

Item 1 – Cover Page

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This Brochure provides information about the qualifications and business practices of Arco Capital Management LLC (“ACM”, “we”). If you have any questions about the contents of this Brochure, please contact us at (787) 993-9650. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “Commission” or the “SEC”) or by any state securities authority.

ACM is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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

Item 2 – Material Changes

This brochure contains one material change since its last version published on March 31, 2011. We are now reporting that ACM currently has approximately \$118 million in assets under management, as opposed to the previously reported sum of \$57 million. This change stems from our interpretation of the Item 5.F(4) of the Form ADV issued by the Commission as a result of the Commission's adoption of final rules in Investment Advisers Act Release No. 3221, wherein it states that when calculating the value of regulatory assets under management should be based on the current market value using the same method used to calculate fees for investment advisory services. The market value used to calculate fees for investment advisory services is \$118 million; thus, we have amended our brochure to reflect the new calculation for assets under management.

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 SEC Rules, we will ensure that you receive a summary of any material 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 Jorge R. De Jesús at (787) 993-9663 or jdejesus@arcocapital.com. Additional information about ACM 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 ACM who are registered, or are required to be registered, as investment adviser representatives of ACM.

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Item 4 – Advisory Business

ACM provides investment management services to, among other clients, an offshore holding company and its subsidiaries (the “Client”) with a focus on lending and acquisition activities primarily in emerging European, Latin American and Asian markets. ACM’s principal owners are Ailsa Craig Trust (80%) and Bond Street Trust (20%).

The Client invests in a broad range of financial instruments, securities transactions and real estate including lending and acquisition activities primarily in emerging European, Asian and Latin American markets in two principal business lines: commercial leveraged finance and real estate.

ACM has broad discretionary authority to determine the type and amount of securities to be bought or sold, with such authority limited by the Client on a contractual basis. However, such authority is checked, for example, by the following safeguards: (i) transactions between ACM and the Client or the Client’s subsidiaries, require prior approval by a majority of the Client’s independent directors, (ii) transactions recommended by ACM have to be in line with the Client’s approved investment guidelines and (iii) other limitations specified in the management agreement with the Client.

ACM does not provide wrap fee programs.

For purposes of the ADV (and applicable definitions), ACM has approximately \$118 million assets under management, which are managed on a discretionary basis.

Item 5 – Fees and Compensation

ACM receives a base management fee and an incentive compensation fee. The base management fee is payable quarterly in arrears. The base management fee for each quarter is an amount equal to the sum of (1) 1.75% of the first \$500 million of the Client’s equity, (2) 1.50% of the Client’s equity in excess of \$500 million and up to \$1 billion, and (3) 1.25% of the Client’s equity in excess of \$1 billion.

In addition, the Client reimburses ACM for certain expenses incurred each quarter, including, without limitation, deal pursuit costs, audit fees, filing fees, taxes, insurance costs, office facilities and related expenses. ACM was previously paid advisory fees quarterly in arrears pursuant to an advisory contract, however, as of June 2011, ACM has been paid quarterly advisory fees in advance.

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

ACM has entered into performance fee arrangements with the Client: such fees are subject to individualized negotiation with the Client. ACM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the “Advisors Act”) in accordance with the available exemptions thereunder, including the exemption set forth

in Rule 205-3, as amended. In measuring Clients' assets for the calculation of performance-based fees, ACM shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for ACM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. ACM has procedures designed and implemented to ensure that the Client is treated fairly.

ACM receives an incentive fee which is calculated by comparing the net income earned by the Client for the immediately preceding calendar quarter (expressed as a rate of return on the weighted average price per share paid on all common share offerings (including the Client's initial private offerings and other offerings) at the end of the immediately preceding calendar quarter) to a "hurdle rate" of 2.5% per quarter (10% annualized). The incentive management fee for each quarter is calculated as follows: (1) zero in any calendar quarter in which the Client's net income does not exceed the hurdle rate; (2) 100% of the Client's net income with respect to that portion of such net income, if any, that exceeds the hurdle rate but is less than 3.33% in any calendar quarter (13.33% annualized); and (3) 25% of the amount of the Client's net income, if any that exceeds 3.33% in any calendar quarter (13.33% annualized).

Item 7 – Types of Clients

ACM principally provides portfolio management services to corporations and institutional investors. Currently, ACM only considers clients which are financially sophisticated and generally requires clients to qualify as accredited investors.

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

ACM uses fundamental analysis to determine the investments in the Client's portfolio. In its fundamental analysis, ACM seeks to determine the intrinsic value of equities based on a thorough analysis of the fundamental business factors of the given investment at issue. This includes: analysis of financial statements, earnings, dividends, management structure, competitive advantages, product offerings, competitors and markets. In essence, this method of analysis evaluates the overall condition of the company to determine whether it is a sound investment. Despite the fundamental analysis performed by ACM, any investment in securities carries market risk and investors may lose their principal investment.

The investment strategy used for the Client includes both capital preservation and growth. Seeking capital preservation with limited risk will involve investing in passive strategies using fixed income products, whereas growth strategies involve active strategies using stocks, and stock options.

While ACM will not engage in day-trading, active strategies may entail additional risk due to a greater frequency in transactions, which may involve additional brokerage fees, transaction costs, and taxes. Also, strategies that use options may entail additional risk as losses may exceed those seen in the underlying security. Lastly, strategies that include private placement offerings entail

greater risk as these offerings have limited regulatory oversight, have less liquidity, and depend on the due diligence performed.

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 an evaluation of ACM or the integrity of ACM's management. ACM has no information disclosable under this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Pursuant to a management agreement, ACM provides legal, accounting, compliance and back office services to the Client. ACM also provides advice to Client with respect to real estate, infrastructure assets, structured credit and leveraged finance.

KSHER AA LLC and Steamboat Capital Management LLC are affiliated Registered Investment Advisors that serve as the managing members of certain limited liability companies, which are listed on Section 7(b) of Schedule D to Part I of the Form ADV filed by each such adviser. None of these entities is a NASD member Broker/Dealer.

Item 11 – Code of Ethics

ACM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its Client. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, and personal securities trading procedures, among other things. All supervised persons at ACM must acknowledge the terms of the Code of Ethics annually or as amended.

ACM anticipates that, in appropriate circumstances, consistent with the Clients' investment objectives, it will cause accounts over which ACM has management authority to effect, and will recommend to the Client or prospective client, the purchase or sale of securities in which ACM, its affiliates and/or clients, directly or indirectly, have a position of interest. ACM's employees and associated persons are required to follow ACM's Code of Ethics. Subject to observing this policy and applicable laws, owners and employees of ACM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Client. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of ACM will not interfere with (i) making decisions in the best interest of the Client, (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts and (iii) complying with applicable laws and regulations. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of ACM's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as the Client, there is a

possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, in order to reasonably prevent conflicts of interest between ACM and the Client.

ACM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Jorge R. De Jesús at jdjedjesus@arcocapital.com.

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

Item 12 – Brokerage Practices

ACM is not in the business of trading. However, in the few instances where a transaction for the Client requires the use of a broker/dealer, ACM will use its best judgment to choose the best broker or dealer most capable of providing the services necessary to obtain the most favorable execution. The full range and quality of services available will be considered in making these determinations. Best execution will be judged by many factors including the following: price (commissions included, if any), ability to execute and clear trades and quality of service regarding broad market coverage. In those instances where it is reasonably determined that more than one broker or dealer can offer the services needed to obtain the most favorable execution, consideration may be given to those brokers or dealers who supply investment research, statistical information and other services related to investment research. In all cases, ACM must have determined that the fees charged by the broker or dealer are reasonable and competitive services rendered.

Item 13 – Review of Accounts

ACM reviews its portfolio on a monthly and yearly basis. The monthly reviews are performed primarily to indicate any anomaly in the portfolio or a major unscheduled event. Additionally, on a regular basis, ACM monitors and reviews news wires, selected newspapers, local market feedback obtained from ACM's network of service providers, and research material provided by third parties to review current investment views and develop new investment ideas.

ACM currently employs 4 individuals that serve as reviewers of which one (1) is the Chief Investment Officer (“CIO”), one (1) the Managing Director, one (1) the Senior Vice President Legal and Corporate Development and another (1) the Controller. The CIO is responsible for the oversight and day to day operations of the entire portfolio, the Managing Director assists the CIO in the day to day oversight of several of the assets, the Senior Vice President Legal and Corporate Development assists the CIO in new investment idea generation and preliminary legal and diligence review, while the Controller reviews potential investment opportunities impact on the managed fund and monitors the investments once they are underwritten. On average, the CIO and the Managing Director have primary responsibility for 3 to 5 investments individually.

As mentioned above, ACM’s investment management committee instructs each supervisor to report any anomaly or unscheduled event, as well as the progress of each investment. The investment management committee also provides the general and investment guidelines that should be followed by each supervisor.

ACM, on behalf of the Client, causes the Client to issue quarterly and yearly financials in accordance with SEC regulations.

Also, ACM causes the Client to distribute a quarterly letter to the advisory client’s investors which reports the most significant events related to each investment.

Item 14 – Client Referrals and Other Compensation

ACM does not compensate other financial professionals to refer clients to ACM for investment advisory services.

Item 15 – Custody

ACM complies with the Custody Rule by having an independent public accountant audit annually the Client. Audited financial statements are also provided to investors of the Client. Additionally, ACM causes Client’s cash and securities to be held by a qualified custodian.

Item 16 – Investment Discretion

ACM has discretionary authority 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 exercised in a manner consistent with the stated investment objectives for the Client’s account.

ACM observes the investment policies, limitations and restrictions of its clients when selecting securities and determining amounts to be invested on their behalf.

Investment guidelines and restrictions with respect to management of the Client are explained in detail in the management agreement between ACM and the Client, as amended. ACM generally executes a power of attorney with the Client before assuming an advisory mandate.

Item 17 – Voting Client Securities

ACM does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. ACM may provide advice to clients regarding the clients' voting of proxies.

Item 18 – Financial Information

An investment adviser is required in this Item to provide its clients with certain information or disclosures about the financial condition of such adviser. Specifically, this Item requires an adviser to disclose, among other things, any financial condition reasonably likely to impair the adviser's ability to meet contractual commitments to clients.

Based on known facts and circumstances as of the date of this brochure, we believe that ACM has funds available to operate and meet its contractual commitments to its advisory clients until sometime in June 2012. As such, ACM's liquidity, working capital position and ability to continue as a going concern business beyond June 2012 is largely dependent on its ability to secure additional sources of funding on acceptable terms either from ACM's members and/or from other third party funding sources. There is no assurance that such additional sources of funding will be identified, or that necessary funds will be available to ACM from our members or third party sources. To the extent ACM is unable to obtain additional funding sources, ACM may need to wind down its affairs.