

**Item 1 - Cover Page**

**SPITFIRE CAPITAL LLC**

Form ADV, Part 2A Brochure  
March 31, 2014

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This brochure provides information about the qualifications and business practices of Spitfire Capital LLC. If you have any questions about the contents of this brochure, please contact us at (415) 878-1908 or by email at [patrick@spitfirecap.com](mailto:patrick@spitfirecap.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.

Additional information about Spitfire Capital LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC does not imply a certain level of skill or training.

## **Item 2 - Material Changes**

This brochure was prepared for Spitfire's annual updating amendment for its fiscal year ending December 31, 2013. The date of our last annual update was March 31, 2013.

The following is a summary of material changes made to this brochure:

- Item 4 has been updated to reflect our switch from State to SEC Registration during 2013 and an increase in the amount of Client Assets that we manage.

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#### **Item 4 - Advisory Business**

- A. Spitfire Capital LLC (“Spitfire” or “we”) is a San Francisco-based investment advisor. We are registered with the SEC<sup>1</sup>. We have been in business since July 2007. Julian A.L. Allen is the Managing Member and principal owner of Spitfire.
- B. Spitfire provides investment advice and management services to The Spitfire Fund L.P., a private investment fund that is organized as a limited partnership, The Spitfire Qualified Fund L.P., a private investment fund that is organized as a limited partnership, and The Spitfire Qualified Fund Ltd. (the “Offshore Fund”), a private investment fund that is organized as a corporation (collectively the “Funds”). The Spitfire Qualified Fund Ltd. intends to pursue its investment activities by investing all or a portion of its assets in The Spitfire Qualified Fund L.P. in a master-feeder structure. An affiliate of Spitfire Capital LLC serves as General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P. Spitfire provides similar services to separate account clients (together with the Funds, “Clients”) and may in the future provide similar services to additional pooled investment vehicles or separate account clients (“Other Clients”).
- C. Pursuant to the terms of the Funds’ partnership agreements and investment management agreements, and the separate accounts’ investment advisory agreement, Spitfire is authorized to enter into any type of investment transaction it deems appropriate. Separate account clients may impose restrictions on investing in certain securities or types of securities.
- D. We do not participate in wrap fee programs.
- E. As of March 28, 2014, Spitfire’s total regulatory assets under management was approximately \$250,900,000. All such assets are managed on a discretionary basis.

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<sup>1</sup> Note that registration with the SEC does not imply a certain level of skill or training.

## Item 5 - Fees & Compensation

- A. We typically receive, as to each limited partner or shareholder of the Funds, an annual management fee of 1.5% of the balance in the limited partner's or shareholder's capital account, payable as of the beginning of each calendar quarter.

The General Partner typically also receives or is allocated an annual performance fee (the "Special Allocation") equal to 20% of the net profits allocated to each investor in the Funds, including both realized and unrealized gains and losses, but only to the extent net profits exceed cumulative losses previously allocated to an investor for earlier periods that have not been recovered (the "high water mark"). The Special Allocation is typically made at the end of each calendar year. Please see Item 6 (Performance-Based Fees and Side-by-Side Management) for further discussion of performance fees.

Special Allocations will be made only as to investors who are "qualified clients" within the meaning of Rule 205-3 of the Investment Advisers Act of 1940 (the "Adviser's Act"). The Special Allocation is structured to comply with Rule 205-3 of the Adviser's Act.

We also receive an annual management fee equal to 1.5% of the value of the separate accounts as of the last trading day of each calendar month. At the end of each calendar year, we also receive an annual performance fee based on the net capital appreciation of the separate accounts, including realized and unrealized gains and losses, subject to the separate accounts' high water mark.

Our fee arrangements are negotiable and may vary among the limited partners and shareholders of the Funds and between separate account clients. We believe that our fees are competitive with those charged by other investment advisers for comparable services. Other investment advisors may offer comparable services for lower fees.

- B. Pursuant to the terms of the Funds' partnership agreements and investment management agreements, the Funds' management fee is payable as of the beginning of each calendar quarter. The separate accounts' management fee is payable monthly. We are typically paid accrued management fees by the Funds and by the separate accounts on a quarterly basis. We are typically paid performance fees, if any, soon after the end of the calendar year in which they were earned.

Strata Fund Solutions LLC, an independent third party administrator, verifies, among other things, that the calculation of the Funds' management and performance fees is mathematically accurate. Please note that we may change the independent third party administrator at any time.

- C. In addition to management and performance fees, Clients pay all brokerage commissions and other transaction costs. The Funds also incur (a) the cost of an annual audit, (b) the cost of the independent third party administrator, (c) fees of the legal advisers used in connection with the organization and ongoing operations of the Funds, (d) annual filing fees and (e) for the Offshore Fund, Directors' fees and expenses, Registered Office fees and expenses, Registrar & Transfer Agent fees and expenses and annual Regulatory and License fees. Separate account clients may elect whether or not to have their account audited and whether or not to retain the services of an independent third party administrator.

Clients do not typically pay separate custodial fees. The Funds and separate accounts obtain custodial, clearing and related services through what is known as a "prime brokerage" arrangement. Under this arrangement, a brokerage firm (the "Prime Broker"), among other things, (i) arranges for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) makes and receives payments for securities; (iii) maintains custody of cash and securities; (iv) tenders securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provides detailed portfolio and related reports, but allows the Funds to use other brokers to execute transactions. This permits us to seek valuable research and to compare execution quality and commission rates from other brokers, while maintaining only one custodial relationship. By using a Prime Broker, the Funds may avoid paying custodial fees that banks charge other institutional investors. The Prime Broker is compensated through interest on credit balances, margin borrowings, stock loans and brokerage commissions, all of which are paid by Clients.

We currently use UBS Securities LLC as Prime Broker. We may change Prime Broker, alter the terms of our prime brokerage arrangements with the Prime Broker or make alternative arrangements to receive the services currently provided by the Prime Broker, all in our absolute discretion.

The Prime Broker may provide services to Spitfire, or its related persons, distinct from the custodial, lending and related services provided to client accounts. These services may include consulting services with respect to various aspects of our business. They may be provided at lower than the market price for similar services or for no charge. They may include introducing us to prospective investors in the Funds and to prospective advisory clients. To the extent that we receive services from the Prime Broker at lower than market prices, because we are responsible for selecting the Prime Broker or negotiating the rates of compensation paid to the Prime Broker, conflicts may exist between our interests and those of our Clients. We may have an incentive to cause Clients to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) than might otherwise be available or to continue to use the Prime Broker when the Clients would not

otherwise do so. We believe the expenses paid to the Prime Broker are reasonable and competitive with rates charged by other prime brokers for services of comparable quality.

Please refer to Item 12. (Brokerage Practices) for additional discussion of our brokerage arrangements.

- D. Clients do not typically pay our fees in advance. If an advisory contract is terminated before the end of a billing period, we will refund any pre-paid but unearned advisory fees pro-rata for the number of business days in the billing period.
- E. Neither we, nor any of our supervised persons, accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

As discussed in Item 5.A., in addition to management fees, the General Partner generally receives a Special Allocation equal to a percentage of the net profit allocated to each investor in the Funds at the end of each calendar year.

At the end of each calendar year, we also receive an annual performance fee from our separate account clients based on the net capital appreciation of the separate accounts, including realized and unrealized gains and losses, subject to the separate accounts' respective high water marks.

Performance-based compensation may create an incentive for us to recommend an investment that may carry a higher degree of risk to the client. We may in the future negotiate different performance fee arrangements with limited partners in the Funds and with our Other Clients. In the event that these arrangements differ from our existing performance fee arrangements, we might have an incentive to allocate the most attractive investment opportunities to those limited partners or clients which have agreed the highest incentive fee arrangements with us. We address this potential conflict of interest by allocating investment opportunities to Clients on a pro rata basis, subject to their respective investment parameters, liquidity requirements, eligibility for participating in new issues or other restrictions. Limited partners in the Funds participate in the Funds' investments on a pro rata basis, subject only to restrictions on participating in new issues or special investments, regardless of differences, if any, in their respective fee arrangements.



## **Item 7 - Types of Clients**

We provide investment advice and management services to The Spitfire Fund, L.P., a private investment fund that is organized as a limited partnership, The Spitfire Qualified Fund L.P., a private investment fund that is organized as a limited partnership, and The Spitfire Qualified Fund Ltd., a private investment fund that is organized as a corporation. Spitfire Fund GP LLC, an affiliate of Spitfire Capital LLC, serves as General Partner of The Spitfire Fund L.P. and The Spitfire Qualified Fund L.P.

Spitfire provides similar services to separate account clients that are organized as limited liability companies. We may in the future provide similar services to additional pooled investment vehicles, separate account clients, individuals, pension and profit sharing plans, trusts, estates, charitable organizations or corporations.

The Funds are privately-offered investment funds that are not regulated under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) because of Sections 3(c)(1) and 3(c)(7) of that Act.

Each limited partner in the The Spitfire Fund L.P. must qualify as (i) an “accredited investor,” as defined under the Securities Act of 1933, and (ii) a “qualified client” as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended.

Each limited partner in the The Spitfire Qualified Fund L.P. and each tax-exempt US investor in The Spitfire Qualified Fund Ltd. must qualify as (i) an “accredited investor,” as defined under the Securities Act of 1933, and (ii) a “qualified purchaser”, as defined in Section 2(a)(51) of the Company Act, and (iii) a “qualified client” as defined in Rule 205-3 of the Advisers Act of 1940, as amended.

We generally also require investors to make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment. Other Clients will have similar requirements.

We generally require a minimum investment of \$1,000,000 for The Spitfire Fund L.P., The Spitfire Qualified Fund L.P. and The Spitfire Qualified Fund Ltd, and \$5,000,000 for separate account clients. These minimums may be waived at our discretion.

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

Our primary method of analysis involves fundamental analysis of an issuer's financial condition and future prospects. We rely on annual reports and other company filings with the Securities and Exchange Commission, Company press releases, analyst reports, Company visits and meetings with Company management. We review industry specific publications, general publications including newspapers, as well as financial publications and newsletters, among other information sources.

We focus primarily on investing in the securities of smaller capitalization public companies. Our investment strategies may utilize investment techniques including, among others, margin transactions, short sales, leverage and options on securities and forward contracts, which can, in certain circumstances, maximize the adverse impact to which Clients may be subject. Investing in securities involves risk of loss that Clients should be prepared to bear.

An investment in the Funds and in the separate accounts involves a high degree of risk and a limited partner or shareholder or separate account client should be aware that it may lose all or part of its investment in the Funds or separate account. We believe that our investment program and research techniques moderate this risk through careful selection of securities, the use of short positions and other financial instruments. **NO GUARANTEE OR REPRESENTATION IS MADE THAT THE INVESTMENT PROGRAM WILL BE SUCCESSFUL.**

The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds or in a separate account. Prospective investors and separate account clients should read the Funds' respective Private Placement Memoranda in their entirety and consult with their own professional advisers before deciding to invest in the Funds or in a separate account.

*Limited Diversification.* Although we may from time to time follow guidelines on diversification, there are no limits on our investment discretion. At any given time, it is therefore possible that we may select investments that are concentrated in a particular market or industry or in a limited number or type of securities. This limited diversity could expose Clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.

*Illiquid Portfolio Securities.* We may invest in securities of private companies and privately issued securities of public companies. We may not be able to readily dispose of such non-publicly traded securities and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

*Non-Disclosure of Positions.* In an effort to protect the confidentiality of its positions, we do not intend to disclose the Funds' positions to Limited Partners and Shareholders on an ongoing basis, although the Funds, in their sole discretion, may permit such disclosure on a selective basis to certain Limited Partners and Shareholders and certain other parties if

the Funds determine that there are sufficient confidentiality agreements and procedures in place. Further, the Funds may not disclose their investment positions in their annual financial statements, if they determine that such confidential treatment is desirable. In certain situations, however, disclosure of Client positions, and changes in those positions, may be required under federal securities laws, including, for example, where Clients accumulate a significant position in a publicly-traded security. Institutional Investment Managers that exercise investment discretion over \$100mm or more in Section 13(f) securities are required to make a quarterly filing of Form 13F pursuant to Section 13(f) of the Securities Exchange Act of 1934. Spitfire made its first such filing on February 14, 2014 for Section 13(f) securities owned as of December 31, 2013. The disclosure of Clients' positions could affect our ability to dispose of the positions or the prices at which the positions may be disposed.

*Investing In Small- And Medium-Sized Companies.* We will invest in securities and other instruments of small- and medium-sized companies. Prices of small-capitalization and medium-capitalization securities tend to be more volatile than prices of large-capitalization securities. Such companies' securities are more likely to trade at prices that reflect incomplete or inaccurate information. During some periods, securities of smaller companies have under-performed the securities of large companies. Moreover, the risk of bankruptcy or insolvency of many small companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some micro- and small- capitalization stocks, an investment in those stocks may be illiquid.

*Growth Stage Companies.* We may invest in securities of companies that are in the growth stage of their operational history. While investments in growth stage companies offer the opportunity for significant capital gains, such investments involve a high degree of business and financial risk that can result in substantial losses. The stock market has, at different times, experienced volatility that has particularly affected the securities of different industries, such as technology. As a result, Clients' performance may experience substantial volatility if we invest in companies operating in a particularly volatile industry.

*Investments in Undervalued Securities.* The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that we will be able to successfully recognize or acquire such securities. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from Clients' investments may not adequately compensate for the business and financial risks assumed.

We may make certain speculative investments in securities that we believe to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, Clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Clients' capital would be committed to the securities purchased, thus possibly

preventing Clients from investing in other opportunities. In addition, Clients may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

*Event Driven Investing.* Event driven investing requires us to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. Clients can incur losses if the event fails to occur or it does not have the predicted effect. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction or restructuring programs by a company may not be valued as highly by the market as we had anticipated, resulting in Client losses. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors. Because of the inherently speculative nature of event driven investing, our results with respect to any such investments may be expected to fluctuate from period to period and will not necessarily be indicative of results that may be expected in future periods.

*Risks of Owning Significant Positions.* We may acquire positions exceeding 10% of the equity securities of a publicly traded company or may become a member of the board of directors of a portfolio company. In that event, Clients will become subject to Section 16 of the Securities Exchange Act of 1934 and will be required to report all purchases and sales of such securities, and will be required to disgorge all profits realized by any sale or purchase within six months of another purchase or sale of such securities. To avoid the obligation to disgorge such profits, Clients will be required to hold positions for longer than circumstances may warrant, with the result that we may be unable to dispose of a position at a propitious time. Our inability to dispose of a position on a timely basis may reduce profits and result in losses.

If we have a nominee serving on a company's board of directors, we will likely have access to information about the company that is both material and non-public. Until that information is disclosed to the public or is no longer material, we will be unable to acquire additional securities of the company or dispose of any portion of Client positions. This situation could make the position illiquid for an indefinite period of time and would likely impair the ability of us to otherwise invest Clients' capital or to meet a withdrawal request from an investor in the Funds or a separate account client.

*Leverage and Financing Risk.* We utilize leverage because we believe that the use of leverage may enable us to achieve a higher rate of return. Accordingly, we will pledge securities held in the Funds or in separate accounts to the lender in order to borrow additional funds for investment purposes. We may also leverage investment returns with options, commodity futures contracts, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which the Funds and separate accounts may have outstanding at any time may be substantial in relation to their respective capital.

While leverage presents opportunities for increasing Clients' total return and we do not intend to use leverage to a great extent, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the account is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to our investments could result in substantial loss, which would be greater than if the account was not leveraged.

In general, the anticipated use of short-term margin borrowings results in certain additional risks. In the event of a sudden drop in the value of Client assets, we might not be able to liquidate assets quickly enough to satisfy margin requirements.

The financing used to leverage portfolios will be extended by securities brokers and dealers in the markets in which we invest. While we will attempt to negotiate the terms of these financing arrangements with such brokers and dealers, our ability to do so is limited.

*Distressed Securities.* We may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. There is no assurance that we will evaluate correctly the value of the assets or securities underlying Clients' investments in any such companies or the prospects for a successful reorganization or similar action. Clients may lose their entire investment in any reorganization or liquidation proceeding relating to any such company, or may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such investments may not compensate Clients adequately for the risks assumed.

In certain transactions, client accounts may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated, resulting in potential losses to Clients even if the proposed transaction is consummated.

*Futures.* The Funds may trade in futures contracts (and options on futures). Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Clients from promptly liquidating unfavorable positions and subject Clients to substantial losses. In addition,

Clients may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

*Options.* Clients may buy or sell (write) both call options and put options, and when it writes options it may do so on a “covered” or an “uncovered” basis. Clients’ options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which Clients have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

*Short Selling.* Short selling involves selling securities that are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities to cover the short position. There can be no assurance that Clients will be able to maintain the ability to borrow securities sold short. In such cases, Clients can be “bought in” (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Loans of Portfolio Securities.* We may lend securities held by Clients. By doing so, we attempt to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, Clients could experience delays in recovering the loaned securities. To the extent that the value of the securities lent has increased, Clients could experience a loss if such securities are not recovered.

**Item 9 - Disciplinary Information**

Spitfire and its management persons have not been a party to any legal or disciplinary events that would be material to a Client's or prospective client's evaluation of its investment advisory business or the integrity of its management.

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

- A. Neither Spitfire nor its management persons are registered as a broker-dealer or broker-dealer representative.
- B. Neither Spitfire nor its management persons are registered as a futures commission merchant, a commodity pool operator, or a commodity trading advisor.
- C. There are no other relationships or arrangements that are material to Spitfire's advisory business.
- D. Spitfire does not utilize nor select other advisors or third party managers. All client assets are managed by Spitfire.



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

- A. We have adopted a Code of Ethics and policies and procedures related to personal account trading intended to prevent employees and related persons from inappropriately benefiting from price movements that may be caused by transactions executed on behalf of Clients. Pursuant to our Code of Ethics, employees are generally prohibited from personal account trading, except in limited circumstances and only upon receiving prior written approval.

Approval for a trade will not be granted if it: (a) involves a security that is being purchased or sold or is being considered for purchase or sale by an advisory account; (b) is otherwise prohibited under any internal policies; (c) breaches the employee's fiduciary duty to any advisory client; (d) is otherwise inconsistent with applicable law, including the Investment Advisers Act of 1940, the California Corporate Securities Act of 1968 or the Employment Retirement Income Security Act of 1974; or (e) creates an appearance of impropriety. No security may be purchased or sold in a personal account if the employee having an interest in that account knows that an advisory account is purchasing or selling that security or a related security or has purchased or sold such a security within the preceding five business days. Personal trading accounts are monitored.

We will provide a copy of our Code of Ethics to any Client upon request.

- B. We act as investment adviser and manager of the Funds and, in that role, may solicit investors to invest in the Funds. Neither we nor our related persons expect to advise investors regarding the appropriateness of investing in the Funds, nor will we or our related persons receive any compensation for so doing, or for selling interests in the Funds (or in any future pooled investment vehicle similar to the Funds), except to the extent to which we receive advisory and other fees from the Funds.
- C. From time to time, we may cause a Client to invest in a security in which an employee has an ownership position. An employee may also receive as a distribution a security that is held in an advisory account. Employees holding such a position might have an incentive to recommend such securities for purchase by the Fund or other advisory client in order to increase the value or liquidity of such position.

Given our general prohibition on personal account trading, such circumstances are rare. Pursuant to our Code of Ethics, no security may be purchased or sold in a personal account if the employee having an interest in that account knows that an advisory account is purchasing or selling that security or a related security or has purchased or sold such a security within the preceding five business days.

We, and our employees, may invest in the Funds or in Other Clients.

D. Not applicable.

## Item 12 - Brokerage Practices

- A. We have discretion over the selection of brokers, dealers, counterparties, and other financial intermediaries (“Transacting Parties”) to be used and the commission rates or other transaction-related compensation to be paid. We are not required to consider any particular criteria in choosing Transacting Parties. For the most part, we seek “best execution” of securities transactions. What constitutes “best execution” and determining how to achieve it are inherently uncertain.

We consider a range of factors in evaluating whether a Transacting Party will provide best execution. These include, among others, historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions; the execution, clearance and settlement and error correction capabilities of the Transacting Party generally and in connection with securities of the type and in the amounts to be bought or sold; the Transacting Party’s willingness to commit capital; the Transacting Party’s reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the security; and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party. We are not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to other Transacting Parties, and Clients should expect at times to pay more than the lowest transaction cost available in order to obtain services and products other than the execution of securities transactions.

### 1. Research and Soft Dollar Benefits.

We may select a broker that provides various “research” and “brokerage” services and products beyond transaction execution. Selecting a broker in recognition of the provision of services and products other than transaction execution is known as paying for those services or products with “soft dollars.” Section 28(e) of the Securities Exchange Act of 1934 recognizes the potential conflict of interest involved in this activity but protects investment managers such as ourselves from claims that the activity involves a breach of fiduciary duty to advisory clients—even if the brokerage commissions paid are higher than the lowest available—if certain conditions and requirements are met. For these purposes, “research” means services or products used to provide lawful and appropriate assistance to the adviser in making investment decisions for its clients. “Brokerage” services and products are those used to effect securities transactions for adviser’s clients or to assist in effecting those transactions.

In some cases, the commissions charged by a broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research or brokerage services or products might

charge. Clients may therefore pay a brokerage commission (as defined under Section 28(e)) in excess of that which another broker/dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and products provided. In such cases, however, we generally determine, considering all appropriate factors, that the commissions paid are reasonable in relation to the value of all the brokerage and research services and products provided by the broker. In making that determination, we may consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular Client, but also the value of those services to the performance of our overall investment responsibilities to all of our Clients.

In some cases, a Client's transaction may be executed by a broker in recognition of brokerage and research services and products that are not used in managing that Client's account. These brokerage and research services and products may help us manage portfolios other than the Client's. We benefit from these brokerage and research services and products because we do not have to produce or pay for the brokerage and research services and products ourselves. Because we benefit from these brokerage and research services and products, our interest in allocating a Client's securities transactional business may conflict with the Client's interests. For example, we may have an incentive to cause Clients to engage in the following practices to induce brokers to provide those benefits: (i) pay brokers higher compensation (including markups and markdowns on principal transactions with market-makers) than the compensation payable to other market participants who do not provide the services or products; (ii) select brokers that do not provide the best possible price; (iii) use (and pay) brokers who do not directly provide execution services (including brokers who are paid commissions on transactions effected on a principal basis with other brokers acting as market makers); and (iv) effect more transactions than might otherwise be optimal. The Fund's partnership agreement authorizes us to use the Fund's soft dollars for a wide range of purposes, notwithstanding the conflicts of interest those uses may involve. The extent of the conflict of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars.

To be protected under Section 28(e), we must, among other things, determine that commissions paid are reasonable in light of the value of the "brokerage" and "research" services and products acquired. Section 28(e)'s "safe harbor" protects the use of an account's soft dollars even when we use research and brokerage services and products to benefit Clients other than that account. Notwithstanding this protection, we could be considered to have a conflict of interest when we use soft dollars for research and brokerage services and products because we might otherwise have to pay cash for those services and products and may have an incentive to use brokers or dealers who provide those products and services more than we otherwise would.

The types of “research” we expect to acquire include (but are not limited to): reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services; and other services that may enhance our investment decision making. “Brokerage” services and products (beyond typical execution services) include (but are not limited to): communications services related to the execution, clearing, and settlement of securities used for such things as communicating orders electronically to executing brokers or dealers.

We do not use soft dollars to acquire services and products that provide benefits to us that do not qualify as research or brokerage nor to pay expenses otherwise payable by us.

Brokers and dealers from which we obtain soft dollar services or products generally establish “credits” based on past transactional business (including markups and markdowns on principal transactions, such as transactions with market-makers for Nasdaq securities), which may be used to pay or reimburse us for specified expenses. In some cases, the process is less formal; a broker or dealer may suggest a level of future business that would compensate the broker or dealer for services or products it provides. A Client’s actual transactional business with a broker or dealer may be less than the suggested level but can—and often will—exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because Clients’ investment activities generate aggregate commissions in excess of the levels of future business suggested by all brokers and dealers who provide services and products. It may be in part because those brokers and dealers may also provide superior execution and may therefore be most appropriate for particular transactions. We may ask a broker or dealer who is executing a Client transaction to “step out” of a portion of the transaction in favor of a broker or dealer who has provided or is willing to provide products or services for soft dollars. That is, the executing broker or dealer will allow a portion of the overall commissions or other compensation to be paid to the soft-dollar broker or dealer. This assists us in acquiring products and services with soft dollars while providing the benefits of aggregated transactions.

Within the last fiscal year, we used soft dollars to receive research reports, company financial data, economic data as well as conference access.

2. Not applicable.
3. Not applicable.

- B. We may combine orders on behalf of the Funds, the separate accounts and on behalf of Other Clients for which we have trading authority, or in which we or our principals have an economic interest. When we do aggregate orders, we will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various accounts. We believe that combining orders in this way will, over time, be advantageous to all Clients. However, the average price could be less advantageous to a Client than if the Client had been the only account effecting the transaction or had completed its transaction before the other participants. There may be circumstances in which we conclude that a Client's transactions may not or should not, under certain laws, regulations and internal policies, be combined with those of other Clients. This may cause that Client to obtain less advantageous execution than other Clients whose transactions are aggregated.

### **Item 13 - Review of Accounts**

- A. Julian Allen, the Managing Member of Spitfire Capital LLC, reviews all accounts daily. Particular attention is paid to the current earnings, future prospects, industry outlook and stock price of the individual securities held in each account. At an account level, factors such as the percentage of assets invested in each security, industry concentration and cash management are also considered. Accounts are also reviewed on a daily basis to ensure compliance with the governing documents of the accounts and restrictions on individual securities and portfolio construction imposed by separate account holders, if any.
- B. Not applicable.
- C. Clients and investors receive a written monthly statement and written monthly performance summary. Investors also receive a quarterly letter describing performance for the preceding quarter and are provided with the Funds' audited financial statements each year, as appropriate.

#### **Item 14 - Client Referrals and Other Compensation**

- A. Spitfire does not receive any economic benefit, directly or indirectly from any third party for advice rendered to the Clients.
- B. Currently, neither Spitfire nor its related persons directly or indirectly compensates any person who is not a supervised person for Client referrals. If in the future Spitfire enters into such arrangements, this Brochure will be appropriately amended.



## **Item 15 - Custody**

All Client assets are held in custody by an unaffiliated Qualified Custodian. However, because Spitfire is an affiliate of the general partner of the Funds, Spitfire is deemed to have custody of the Funds' assets within the meaning of the Investment Advisers Act. The Funds are audited annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board and the audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and are delivered to each investor in the Funds within 120 days of the Funds' fiscal year end.

## Item 16 - Investment Discretion

We provide investment advisory services on a discretionary basis to Clients. Please see Item 4 for a description of any limitations Clients may place on our discretionary authority.

Prior to assuming full discretion in managing a Client's assets, we enter into an investment management agreement or other agreement that sets forth the scope of our discretion and typically includes a limited power of attorney. We have the authority to determine: (i) the securities to be purchased and sold for the Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the Client account. Because of the differences in Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held. Our portfolio manager submits an allocation statement to our back office describing the allocation of securities to (or from) Client accounts for each trade or order submitted.

We may consider the following factors, among others, in allocating securities among Clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is our policy to allocate investment opportunities to eligible Client accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead us to allocate securities to Client accounts in varying amounts. Even client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g. equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Allocations will be made among Client accounts eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when we determine in our discretion that a pro rata allocation is not appropriate, which may include a Client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a Client's status as a "restricted person" under applicable regulations.

We may effect cross transactions between discretionary Client accounts, except as otherwise noted below. Cross transactions enable us to effect a trade between two Clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. We have a

potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

If it appears that a trade error has occurred, we will review the relevant facts and circumstances to determine an appropriate course of action. We have discretion to resolve a particular error in any appropriate manner that is consistent with our trade error policies and procedures. In the event that a Client account incurs a trade error as a result of our gross negligence, willful misconduct, or fraud, trade errors will be corrected by us as soon as practicable. Trade errors that result other than by breach of the standard of care above are borne by the Client account.

### **Item 17 - Voting Client Securities**

We have adopted written proxy voting policies and procedures in accordance with Rule 206(4)-6 of the Advisers Act. In voting Client proxies, we are guided by general fiduciary principles. Our goal is to act prudently and in the best interest of Clients, and accordingly, of investors in the Funds. We seek to consider all positive and negative consequences our vote could have on the value of the investment. When we vote proxies, we will do so in a manner that we believe will be consistent with efforts to maximize the value of Clients' accounts. At our discretion, we may choose not to vote on a particular proxy.

Clients may obtain a copy of our proxy voting policies and procedures and information about how we voted a Client's proxies by contacting Patrick Ryan by email at [patrick@spitfirecap.com](mailto:patrick@spitfirecap.com) or by telephone at (415) 878-1908.

**Item 18 - Financial Information**

Spitfire 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 petition.

- A. Not applicable.
- B. Spitfire has discretionary authority over the Clients' assets. At this time, neither Spitfire nor its management persons have any financial conditions that are likely to reasonably impair its ability to meet contractual commitments to Clients.
- C. Spitfire has not been the subject of a bankruptcy petition in the last ten years.

## **Notice of Privacy Policy**

We collect personal non-public information about our clients and limited partners in the Fund from applications and other forms and from transactions with us, our affiliates or from others.

Neither we nor the Fund disclose personal non-public information about clients or limited partners to anyone, except to third parties who provide services that are necessary to enable us and the Fund to carry out our responsibilities or activities, to regulatory bodies, to other parties as necessary or appropriate to establish compliance with applicable laws or the availability of exemptions from certain securities and similar laws, or as otherwise permitted or required by law.

We will restrict access to personal information about clients and limited partners to our employees who need to know such information to provide services to clients or investors. We maintain physical, electronic and procedural safeguards to safeguard clients' and investors' personal information.