

Item 1 – Cover Page

Semaphore Management, LLC

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March 31, 2011

This Brochure provides information about the qualifications and business practices of Semaphore Management, LLC (“Semaphore” or “Firm”). If you have any questions about the contents of this Brochure, please contact us at (212) 415-7240 and/or robert@semacap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Semaphore Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules, the “Brochure”). This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Robert Penberth, Chief Financial Officer at (212) 415-7240 or robert@semacap.com.

Additional information about Semaphore is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Semaphore who are registered, or are required to be registered, as investment adviser representatives of Semaphore.

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Item 4 – Advisory Business

Semaphore Management LLC (“Semaphore” or the “Firm”) is a limited liability company. The managing members and equity owners of Semaphore are Paul Carpenter and Hoyt Ammidon III. Semaphore is the Investment Manager for Semaphore Capital Partners L.P. and Semaphore Investors L.P. (collectively, the “Partnership”) and Semaphore Offshore Limited (“Offshore Fund”), also referred to as a “pooled investment vehicle” or “private fund”. Semaphore also serves as one of the sub-advisers to the Absolute Opportunities Fund (a registered investment company or “The RIC”). The Partnership, Offshore Fund and The RIC may be collectively referred to as “The Funds.”

Semaphore employs a low net exposure, fundamental research-driven U.S. long/short strategy. Semaphore seeks to capture returns by investing in the equities and fixed income securities of highly leveraged companies. Semaphore monitors the debt markets and combines credit research with traditional equity analysis to identify investments. On the long side, Semaphore invests in companies with improving credit profiles, typically those that generate meaningful free cash flow and have the ability to reduce outstanding debt. Conversely, Semaphore sells short companies with deteriorating credit profiles, declining or negative free cash flow, and increasing balance sheet leverage.

The Funds are managed by the same portfolio managers and investment team, using the same investment philosophy, but some funds do not employ all asset classes and instruments employed in others.

Semaphore manages client assets in the amounts of \$225,947,000 on a discretionary basis as of February 28, 2011, and does not manage any client assets on a non-discretionary basis.

Item 5 – Fees and Compensation

Semaphore negotiates fees and other terms on a fund-by-fund basis, and for certain funds, the Firm may receive fees that are based on the performance of the private investment fund. The performance based fee may be up to 20% of profits. Semaphore will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the “Advisers Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

The calculation and payment method for Semaphore investment advisory and management services to private investment funds are set forth in the respective confidential private investment memoranda. For the private funds, management fees may be paid quarterly in advance and are based on the investors' opening capital account balance, and are adjusted for capital contributions at the beginning of the quarter. Fees are deducted from fund assets and paid to Semaphore in accordance with the terms of limited partnership agreements for the respective private investment funds.

Semaphore's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Semaphore's fee, and the Firm shall not receive any portion of these commissions, fees, and costs.

In the event that Semaphore manages separate accounts for clients, the specific manner in which fees are charged will be established in a client's written agreement with the Firm.

Item 12 further describes the factors that Semaphore considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Item 6 – Performance-Based Fees and Side-By-Side Management

As previously stated, Semaphore negotiates fees and other terms on a fund-by-fund basis, and for certain funds and entities, Semaphore may receive fees that are based on the performance of the investment. The performance based fee may be up to 20% of profits. Semaphore will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Performance-based fee arrangements may create an incentive for Semaphore to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The partnership agreements for some of the Funds may include

a “high watermark” provision which requires recovery of any prior losses before the performance fee can be paid to Semaphore.

Semaphore may provide management and investment advisory services to other investment funds, clients, and/or managed accounts that follow similar investment programs. A number of actual and potential conflicts of interest between these clients could exist, including the possibility of conflict with respect to the allocation of investment opportunities among such clients. Semaphore and its employees may buy and sell, for their own account or for the account of other clients, currencies, securities, and other financial instruments, in each case of the same or a similar type to those bought or sold on behalf of its clients. However, Semaphore does not permit employees to trade individuals stocks in which a client has a position. Semaphore is required to resolve such conflicts as it determines to be appropriate, consistent with its fiduciary duties to its clients. Additionally, Semaphore has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

As one way of ensuring that clients are treated fairly, Semaphore may aggregate brokerage transactions on behalf of its clients in situations where accounts are being managed in substantially the same investment style. Aggregated (or “bunched”) trades are undertaken only when Semaphore determines that such transactions are consistent with its duty of best execution for its clients and are consistent with the terms of its investment advisory agreements. In general, each client who participates in an aggregated order, whether fully or partially filled, will participate at the average share price with all transaction costs shared on a pro rata basis.

As a general matter, the Portfolio Manager makes a preliminary allocation before execution of an order, and the allocation will be finalized no later than the close of business on trade day. When an aggregated order is filled in its entirety, the order is allocated to participating accounts in accordance with the preliminary allocation schedule, and any deviations from the preliminary allocation and the justification are documented.

When an aggregated order is only partially filled (and there is no reasonable expectation that the entire transaction will be completed within a reasonable period), the order will, generally, be allocated among the participating clients on an objective basis.

If such investment program offered to other clients is similar to that of the Funds, it is expected that trade lots would be divided among such other persons, entities, and/or managed accounts, the Funds pro rata with respect to their net asset values. In determining an appropriate allocation, the portfolio manager may also consider the following (which is not intended to be an exhaustive list): account-specific investment

restrictions (e.g., no defense or tobacco stocks), undesirable position size (some allocations may create an undesirably small or large position), client's desired allocation among securities, securities, etc., and client sensitivity to turnover. If conflicts were to arise in the allocation of investment opportunities, Semaphore has discretion to resolve such conflicts as it determines to be appropriate, consistent with its fiduciary duties to its clients.

Item 7 – Types of Clients

Semaphore provides portfolio management services to private investment funds and a registered mutual fund.

This Brochure may be provided to current or prospective investors in a private investment fund, together with the fund's private offering memorandum ("PPM"), organizational documents and other related documents, prior to, or in connection with, such person's consideration or execution of an investment in the fund. This Brochure may subsequently be provided in Semaphore's discretion or, annually, at the request of an investor in a private investment fund. Investors and other recipients should be aware that while this Brochure may include information about a private investment fund, as necessary or appropriate, it is not a complete discussion of the features, risks or conflicts associated with the fund. Each private investment fund's PPM contains more complete information about it, and such PPM may be provided to current and eligible prospective investors only by Semaphore or another authorized party.

This Brochure should not be deemed to be a general solicitation and does not constitute an offer to sell or a solicitation of an offer to any type of interest in any entity advised by Semaphore. This Brochure does not constitute, in any jurisdiction, a recommendation, inducement, invitation, offer, or solicitation for you to purchase or acquire any securities or assets, and no legal relationship is be created by this Brochure. It is also not an offer of, or agreement to provide, advisory services directly to any recipient. Rather, this Brochure is designed solely to provide information about Semaphore for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in a PPM. To the extent that there is any conflict between discussions herein and similar or related discussions in any PPM, the PPM shall govern.

No such offer or solicitation in the funds advised by Semaphore will be made before the delivery of a fund's PPM, limited partnership agreements and associated documentation. Potential investors should read carefully a fund's informational documents and legal

agreements and to consult with their tax, legal and financial advisors before making a decision with respect to an investment managed by Semaphore.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

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

Semaphore employs a low net exposure, fundamental research-driven U.S. long/short strategy. Semaphore seeks to capture returns by investing in the equities and fixed income securities of highly leveraged companies. Semaphore monitors the debt markets and combines credit research with traditional equity analysis to identify investments. On the long side, Semaphore invests in companies with improving credit profiles, typically those that generate meaningful free cash flow and have the ability to reduce outstanding debt. Conversely, Semaphore sells short companies with deteriorating credit profiles, declining or negative free cash flow, and increasing balance sheet leverage.

The Firm's primary investment focus is long and short positions in publicly traded equities. Semaphore may also take long and short positions in high yield bonds, convertible bonds, and redeemable and convertible preferred stocks. The Firm may take positions in distressed securities, defined as bonds, loans, trade claims, or other similar securities or obligations trading significantly below par value. In addition, Semaphore may occasionally take positions in broker-dealer traded mezzanine securities, typically units of high yield bonds with warrants or equity value certificates attached, or hold the warrants or equity value certificates after selling the stripped bonds. Semaphore may make use of index futures or options as a means of managing long or short equity exposure. The Firm may also invest in private equity placements or other private securities not readily tradable by a broker-dealer. For this purpose, corporate bonds and other instruments issued under Rule 144A are not considered private securities.

Semaphore may purchase credit default swaps as a hedge or means to express a certain view of a company and/or credit situation.

Semaphore focuses its research on sub-investment grade companies. The Firm may also invest in debt-free or minimally leveraged companies found through a connection to other portfolio positions. If these companies exhibit some or all of the other desired characteristics—minimal analyst coverage, low market capitalization, and favorable industry trends—Semaphore may decide to include them in client accounts. Positions in companies engaged in lending or other credit-oriented businesses, such as sub-prime lenders or rent-to-own companies, are also considered for purchase, whether or not such

companies have high balance sheet leverage. Another highly complementary investment area in which Semaphore may invest is short debt or equity positions in companies rated one notch above high yield status, for whom an imminent debt rating downgrade is expected. When downgraded, the security prices, particularly bond prices, of such companies tend to fall sharply, due to forced selling from investment-grade funds restricted from holding non-investment grade rated bonds. Bond trades of this kind have the advantages of generally limited downside and easier execution in large quantities, as trade sizes will likely be in face value increments of \$1 million.

While Semaphore is open to investing in the securities of any company with high leverage or otherwise engaged in a credit-dependent business, the Firm's investments tend to fall within the retailing, media, casino, communications, and energy sectors, given the Semaphore's prior experience analyzing these industries. The Firm does not presently intend to invest in many high-technology companies, or in companies in industries that require a high level of technical expertise before they can be fairly evaluated.

Semaphore prefers, when possible, to focus its research on sectors composed of companies sufficiently comparable so that composites for the industry may be constructed to assist in analyzing business trends of position companies and their competitors. Semaphore conducts a significant part of its analysis on industries that are known to provide market data more often than on a quarterly basis.

Semaphore's investment style involves risks not associated with other investment alternatives. Although the Firm seeks to reduce these risks, prospective investors should consider carefully, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with an investment with Semaphore.

Trading Risks

- *General Investment and Trading Risks.* All securities investments present a risk of loss of capital. Volatile financial markets increase that risk. If Semaphore's evaluation of an investment opportunity should prove incorrect, an investor could experience losses as a result of a decline in the market value of securities in which the investor holds a long position or an increase in the value of securities in which the investor holds a short position. The risk management techniques that may be used by Semaphore do not provide any assurance that investors will not be exposed to a risk of significant investment losses.

- *General Economic Conditions.* Market risk is a factor in any investment. A high level of volatility in the financial markets could disrupt Semaphore's investment strategy, decrease the value of its portfolios, and adversely impact returns. The most difficult type of market environment for Semaphore's strategy is expected to be a speculative environment, in

which hype, promotional management teams, and/or investor euphoria drive stock price movements instead of company fundamentals. This type of environment is of particular concern during short-covering driven rallies and/or for low-dollar short positions.

- *Securities of Sub-Investment Grade Companies.* Special risks are associated with the Firm's investments in the securities of sub-investment grade and highly leveraged companies. Although such investments may result in significant returns to investors, they involve a substantial degree of risk. If the "natural leverage" created by a company's high level of borrowing should work against an investor's short position, the investor's losses would be heightened. Although Semaphore does not expect to do so frequently, should the Firm purchase distressed and/or nonperforming debt securities, and subsequent to purchasing them find that they are no longer readily traded by broker-dealers, these securities may not show any return for a considerable period of time. Many distressed and/or non-performing securities ordinarily remain unpaid while the company is in bankruptcy and may not ultimately be paid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. As a result, if they are no longer readily traded by broker-dealers, such securities may have to be held for an extended period of time. There is no assurance that Semaphore will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. It is possible that an asset may lose its entire value in a reorganization or liquidation proceeding. Under such circumstances, the returns generated from Semaphore's investments may not compensate investors adequately for the risks assumed.

- *Small and Medium Capitalization Companies.* Semaphore may invest a substantial portion of its assets in the stocks of companies with small to medium-sized market capitalizations. Such stocks, particularly small-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. The prices of small capitalization and even medium-capitalization stocks are often more volatile than prices of large capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to long investors) is higher than for larger, "bluechip" companies. In addition, due to thin trading in some medium or small-capitalization stocks, an investment in those stocks may be illiquid. The small to medium-sized market capitalization stocks have, at times, significantly underperformed the large capitalization stocks and may do so in the future. A related concern for short sale risk is that smaller companies tend to be more readily acquired.

- *Exposure to Precious Metals.* Semaphore may engage, to a limited extent, in transactions in certain commodities including precious metals such as gold. Such transactions are highly speculative, and the prices relating to such transactions are highly volatile. Price movements of such transactions may be influenced by, among other things: changing supply and demand relationships; weather; agricultural, trade, fiscal, monetary, and

exchange control programs and policies of governments; political and economic events and policies; changes in national and international interest rates and rates of inflation; currency devaluations and revaluations; and emotions of the marketplace. These markets will be traded on a purely speculative basis. No assurance can be given that such speculative trading will result in profitable trades or that this trading will not incur substantial losses.

- *Diversification Risk.* Semaphore's investment strategies may, at times, involve investing in fewer than thirty (30) positions (both long and short) at any given time. As a result of this lack of diversification, a significant loss in any one position may have a material adverse affect on an investor's portfolio and rate of return. Diversification of portfolio assets among different industries is not a primary goal of the Firm's investment strategy. Therefore, any fluctuation in the overall value of securities in industries such as retailing, media, casino, communications, and energy likely will have a material effect on the performance of investor portfolios.

- *Litigation Risk.* Distressed companies such as those in which Semaphore may occasionally invest may be subject to litigation, including bankruptcy litigation, shareholder derivative suits, and creditor suits.

- *Hedging.* Semaphore may also engage in a variety of hedging transactions. Hedges can be more difficult to implement than many other types of transactions, and the possibilities for errors may be greater than for other transactions.

- *Short Sales.* A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, one must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the short seller. When Semaphore engages in short selling in the United States, the proceeds must be left with the broker, and there must be a deposit with the broker an amount of cash or U.S. government securities or other securities sufficient under current margin regulations to collateralize the obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions are governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security and the possibility of incurring a substantial loss in covering the short sale.

In addition, short sellers are subject to the risk of a "short squeeze." A short squeeze is a situation in which the short seller is prematurely forced out of a short position. The lender of a security used to cover a short generally has the right to demand the return of the stock that has been loaned at any time. In such event, Semaphore would be required to replace the borrowed securities by borrowing the securities from another lender. It generally is

more difficult to find securities that can be borrowed in the case of small-cap and mid-cap issuers. If Semaphore was unable to replace the borrowed securities, it would be required to close out the short sale by buying the security in the market in order to make delivery. In such event, the investor could incur a loss if the security sold short had increased in value. Although Semaphore does not anticipate using borrowed money frequently, it could be forced to close out a short sale prematurely as a result of an increase in margin requirements, coupled with an inability to provide the required additional margin on short notice. Further, Semaphore could be forced to close out a short sale prematurely as a result of a failure of the broker-dealer that arranged for the sale and borrowing of the short-sold security, via contract. Because short sales are contracts, rather than “securities,” for the purposes of the Securities Investor Protection Act (“SIPA”), they generally are not replaced in-kind with corresponding short positions, but may be closed out by the trustee of a failed broker-dealer, without the knowledge of or any notice to Semaphore as of the date that the failed broker dealer files for a protective decree under SIPA.

- *Leverage; Interest Rates; Margin.* Semaphore does not intend to rely heavily on leverage to make its investments because a large part of its investments will be in highly leveraged companies. Nevertheless, Semaphore may borrow funds from brokerage firms and banks on behalf of investors in order to be able to increase the amount of capital available for marketable securities investments. Even if a profit is made on the trade, the interest expense incurred in carrying the position may exceed the profit generated by the trade. The use of short-term borrowings or repurchase agreements will result in certain additional risks to the investors. For example, should the securities pledged to brokers to secure an investor’s margin accounts or repurchase obligation decline in value, the investor could be subject to a “margin call,” pursuant to which the investor must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of its assets, an investor might not be able to liquidate assets quickly enough to pay off its margin debt.

- *Dependence on Occurrence of Events.* The ability to realize a profit on certain of investments may be dependent upon the occurrence of certain events, for example, the bankruptcy, sale, or successful reorganization of a company. If such an event is expected and does not occur, the investor may sustain a loss.

- *Counterparty Risk.* To the extent that Semaphore invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions, including forward contracts, or, in certain circumstances, non-U.S. securities, investors may also take a credit risk with respect to the parties with whom they trade and may bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions, which

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

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Semaphore or the integrity of the Firm's management. Semaphore has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

As previously disclosed, Semaphore is the investment manager for Semaphore Investors, L.P., Semaphore Capital Partners, L.P. and Semaphore Offshore Limited. The General Partner for Semaphore Investors, L.P. and Semaphore Capital Partners, L.P. is Otis Partners LLC. Managing Members for these entities are Paul Carpenter and Hoyt Ammidon III. Mr. Carpenter is also a Director of Semaphore Offshore Limited.

Item 11 – Code of Ethics

Semaphore has adopted a Code of Ethics ("the Code") to ensure that securities transactions by Semaphore employees are consistent with Semaphore's fiduciary duty to its clients and to ensure compliance with legal requirements and Semaphore's standards of business conduct. The Code of Ethics includes a prohibition on insider trading, restrictions on the acceptance of significant gifts and personal securities trading procedures, among other things. All supervised persons at Semaphore must acknowledge the terms of the Code of Ethics annually, or as amended.

Semaphore anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Semaphore has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Semaphore, its affiliates and/or clients, directly or indirectly, have a position of interest. Semaphore's employees and persons associated with Semaphore are required to follow Semaphore's Code of Ethics. Semaphore does not permit employees to trade individual stocks in which a client has a position. Subject to satisfying this policy and applicable laws, officers, directors and employees of Semaphore and its affiliates may trade for their own accounts in non-individual equity securities which are recommended to and/or purchased for Semaphore's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Semaphore will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Semaphore's clients or prospective clients may request a copy of the Firm's Code of Ethics by contacting Robert Penberth, Chief Financial Officer.

To implement the Code, Semaphore has adopted Written Supervisory Procedures. These procedures require preapproval of all trades made by employees or related persons of Semaphore who make recommendations or participate in the determination of which recommendations shall be made. Semaphore maintains quarterly reports on all personal securities transactions. Further, such Written Supervisory Procedures prohibit the misuse of material non-public information and insider trading by any officer, partner, or associated person of Semaphore.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Semaphore's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Semaphore will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Semaphore has no obligation to acquire for its clients a position in any investment which Semaphore, its officers or employees, may acquire for its or their own accounts or for the account of another client, if, in the sole discretion of the Semaphore, it is not feasible or desirable to acquire a position in such investment for one or more clients. It should be understood that since different clients may have different investment guidelines, risk tolerances, time horizons, etc., Semaphore may affect different transactions or recommend different securities for various clients.

It is Semaphore's policy that the Firm will not affect agency cross securities transactions for client accounts. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Semaphore is not registered as a broker-dealer, and therefore does not enter into any agency cross transactions.

Semaphore does not engage in principal trades. In the event such a trade would be considered appropriate, Semaphore would comply with Section 206 of the Investment Advisers Act of 1940.

Item 12 – Brokerage Practices

Semaphore has full discretionary authority to manage its clients' account, including the decisions as to which securities are bought and sold and the brokers used to execute transactions, the amount and price of those securities and selection of and commissions paid to brokers. As previously stated, as of the date of this Brochure, Semaphore's clients consist of private investment funds and a registered investment fund. For the private investment funds it manages, Semaphore utilizes a Prime Broker who clears and settles the securities transactions that are effected through other brokerage firms. In addition to "capital introduction" opportunities, the Prime Broker may provide financing and other services to the private investment funds managed by Semaphore. Consequently, such additional services may influence Semaphore in deciding whether to use the services of such Prime Broker in connection with activities of the Partnership.

For transactions in which a Prime Broker is not utilized, Semaphore is responsible for selecting broker-dealers to execute trades and the negotiation of any commissions paid on such transactions. The primary consideration in placing transactions with particular broker-dealers is to obtain execution at the best net price and in the most effective manner possible. Semaphore also takes into account a variety of factors, including the following: the financial strength, integrity and stability of the broker and the quality, comprehensiveness and frequency of available research products and services. The research products and services furnished by brokers may include, among other things, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, discussion with research personnel, special execution capabilities, order of call, and the availability of stocks to borrow for short trades.

Semaphore may pay higher prices for the purchases of securities from or accept lower prices from the sale of securities to brokerage firms that provide it with such research products and services or to pay higher commissions to such firms if it is determined such prices or commissions are reasonable in relation to the overall brokerage and research services provided. Accordingly, Semaphore may be deemed to be paying for research products and services with "soft" or commission dollars.

Certain conflicts of interest arise out of the use of soft dollars, which depend in large part on the nature and uses of the services and products acquired with soft dollars. Although Semaphore believes that its clients' accounts benefit from many of the research products and services obtained with soft dollars generated by its trades, some client accounts may not benefit exclusively or at all. Additionally, research and services obtained with soft dollars may be used to benefit accounts other than the client account that generated the commissions. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Adviser, Semaphore will make a reasonable allocation of the cost that may be paid for with soft dollars.

The Firm reviews client commission arrangements, including whether each product or service is necessary and eligible to be paid for with client commissions under Section 28(e) of the Securities Exchange Act of 1934, as amended. Examples of products and services paid for with client commission arrangements include: third party research, including economic and financial publications; information on macro trading ideas, market commentary and data; industry specific publications; electronic feeds from various exchanges; and research systems and analytical tools for research.

Semaphore, in consultation with its CCO, annually reviews any soft dollar arrangements. This review includes the following considerations: (i) the cost of obtaining the applicable research product and service independently; (ii) whether any research products and services may have mixed uses, together with the appropriate allocation for such products and services between soft dollars and hard dollars; (iii) the amount of transactions directed to the broker providing the research products and services during the previous year; and (iv) whether any soft dollar arrangements should be modified.

To the extent that Semaphore selects counterparties to swaps and other over-the-counter derivatives transactions or positions, Semaphore will consider, as primary matters, the price and other fundamental terms of the particular contract and the creditworthiness and financial stability of the counterparty. In addition, Semaphore may consider, among other things, the counterparty's ability and willingness to provide liquidity, the value of research and other services and products the counterparty has provided or may provide Semaphore (both in connection with the relevant fund and in connection with the Adviser's activities more generally), the counterparty's overall relationship with Semaphore and, to the extent relevant, the other factors that Semaphore may consider in selecting securities brokers, dealers and other intermediaries.

Item 13 – Review of Accounts

Goldman Sachs & Co., New York ("Goldman Sachs") is the primary prime broker and *Barclays Capital* serves as an alternate prime broker for the Funds. The Prime Brokers

provide Semaphore with various daily and monthly surveillance reports to be used by the Portfolio Managers, CFO and Traders to monitor for fund, prospectus and regulatory limitations. The surveillance reports break down portfolio holdings by industry, issuer and security type. For the sub-advisory account, the Portfolio Manager performs a pre-trade review of portfolio limitations prior to execution. In addition, Portfolio Managers and the CFO conduct a daily review of historical (prior day) holdings reports, provided by a third-party, to monitor portfolio holdings limitations (including SEC/prospectus portfolio limitations, portfolio trading compliance and other regulatory compliance). On a daily basis, portfolio managers and CFO monitor exposure reports to ensure compliance with investment objectives/requirements/limitations.

The Administrator (SS&C Technologies Inc.) of the Funds (with the exception of The RIC) provides investors with monthly capital account statements and/or NAV of their investments. Such reports generally report and are intended to demonstrate the performance of account assets as well as providing an asset-holding summary and contributions/withdrawals for the term. In addition, the Funds are audited annually and the audited financial statements are distributed to investors within 120 days of the Funds' fiscal year ends.

Semaphore provides private fund investors with monthly market commentary and fund performance.

Item 14 – *Client Referrals and Other Compensation*

Currently, Semaphore has one solicitation agreement in place with Stratton Capital Management, 575 Madison Avenue, New York, NY 10022, which serves as the Firm's independent agent and marketing representative. For these services, Stratton Capital Management is paid, in connection with accounts or investments obtained as a result of its efforts, 20% of the advisory or performance compensation paid or allocated to Semaphore or its affiliates, either directly by their clients or by investment funds in which their clients invest.

Far Hills Group, LLC, 1114 Avenue of the Americas, New York, NY 10036 served as an independent agent and marketing representative for Semaphore. For these services, Far Hills Group, LLC received, in connection with accounts or investments obtained as a result of its efforts, 20% of the advisory or performance compensation paid or allocated to Semaphore or its affiliates, either directly by their clients or by investment funds in which their clients invest. The agreement with Far Hills Group, LLC and Semaphore has expired, but Far Hill may still receive payments pursuant to its terms.

TJM Investments, LLC, 220 East 42nd Street, New York, NY 10017 served as an independent agent and marketing representative for Semaphore LLC. For these services, TJM Investments, LLC received, in connection with accounts or investments obtained as a result of its efforts, 20% of the advisory or performance compensation paid or allocated to Semaphore or its affiliates, either directly by their clients or by investment funds in which their clients invest. The Firm's agreement with TJM Investments, LLC has expired, but payment may still be made pursuant to its terms.

All such compensation is paid by Semaphore and its affiliates from the advisory fee or performance fee allocations that they receive, and no additional fees or other kind of payment is added to those fees or allocations as a result of the participation of any solicitors in the production of new business or the retention of existing business.

Item 15 – Custody

Semaphore does not maintain physical possession of client funds and/or securities. Client funds and securities are maintained by a qualified third-party custodian. In the case of the private investment funds, the Prime Broker, a registered broker dealer, serves as custodian. The managing members of the Advisor also serve as managing members of the general partner and/or director to the private funds. As such, Semaphore is deemed to have custody of the assets of the private funds.

Investors in the private investment funds managed by Semaphore receive from the Administrator monthly capital account statements and/or NAV of their investments. Such reports generally report and are intended to demonstrate the performance of account assets as well as providing an asset-holding summary and contributions/withdrawals for the term. In addition, the Funds are audited annually and the audited financial statements are distributed to investors within 120 days of the Funds' fiscal year ends.

Semaphore urges the investors in the Funds to carefully review the statements provided by the Administrator.

Item 16 – Investment Discretion

Semaphore usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Semaphore observes the investment

policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Semaphore's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Semaphore in writing.

Item 17 – Voting *Client* Securities

Clients may obtain a copy of Semaphore's complete proxy voting policies and procedures upon request. Clients may also obtain information from Semaphore about how Semaphore voted any proxies on behalf of their account(s).

Semaphore exercises its voting responsibilities solely with the goal of serving the best interests of its clients as shareholders of a company. In determining how to vote on any proposal, Semaphore considers the proposal's expected impact on shareholder value and will not consider any benefit to the Firm, its employees or affiliates.

There may be occasions when Semaphore chooses to refrain from voting a proxy for a particular security. In these instances, Semaphore will document any reasons supporting the decision and the information will be maintained accordingly.

Semaphore's Proxy Voting Guidelines

Semaphore has adopted the following voting guidelines:

- **Confidential Voting and Shareholder Actions.** Semaphore believes that the proxy voting systems should provide access to both management and shareholders. As such, Semaphore would tend to vote in favor of shareholder resolutions requesting that corporations adopt policies that comprise both confidential voting and the use of independent inspectors of elections. Semaphore would also generally oppose any measures that would restrict the right of shareholders to act by written consent or to call a special meeting of the shareholders.
- **Poison Pills and Golden Parachutes.** Semaphore believes that the shareholders of a corporation should have the right to vote upon decisions in which there is a real or potential conflict between the interests of shareholders and those of management. Thus, Semaphore will vote in favor of shareholder proposals requesting that a corporation submit a "poison pill" for shareholder ratification. We will examine, on a case-by-case basis, shareholder proposals to redeem a "poison pill" and management proposals to ratify a "poison pill". Semaphore will also vote in favor of proposals that "golden parachute" proposals be submitted for shareholder approval.

- **Election of Directors.** Semaphore believes that one of the primary rights of a shareholder is the right to vote for the election of directors. We feel that all members of the board of directors should stand for election each year, and will, therefore, vote against a classified or “staggered” board.
- **Voting Rights.** Semaphore believes that each shareholder should have equal voting rights. Semaphore will vote against dual class voting and other unequal voting structures.
- **Fair Price Amendments.** Semaphore believes that “fair price amendments” can protect shareholders from coercive and discriminatory tender offers. Semaphore will generally vote in favor of fair price provisions and in favor of other measures which we feel will protect shareholders from coercive takeover bids which do not provide for fair and equal treatment of all shareholders.
- **Target Share Payments.** Semaphore believes that shareholders should have the right to vote on the placement of blocks of a corporation’s stock in the hands of persons friendly to management. Semaphore will vote in favor of shareholder proposals which request that corporations first obtain shareholder authorization before issuing any significant amount of voting stock (whether common or preferred), rights, warrants or securities convertible into voting stock to any person or group. We believe that shareholders should have the right to vote on placements that could enable management of a corporation to defeat a tender offer that may be in the best interests of shareholders.
- **Tender Offers.** Semaphore will consider tender offers on a case-by-case basis.

Conflicts

Semaphore recognizes that proxy proposals may present a conflict between the interests of investors and those of Semaphore or certain of its affiliates. Therefore, Semaphore has adopted the following conflict procedures:

- **Identifying Conflicts.** The person assigned responsibility for voting proxies shall, when reviewing proxy materials, identify conflicts of interest including, for example:
 - when Semaphore (or its affiliate) is or is seeking to manage a pension plan, administer employee benefit plans, or provide brokerage, underwriting, insurance or banking services to a company whose management is soliciting proxies or;
 - has business or personal relationships with participants in proxy contests, corporate directors or candidates for directorships.
- **Data for Identifying Conflicts.** The person assigned responsibility for voting proxies shall advise Firm management of companies soliciting proxies, and management shall advise if there are any known conflicts – including, in particular, the conflicts listed as example in the preceding paragraph.

- **Disclose Conflicts.** If a conflict is identified, the person assigned to vote proxies shall notify the Semaphore's management as soon as possible so that a voting decision may be made, voting on the proxy proposal in a timely manner.
- **Voting Decisions in Conflict Situations.** If the matter to be voted on is covered above, the proxy shall be voted in accordance with procedures above. If the matter is not specifically addressed above and there is a conflict, management of the Semaphore shall contact the investor or investor's designated representative for voting instructions.
- **Record of Voting Instructions.** Semaphore shall record and the person responsible for voting proxies shall maintain records reflecting investor voting instructions on matters where there are conflicts.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Semaphore's financial condition. Semaphore has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.