a major component of its investment strategy. Locust Wood will generally short stocks as part of an arbitrage or paired trade strategy or if it identifies an investment it views as very expensive with an identifiable catalyst it believes will make such investment less expensive. Locust Wood generally will not hedge against an overall market decline as its investment approach is not focused on market timing and such hedging can be very expensive to maintain.

Locust Wood attempts to mitigate investment risk in the following ways:

1. *Diversification.* Generally, no position will generally constitute more than 15% of a client's assets (calculated at the time of investment), and a client's portfolio will typically consist of 20-50 securities.
2. *Analysis and Due Diligence.* Locust Wood seeks to monitor diverse factors, including fundamental changes to a company's business or revised forecasts for the business. Locust Wood attempts to mitigate risk through continuous research and due diligence.
3. *Price Consciousness.* In addition, Locust Wood is generally a price conscious investor. Locust Wood seeks to invest at prices where it believes its clients have a high margin of safety.

Locust Wood pursues its investment strategies described above and generally follows the outlined investment strategies for so long as such strategies are in accord with its clients' investment objectives. In addition, Locust Wood may also formulate and implement new strategies to carry out the investment objectives of its clients.

While Locust Wood anticipates that it will invest its clients' assets in equity securities, Locust Wood has broad and flexible investment authority with respect to its clients' assets. Accordingly, Locust Wood's investments may at any time include long or short positions in U.S. or non-U.S. publicly traded or privately issued or negotiated common stocks, preferred stocks, stock warrants and rights, corporate debt, bonds, notes or other debentures or debt participations, convertible securities, fixed income securities, swaps, options (purchased or written), futures contracts, commodities, forward contracts and other derivative instruments, partnership interests and other securities or financial instruments including those of investment companies. However, Locust Wood will not purchase, hold, sell or otherwise deal in commodities, commodity contracts, commodity futures, financial futures or options thereon until, to the extent required, it has registered with the Commodity Futures Trading Commission or is able to rely upon an exemption from such registration. Locust Wood may also invest in new issues of securities, subject to the rules and regulations pertaining to such investments, including the Conduct Rules of the U.S. Financial Industry Regulatory Authority ("FINRA"). Locust Wood may, to the extent legally permissible, utilize leverage, generally in accordance with the U.S. Federal Reserve Board's margin rules set forth in Regulation T (i.e., under Regulation T, a customer must deposit cash or eligible securities equal to at least 50% of the purchase price of the securities it purchases, and the balance of the purchase price is then lent to the customer).

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

**B. *Certain Risks Associated with Locust Wood's Methods of Analysis and Investment Strategies***

Locust Wood has broad discretion in making investments for its clients' accounts. Investments generally consist of equity securities and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that the Locust Wood will correctly evaluate the nature and magnitude of the various factors that

could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of Locust Wood's activities and the value of its investments. In addition, the value of a client's portfolio may fluctuate as the general level of interest rates fluctuates. No guarantee or representation is made that Locust Wood's investment objective will be achieved.

#### Business Dependent Upon Key Individuals

Investors in the Funds have no authority to make decisions or to exercise business discretion on behalf of the Funds. The authority for all such decisions is delegated to the directors, Locust Wood and Locust Wood Capital Management, LLC (as applicable). The success of the Funds, therefore, is expected to be significantly dependent upon the expertise and efforts of Locust Wood and, more particularly, of Stephen Errico.

#### U.S. Government Securities

Locust Wood may invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. Locust Wood may also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero coupon security pays no interest to its holder during its life and its value consists of the difference between its face value at maturity and its cost. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

#### Special Situations

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

#### Portfolio Turnover

Locust Wood's investment strategy may require it to actively trade a client's portfolio, and as a result, turnover and brokerage commission expenses of such client's account may significantly exceed those of other investment entities of comparable size.

### Use of Leverage

Locust Wood may utilize leverage generally in accordance with Regulation T of the U.S. Federal Reserve Board's margin rules. Leverage increases an account's returns if the account earns a greater return on investments purchased with borrowed funds than the account's cost of borrowing such funds. However, the use of leverage exposes an account to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the account not borrowed to make the investments, (ii) margin calls or interim margin requirements that may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the account's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the account's assets, the account might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

### Small to Medium Capitalization Companies

Locust Wood may invest a portion of a client's assets in the stocks of companies with small- to medium-sized market capitalizations. While Locust Wood believes these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

### Non-U.S. Securities

Investing in securities of non-U.S. governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States Government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

### Convergence Risk

Locust Wood may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying Locust Wood's trading positions were to fail to converge toward, or were to diverge further from, its expectations, Locust Wood's clients' accounts may incur a loss.

Lack of Diversification

Locust Wood's clients' portfolios may not be widely diversified among sectors, industries, geographic areas or types of securities. Further, the clients' portfolio may not necessarily be diversified among a wide range of issuers. Accordingly, a client's portfolio may be subject to more rapid change in value than would be the case if Locust Wood was required to maintain a wide diversification among companies or industry groups.

Market Risks

The profitability of a significant portion of Locust Wood's investment strategy depends to a great extent upon correctly assessing the future course of price movements of specific securities and other investments. There can be no assurance that Locust Wood will be able to predict accurately these price movements. Although Locust Wood may attempt to mitigate market risk through, among other strategies, the use of long and short positions, there is always some, and often a significant, degree of market risk.

Even if Locust Wood is able to accurately predict the future performance of specific issuers, since its clients' accounts will have exposure to the overall market, and the overall market movements may outweigh the performance of specific issuers, a client's account may experience losses if the overall market declines.

Interest Rate Risk

Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. Locust Wood may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that Locust Wood will be successful in fully mitigating the impact of interest rate changes.

Options

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

Derivatives

To the extent that Locust Wood invests in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions, its clients' accounts may take a credit risk with regard to parties with whom it trades and may also bear the risk of

settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from all such protections and expose the parties to the risk of counterparty default. Locust Wood aims to have all securities and other assets deposited with counterparties as collateral clearly identified as being assets (directly or indirectly) of a client's account, and hence such client's credit risk to such parties may be reduced. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

#### Short Sales

Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a client's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

#### Lack of Liquidity of Investments/Restricted or Non-Marketable Securities

Locust Wood's investments in restricted or non-marketable securities may involve a high degree of business and financial risk that can result in substantial losses. There may be no existing market for the purchase and sale of such investments and Locust Wood may not be able to readily sell such investments. In addition, assets may, at any given time, include securities and other financial instruments or obligations that are thinly-traded, making purchase or sale of such securities at desired prices or in desired quantities difficult or impossible. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

C. *Not applicable.*

### **Item 9 Disciplinary Information**

*Not applicable.*

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

A. *Not applicable.*

B. *Not applicable.*

C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related *person* listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.

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)**

Locust Wood and its related persons currently manage two pooled investment vehicles, the Domestic Fund and the Offshore Fund, and may in the future manage other pooled investment vehicles (collectively, the “Affiliated Funds”). The Affiliated Funds may be deemed to be related persons of Locust Wood. Although Locust Wood does not have other clients at this time, Locust Wood may, in the future, provide discretionary investment advice to other clients, which could result in a number of conflicts of interest.

Locust Wood uses its best efforts in connection with the purposes and objectives of its clients, and devotes so much of its time and effort to the affairs of its clients as is, in its judgment, necessary to accomplish its investment objective for its clients. The management of multiple pooled investment vehicles may result in conflicts of interests when Locust Wood and its related persons allocate their time and investment opportunities among the Affiliated Funds. In addition, although currently Locust Wood and its related persons earn the same compensation from the Affiliated Funds, the compensation Locust Wood and its related persons may in the future earn for other Affiliated Funds may differ from one another.

3. **other investment adviser or financial planner**

Locust Wood Capital Management, LLC, a Delaware limited liability company, is also principally owned and controlled by Mr. Errico. This entity serves as the general partner to the Domestic Fund, and has delegated all investment discretion to Locus Wood.

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 partnerships.**

*Not applicable.*

D. *Not applicable.*

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

- A. Locust Wood has adopted a Code of Ethics (the "Code of Ethics"). Locust Wood's Code of Ethics provides that Locust Wood is committed to conducting business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, Locust Wood recognizes that it has a fiduciary duty to its clients, and that all employees must conduct their business on behalf of Locust Wood in a manner that enables Locust Wood to fulfill this fiduciary duty. In this regard, Locust Wood has developed policies and procedures in its Code of Ethics that are premised on fundamental principles of openness, integrity, honesty and trust. In addition, among other things, the Code of Ethics governs all personal investment transactions by Locust Wood's employees, Locust Wood's policies with respect to gifts and entertainment, compliance with applicable federal securities laws, the manner in which violations of the Code of Ethics are to be reported, and certain other outside activities of Locust Wood's employees. Locust Wood will provide a copy of its Code of Ethics to any client or prospective client upon request.
- B. Locust Wood recommends that prospective clients invest in Funds. Mr. Errico and other management persons have significant personal investments in these funds. In addition, Locust Wood Capital Management, LLC, an affiliate of Locust Wood, receives performance-based allocations from the Domestic Fund (and the Offshore Fund through its investment in the Domestic Fund).

Since the Offshore Fund invests through the Domestic Fund in a master-feeder structure, all investments are expected to be held at the Domestic Fund and Locust Wood does not expect to effect any effect transactions between client accounts whereby one client account will purchase securities from or sell securities to another client account (for rebalancing purposes or any other purpose). If Locust Wood determines that there is a need to effect a transaction between client accounts, then Locust Wood will effect such transaction in accordance with applicable laws.

- C. Under the Code of Ethics, Locust Wood's personnel may, upon receiving the prior written approval of Locust Wood's Chief Compliance Officer, trade in securities, provided that such securities are not included on Locust Wood's "Restricted List."

In addition, without the prior approval of the Chief Compliance Officer, Locust Wood's personnel may invest in registered open-end investment companies (*i.e.*, mutual funds), direct obligations of the Government of the U.S., bankers' acceptances, bank certificates of deposit, commercial paper, short-term, high quality debt securities, including repurchase agreements, and such other money market or investment instruments as may be authorized by Locust Wood's Chief Compliance Officer from time to time.

Locust Wood and its related persons may, through other investments, including other investment funds, have interests in the securities in which the client accounts invest as well as interests in investments in which its client accounts do not invest.

Locust Wood's pre-clearance of its personnel's personal securities trading is intended to mitigate any conflicts that may arise from such personnel's personal securities trading

If there is limited availability to participate in an investment opportunity in which Locust Wood personnel and one or more Locust Wood client accounts wish (and are able) to participate, the Locust Wood client accounts will be allocated the investment (subject to their respective investment mandates, risk and/or operating guidelines and available capacity and Locust Wood's allocation policy – *see Item 12, Section A.4 "Allocation of Investment Opportunities" below*) before Locust Wood personnel will be permitted to participate in the investment.

- D. Locust Wood personnel may be permitted to trade certain securities positions with the prior written approval from Locust Wood's Chief Compliance Officer (*see Item 11 Section C above*). In order to prevent Locust Wood personnel from selling securities at the same time that Locust Wood is buying or selling the same securities for its clients' accounts, such personnel must receive the prior approval of Locust Wood's Chief Compliance Officer and generally will not be permitted to:
- 1) engage in "front-running" of client accounts, which is a practice generally understood to be personally trading ahead of client accounts; or
  - 2) trade a security that has been purchased or sold by a client account within the preceding five (5) days.

## Item 12 Brokerage Practices

### A. Selection of Brokers

Locust Wood is authorized to determine the broker or dealer to be used for each securities transaction for its client accounts. In placing orders, it is Locust Wood's policy to obtain the best price and execution for its transactions. Where best price and execution may be obtained from more than one broker-dealer, Locust Wood may purchase and sell securities through broker-dealers who provide research, statistical and other information, although the transacting account may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided (*see Item 12.A1. below*).

In selecting brokers and negotiating commission rates, Locust Wood will take into account the financial stability of the broker, the actual executed price of the security and the broker's commission rates, research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers that are expected to enhance Locust Wood's general portfolio management capabilities, the size and type of the transaction, the difficulty of execution and the ability to handle difficult trades, the operational facilities of the brokers and/or dealers involved (including back office efficiency), and the ability to handle a block order for securities and distribution capabilities. Locust Wood may also consider the referral of investors, consistent with best execution (*see Item 12.A2. below*).

At least annually, selected Locust Wood employees meet to evaluate systematically the execution performance of its brokers. The review of brokers consists of various factors, including (i) the average commission rate charged by each broker; (ii) the services provided by the broker other than execution (i.e., research or other services used in the management of client accounts); (iii) whether the execution and other services provided by the broker were satisfactory (taking into account such factors as the speed of execution, the certainty of execution, and the ability to handle large orders or orders requiring special handling); (iv) the reason for using that broker (i.e., research, execution only, etc.); (v) unusual trends (such as higher than usual commission rates or a large volume of business directed to an unknown broker); and (vi) any other factors that the reviewers think necessary for Locust Wood to make a reasonable decision about its best execution determinations. The reviewers also evaluate, and seek to resolve, any conflicts of interest that Locust Wood may have in selecting brokers to execute client transactions.

1. Research and Other Soft Dollar Benefits

Locust Wood does not currently enter into soft dollar arrangements with brokers, but may do so in the future. Soft dollar arrangements arise when an investment adviser obtains products and services, other than securities execution, from a broker in return for directing client securities transactions to the broker. Soft dollar arrangements may pose a conflict of interest for Locust Wood in that such arrangements allow Locust Wood to pay with client commissions expenses that would otherwise be borne by Locust Wood. If Locust Wood uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Locust Wood will receive a benefit because it does not have to produce or pay for the research, products or services. Locust Wood believes that this conflict will be mitigated because clients will generally pay for research as a "hard dollar" expense pursuant to their respective investment management agreements. Nevertheless, Locust Wood may have an incentive to select a broker based on Locust Wood's interest in receiving the research or other products or services offered by such broker, rather than on its clients' interest in receiving most favorable execution.

When engaging in soft dollar transactions, Locust Wood will comply with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Section 28(e) provides a "safe harbor" to an investment adviser against claims that it breached its fiduciary duty under state or federal law (including the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) solely because the adviser caused its clients' accounts to pay more than the lowest available commission for executing a securities trade in return for brokerage and research

services. Research and related services furnished or paid for by brokers may include, but are not limited to: (i) written information and analyses concerning specific securities, companies or sectors; (ii) certain market, financial and economic studies and forecasts; (iii) statistical and pricing services; and (iv) discussions with research personnel and consultants. Research and related services obtained by the use of commissions arising from a client account's portfolio transactions may be used by Locust Wood in its other investment activities. Locust Wood will not use soft dollars to correct trade errors and will not enter into agreements with broker-dealers to absorb any correction costs in exchange for the promise of future brokerage business.

Accordingly, if Locust Wood determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, a client may pay commissions to such broker in an amount greater than the amount another broker might charge.

Research provided by such brokers may be used to service all client accounts and not exclusively in connection with the management of the client account that generated the particular soft dollar credits.

Where a product or service obtained with client commission dollars provides both research and non-research assistance to Locust Wood, Locust Wood will make a reasonable allocation of the cost which may be paid for with client commission dollars.

Locust Wood's prime brokers provide Locust Wood with capital introduction and front and back office services, including trading, securities lending, clearing, reporting, and settlement for equities, fixed income, foreign currency and options, among others.

Locust Wood executes securities transactions on behalf of client accounts with broker-dealers that provide Locust Wood with access to proprietary research reports (such as standard investment research and credit reports). To the best of Locust Wood's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to Locust Wood on an unsolicited basis and without regard to the rates of commissions charged or paid by client accounts or the volume of business that Locust Wood directs to such broker-dealers.

Brokers sometimes suggest a level of business they would like to receive in return for the research services and products they provide, however Locust Wood has not committed to provide any level of brokerage business to any broker. Selected employees of Locust Wood also evaluated, at least annually, the execution performance of the broker-dealers it uses to execute its client transactions and resolved any conflicts of interest that Locust Wood may have had in selecting brokers to execute client transactions.

## 2. Brokerage for Client Referrals

Subject to applicable law, Locust Wood may direct some client brokerage business to brokers who refer prospective investors to the private investment funds managed by

Locust Wood, consistent with best execution. In addition, Locust Wood has entered into an agreement with UBS Financial Services Inc. ("UBS"), pursuant to which UBS receives a portion of the management fees paid to Locust Wood with respect to investors introduced by UBS. Because such referrals, if any, are likely to benefit Locust Wood but will provide an insignificant (if any) benefit to clients, Locust Wood will have a conflict of interest with its clients when allocating client brokerage business to a broker who has (or whose affiliates have) referred investors to a private investment fund managed by Locust Wood. To prevent client brokerage commissions from being used to pay investor referral fees, Locust Wood will not allocate client brokerage business to a referring broker unless Locust Wood 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 the client account and that Locust Wood is receiving best execution.

3. Directed Brokerage.

*Not applicable.*

4. Allocation of Investment Opportunities

Generally, all of Locust Wood's investment opportunities are currently allocated to the Domestic Fund, which also serves as a master trading vehicle for the Offshore Fund. In the event that Locust Wood determines that the Domestic Fund should not participate in an investment opportunity due to tax, legal, regulatory or other reasons which may not apply to the Offshore Fund, Locust Wood may allocate such opportunities to the Offshore Fund and the Chief Compliance Officer will document the reasons for such allocation.

In the future, Locust Wood may have a need to allocate investment opportunities between the Funds and other accounts managed by Locust Wood at that time, in which case Locust Wood will endeavor to allocate such opportunities on a fair and equitable basis.

5. Trade Error Policy

Subject to applicable law and the terms of the applicable clients' investment management agreements, Locust Wood will generally reimburse the applicable client accounts for net losses that occur as a result of trade errors resulting from Locust Wood's gross negligence, willful misconduct or violation of applicable law. Locust Wood will not use soft dollars to correct trade errors and shall not enter into agreements with broker-dealers to absorb any correction costs in exchange for the promise of future brokerage business.

Locust Wood endeavors to detect trade errors prior to settlement and correct them in an expeditious manner. Locust Wood's traders review trading records for clients on each business day. When a possible trade error is detected, the traders will notify Locust Wood's Chief Compliance Officer and they will review the applicable trade to determine if in fact an error did occur, the cause of the error, the effect of the error on the client or clients involved, and whether or not the error can be corrected prior to settlement.

**B. Aggregation of Orders**

Since all of Locust Wood's trades are made for the account of the Domestic Fund (unless a particular investment is suitable only for the Offshore Fund, in which case, such trade will be made only for the account of the Offshore Fund), Locust Wood does not currently aggregate orders for its client accounts.

In the event Locust Wood provides investment advice to one or more client accounts other than the Funds, Locust Wood may aggregate orders for its client accounts for trade execution with the same broker for the purpose of obtaining better prices and lower execution costs.

**Item 13 Review of Accounts**

A. Client portfolios are reviewed daily, and their performance analyzed, by Locust Wood's investment professionals, including, but not limited to, Stephen Errico. Client portfolios are also reviewed by the Chief Compliance Officer to monitor compliance with the applicable trading mandate and any applicable risk and/or operating guidelines. Client investments are evaluated based on performance, company fundamentals, news and press releases, analyst reports, general market conditions and such other considerations as Locust Wood deems appropriate.

B. *Not applicable.*

C. Locust Wood may, in its discretion, furnish investors in the private investment funds that it manages with periodic written unaudited performance reports on a quarterly basis. On an annual basis, investors receive a copy of the relevant fund's annual audited financial statements and, where applicable, a statement of taxable income (form K-1).

Locust Wood and its affiliates may provide certain investors access to more frequent and/or more detailed information regarding the private investment funds' securities positions, performance, finances, and management and/or other information about the private investment funds or Locust Wood (including, notification of the commencement of certain disciplinary actions, legal proceedings, investigations or similar matters against a fund, Locust Wood and/or its personnel, or of redemptions from a fund by Locust Wood and/or its personnel), possibly enabling such investors to better assess the prospects and performance of the funds.

**Item 14 Client Referrals and Other Compensation**

Locust Wood has entered into an agreement with UBS, pursuant to which UBS receives a portion of the management fees paid to Locust Wood with respect to investors introduced by UBS. Such investors may be subject to higher fees than other investors in the Funds. UBS investors that invest in the private investment funds managed by Locust Wood may also pay additional fees to UBS pursuant to their account agreements with UBS. Such investors must acknowledge their understanding of the arrangement between Locust Wood and UBS. Locust Wood may also execute trades through such third parties or their affiliates, subject to receiving best execution (*see Item 12, Section A.2 "Brokerage for Client Referrals."*).

**Item 15 Custody**

*Not applicable.*

**Item 16 Investment Discretion**

Locust Wood has discretionary authority to manage securities accounts on behalf of its clients. The investors in the private investment funds managed by Locust Wood generally may not place any limits on Locust Wood's authority beyond the limitations set forth in the offering and governing documents of such private investment funds.

**Item 17 Voting Client Securities**

Locust Wood generally has voting discretion over securities held in its clients' accounts. Clients are generally not able to direct their votes in a particular situation. Locust Wood will exercise its discretion in the best interests of its clients, which may result in different voting results for proxies for the same issuer. Locust Wood has adopted a proxy voting policy which is summarized below. Locust Wood may, in its discretion, retain a third party to assist it in coordinating and voting proxies with respect to client securities. If so, the Chief Compliance Officer will monitor the third party to assure that all proxies are being properly voted and appropriate records are being retained.

- Generally, Locust Wood will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock.
- Generally, Locust Wood will vote against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, Locust Wood shall determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others:

- whether the proposal was recommended by management and Locust Wood's opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

Locust Wood's Chief Compliance Officer will identify any conflicts that exist between the interests of Locust Wood and its clients in connection with any proxies to be voted by Locust Wood on behalf of its clients. This examination will include a review of the relationship of Locust Wood and its affiliates with the issuer of each security and any of the issuer's affiliates to determine if the issuer is a client of Locust Wood or an affiliate of Locust Wood or has some other relationship with Locust Wood or a client of Locust Wood. Such conflicts may arise, for example, from the following relationships: (i) the

issuer is an investor in a fund or account managed by Locust Wood; (ii) the issuer has a material business relationship with Locust Wood; (iii) the proponent of a proxy proposal has a business relationship with Locust Wood (e.g., the proponent is a pension plan for which Locust Wood manages money); (iv) Locust Wood has material business relationships with candidates for director in a proxy contest; or (v) an employee of Locust Wood has a personal interest in the outcome of a particular matter. This list provides examples of possible conflicts of interest and is not meant to be comprehensive. Each employee must notify the Locust Wood's Chief Compliance Officer of any potential conflicts of interest of which he or she is aware.

If Locust Wood is authorized to vote a proxy with respect to an issuer or a person or entity with respect to which the Chief Compliance Officer has identified a conflict of interest, Locust Wood shall rely exclusively on the recommendation of an independent proxy voting service.

Special considerations may apply in cases of conflicts of interest involving ERISA clients. Locust Wood will confer with appropriate ERISA counsel in such cases.

Clients may contact the Locust Wood's Chief Compliance Officer, via e-mail or telephone, in order to obtain a copy of Locust Wood's proxy voting policy and/or information on how Locust Wood voted such client's proxies, and to request a copy of Locust Wood's proxy voting policies and procedures.

**Item 18 Financial Information**

*Not applicable.*

**Item 19 Requirements for State-Registered Advisers**

*Not applicable.*

## Part 2B of Form ADV: Brochure Supplement

### Item 1 Cover Page

**Supervised Person:** Stephen J. Errico

**Firm Name:** Locust Wood Capital Advisers, LLC

**Address:** 1540 Broadway, Suite 1504  
New York, New York 10036

**Phone Number:** (212) 354-5404

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**The date of this brochure supplement is January 13, 2011**

**This brochure supplement provides information about Stephen J. Errico that supplements the Locust Wood Capital Advisers, LLC (“Locust Wood”) brochure. You should have received a copy of the Locust Wood brochure. Please contact Paul Morris if you did not receive Locust Wood’s brochure or if you have any questions about the contents of this supplement.**

### Item 2 Educational Background and Business Experience

Mr. Errico is Locust Wood’s Managing Member and Portfolio Manager. Mr. Errico was a portfolio manager and financial consultant at Morgan Stanley from March of 1999 until June of 2002. While at Morgan Stanley, through a partnership with his brother, Christopher Errico, Mr. Errico oversaw a high net worth advisory and brokerage business of over \$500 million in customer assets. Mr. Errico achieved Chairman’s Club recognition while at Morgan Stanley, its highest level of distinction for financial consultants, and was one of the original members of their Custom Portfolio Program, a discretionary portfolio management program. In May 2002, Mr. Errico founded Locust Wood and launched the Domestic Fund as a U.S. based private investment partnership.

From 1996 to 1999, Mr. Errico was a Senior Vice President /Investments at PaineWebber, where he had similar responsibilities to those during his employment at Morgan Stanley. While at PaineWebber, Mr. Errico also achieved recognition by PaineWebber’s Chairman’s Council, which is their highest level of distinction for financial consultants. He was also a member of the Portfolio Management Program, which provided discretionary account management for high net worth clients.

From 1985 to 1996, Mr. Errico was employed at Lehman Brothers as a Senior Vice President/financial consultant.

Mr. Errico graduated from Colgate University in 1985 with a BA in Economics. He also attended the London School of Economics in 1984 earning a Diploma Degree.

**Item 3 Disciplinary Information**

*Not applicable.*

**Item 4 Other Business Activities**

*Not applicable.*

**Item 5 Additional Compensation**

*Not applicable.*

**Item 6 Supervision**

Mr. Errico is the Managing Member and Portfolio Manager of Locust Wood. As such, he has the ultimate authority in providing advice to clients and effecting trades on behalf of client accounts. Mr. Errico is required to comply with Locust Wood's compliance manual, code of ethics and other policies and procedures adopted by Locust Wood. Locust Wood's Chief Compliance Officer monitors Mr. Errico's trading advice and activity for compliance with applicable laws and regulations. The Chief Compliance Officer can be reached at (212) 354-5404.

**Item 7 Requirements for State-Registered Advisers**

*Not applicable.*