

## Item 1. Cover Page

### Part 2A of Form ADV: FIRM BROCHURE OF

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**This brochure provides information about the qualifications and business practices of Vertical Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 212-786-5275. 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 Vertical Capital, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

Vertical Capital, LLC ("Vertical Capital" or the "Company") is registered with the U.S. Securities and Exchange Commission. Note, however, that such registration does not imply a certain level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

## Item 2. Material Changes

This brochure is filed as the annual update to the Form ADV Part 2. The last annual update was March, 2010. Since the last ADV update, there have been no material changes from the last annual update the ADV of Vertical Capital. If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact us at 212-786-5275.

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#### Item 4. Advisory Business

Vertical Capital, LLC (“Vertical Capital” or the “Company”) has been in business since June 2002. Its principal owner is VCAP Partners, LLC, a Delaware limited liability corporation.

Vertical Capital strives to employ investment professionals with the highest personal integrity, dedication, ability, training and. Vertical Capital generally requires that each of its investment professionals possess a college degree or equivalent work experience.

The following individuals are the principals/officers of Vertical Capital:

**Brett T. Graham** (Born: 1963), *Managing Partner*

Education: Mr. Graham holds a B.A. from the University of California at Berkeley.

Business Background: Mr. Graham serves as Vertical Capital’s Chief Investment Officer and is a member of the Investment Committee. He has been with Vertical Capital since it began operations in November 2002. He was formerly a Senior Managing Director at Bear, Stearns & Co., Inc., where he worked from 1987 to 2001. Most recently at Bear Stearns in London he managed the firm’s International Debt Capital Markets Department (Europe & Asia) from 1993-2001, and was Co-Head of the Global Debt Capital Markets business. While in London, Mr. Graham was also a member of Bear Stearns’ European Management Committee. Mr. Graham is registered with FINRA holding the Series 7 (General Securities Representative), 24 (General Securities Principal), and 63 (Uniform Securities Agent State Law) through VCAP Securities, LLC.

**Thomas M. Pearce** (Born: 1963), *Managing Partner*

Education: Mr. Pearce holds a B.A. from Washington and Lee University.

Business Background: Mr. Pearce serves as Vertical Capital’s Chief Operating Officer. He is a member of the Investment Committee and has been with the company since inception. Prior to forming Vertical Capital, Mr. Pearce was CEO and a cofounder of Peachtree Financial LLC. He initially served as that company’s chief financial officer before being named chief executive officer by the board of directors. Prior to forming Peachtree in 1998, Mr. Pearce was a Managing Director at Bear, Stearns & Co., Inc. where he was employed for more than 11 years and held positions in institutional fixed income as well as the financial services group.

**Kem Blacker** (Born: 1955) *Partner*

Education: Mr. Blacker holds a B.A. from the University of California at Davis.

Business Background: Mr. Blacker serves as a senior portfolio manager focused in the Asset Backed Securities (“ABS”), Mortgage Backed Securities (“MBS”) and CDO sectors as well as serving on Vertical Capital’s Investment Committee. He has been with the Company since inception. Prior to forming Vertical Capital, Mr. Blacker was a founding partner to CGA Group and Managing Director for CGA Investment Management since 1996.

**Beth A. Ferraro** (Born: 1965), *Partner*

Education: Ms. Ferraro, a cum laude graduate of Clark University, holds a B.A. and B.S. in economics and Business Management and an M.B.A. in Finance from New York University’s Leonard N. Stern School of Business.

Business Background: Ms. Ferraro is a senior portfolio manager focused on the ABS and MBS marketplace and is a member of Vertical Capital’s Investment Committee. She joined Vertical Capital from Alliance Capital Management, LP, where she was a senior portfolio manager and Vice President from 1997 to 2004 in the Structured Asset Strategies Fixed Income Group. Ms. Ferraro is registered with FINRA holding the Series 7 (General Securities Representative) through VCAP Securities, LLC.

**Chris Porcelli** (Born: 1974), *Partner*

Education: Mr. Porcelli holds a B.S. in Computer Science from the Columbia University School of Engineering and Applied Sciences.

Business Background: Mr. Porcelli is a member of the Investment Committee and heads Vertical Capital’s modeling and structuring efforts and is responsible for development and implementation of the Company’s proprietary analytical and risk management systems. Prior to joining Vertical Capital, he was a Vice President with American Capital Access (“ACA”) in the Structuring and Quantitative Group since its formation in 2001. Prior to joining ACA, Mr. Porcelli was Vice President at Bear, Stearns & Co., Inc. within the FAST department where he modeled CDOs and supported the firm’s secondary Collateralized Synthetic Obligations (“CSO”) trading activities.

**Lloyd Jay Fass** (Born: 1974), *Chief Financial Officer and Chief Compliance Officer*

Education: Mr. Fass holds a B.A. in History with Economics from Dartmouth College.

Business Background: Mr. Fass serves as Chief Financial Officer and Chief Compliance Officer. Prior to joining Vertical Capital, he was Chief Financial Officer of The Mochary Group, Prizmalite Industries, and IntraSphere Technologies where he was responsible for all financial activities, investment oversight and investor communication. Mr. Fass was previously employed at J.P. Morgan’s M&A Technology, Media and Telecom group.

**Sarah Rallo** (Born: 1981), *Vice President*

Education: Ms. Rallo received her Bachelor's in Business Administration, concentration in finance, from the University of Delaware in 2003.

Business Background: Sarah Rallo is responsible for supporting the Company's investment management activities. This includes reviewing term sheets and capturing key information, updating financial models, maintaining investment portfolios and trade input. Additionally, Ms. Rallo works on the issuance of commercial paper for McKinley and McKinley 2. Ms. Rallo joined Vertical Capital from Deutsche Bank, where she worked in the Structured Finance Services division, (2004-2005). She was responsible for coordinating between issuers and their dealers for the issuance of commercial paper and monitoring of underlying credit performance and positions held within several structured vehicles. Prior to joining Deutsche Bank, Ms. Rallo was a Traders' Assistant on the Mortgage Repo desk at UBS (2003), where she assisted in handling customer inquiries for mortgage funding, collateralized customer and inter-dealer trades by pricing bonds and tracking prepayment speeds and balancing fifty billion in assets and liabilities for the Repo matched book. Ms. Rallo is registered with FINRA holding the Series 7 (General Securities Representative) and 63 (Uniform Securities Agent State Law) through VCAP Securities, LLC.

**Advisory Services**

Vertical Capital offers investment supervisory services to clients depending on the client's needs. The advisory services are more fully explained below.

As of February 28, 2011, Vertical Capital's discretionary assets under management were \$ 1.51 billion in 11 accounts. Vertical Capital has no non-discretionary assets under management.

Vertical Capital, LLC ("Vertical Capital") provides discretionary investment advisory services to its advisory clients who may include:

- (i) Private investment funds operating as collateralized debt obligations (collectively, the "CDOs" or the "Issuers") for which Vertical Capital serves as collateral manager;
- (ii) Separately managed accounts ("Managed Accounts"); and
- (iii) Private investment funds ("Private Investment Funds").

Vertical Capital has no individual clients; clients are all entities.

Generally, the Securities (as defined below) issued by the CDOs are offered to:

- (1) Non-U.S. persons, and
- (2) U.S. persons that qualify as "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933 (the "Securities Act"))
- (3) In the case of the preference shares/subordinated securities ("Subordinated Securities"), to a limited number of "accredited investors" (as defined in Rule

501(a) of Regulation D under the Securities Act), who are also “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act of 1940).

### CDOs

Vertical Capital serves as collateral manager to certain CDOs, including:

- Vertical CDO 2003-1, Ltd.,
- Vertical ABS CDO 2005-1, Ltd.,
- Vertical ABS CDO 2006-1, Ltd.,
- Vertical ABS CDO 2006-2, Ltd.,
- Summer Street 2005-HG1, Ltd., and
- Vertical Millbrook 2007-1, Ltd.

Vertical Capital offers advice on corporate debt securities, commercial paper, and U.S. Government securities. In its capacity as collateral manager, Vertical Capital manages the collateral securing certain debt obligations issued by the CDOs.

The collateral in the CDO portfolios may include, but is not limited to:

- structured finance securities (SFS) (collectively, the “CDO Collateral Securities”), such as:
  - asset-backed securities (ABS),
  - commercial mortgage-backed securities (CMBS),
  - Real Estate Investment Trust (REIT) debt,
  - residential mortgage-backed securities (RMBS),
  - investment grade corporate debt and high-yield debt securities,
  - bank loan securities,
  - financial institution subordinated/trust preferred debt and collateral debt obligations issued by other pooled investment vehicles

Vertical Capital also performs certain administrative and advisory functions with respect to the CDOs.

The CDOs issue:

- (1) Secured notes that are secured by the CDO Collateral Securities (the “Secured Notes”), and
- (2) Preference shares/subordinated securities (the “Subordinated Securities” (together with the Secured Notes, the “Securities”)).

Some of the Secured Notes are co-issued (the “Co-Issuers”) by:

- Vertical CDO 2003-1, Corp.,
- Vertical ABS CDO 2005-1, Corp.,
- Vertical ABS CDO 2006-1, Corp., and
- Vertical ABS CDO 2006-2, Corp.

The Co-Issuers are entities organized under the laws of the state of Delaware and are established for the sole purpose of co-issuing the Secured Notes. The Co-Issuers issue the Secured Notes as an accommodation to the related offshore CDO and do not receive remuneration for their actions. The Co-Issuers are created primarily to accommodate investment by U.S. investors.

Because the Secured Notes are issued by the Co-Issuers, the Partnership (defined below) cannot purchase the Secured Notes. This restriction is in place to avoid a conflict of interest.

### MANAGED ACCOUNTS

Vertical Capital currently provides investment advisory services to four Managed Accounts. The Managed Accounts clients are “qualified clients” as such term is defined in Rule 205-3(d) (1) of the Advisers Act.

The Managed Accounts primarily invest in RMBS that are either:

- (i) Expected to pay coupon interest only (no return of principal), and/or
- (ii) Have “Ca” and/or “CC” or lower ratings from Moody’s Investor Services and Standard & Poor’s, respectively, and/or
- (iii) Subject to mandatory liquidation from investors presently holding such securities (each RMBS, a “Permitted Investment”).

The Permitted Investments must have been issued between 2003-2007, originally rated below Aaa/AAA and must be purchased at a price of not greater than 40% of par value (the face value of the security). Vertical Capital, with respect to the Managed Accounts, will not employ borrow funds to invest in the RMBS, and the Permitted Investments are expected to be self-liquidating from the payment of the mortgages.

### PRIVATE INVESTMENT FUNDS

Vertical Capital currently serves as the investment manager to one Private Investment Fund, Resolution Credit Opportunities Fund, LP (the “Partnership”), and as such Vertical Capital is responsible for making all decisions regarding the acquisition and disposition of the Partnership’s investments, and for providing certain administrative services to the Partnership.

An affiliate of Vertical Capital, Vertical Capital GP, LLC, is the Partnership’s general partner (the “General Partner”).

The Partnership will invest primarily in a diversified portfolio of short to intermediate duration, deeply-distressed, fixed income asset-backed and mortgage-related securities. The Partnership’s investments will consist primarily of RMBS and may also include other ABS, in each case that is either:

- (i) Expected to pay coupon interest only (no return of principal), and/or

- (ii) Have “Ca” and/or “CC” or lower ratings from Moody’s Investor Services and Standard & Poor’s, respectively, and/or
- (iii) Subject to mandatory liquidation from collateralized debt obligations or other investors presently holding such securities (collectively the “Investments”).

The Partnership will not make any Investment where the purchase price of such Investment exceeds either:

- (i) thirty percent (30%) of such Investment’s par value, or
- (ii) ten percent (10%) of the total capital contributions (as defined below) made to the Partnership as of the date of the Investment.

The Partnership will not borrow funds to purchase investments. These investments are expected to be self-liquidating from the payment of the loans securing the RMBS.

The minimum capital contribution (“Capital Contribution”) to the Partnership by a Limited Partner is \$250,000, although the General Partner may accept capital contributions of lesser amounts from a Limited Partner in its sole discretion.

The General Partner on its own behalf or on behalf of the Partnership may enter into side letters or similar agreements (“Other Agreements”) with Limited Partners which have the effect of establishing rights, or altering or supplementing, the rights of certain Limited Partners, which will be different than the rights of other Limited Partners. The General Partner has no obligation to notify the Limited Partners that the General Partner has entered into any Other Agreement with respect to a particular Limited Partner, and the other Limited Partners will not receive the benefit of such Other Agreement.

Vertical Capital will not hold custody of the Partnership’s assets. The custodian for the Partnership’s securities is Wells Fargo Corporate Trust Services, 608 Second Ave South, MAC # N9303-08b, Minneapolis, Minnesota 55479.

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

As further explained below, all fees charged to Vertical Capital’s advisory clients are disclosed in the relevant offering documents, with respect to the CDOs and the Private Investment Funds, or the relevant investment management agreement, with respect to the Managed Accounts.

Vertical Capital may enter into arrangements pursuant to which it compensates third parties for investor referrals. With respect to managed account clients, such arrangements will be made in compliance with Rule 206(4)-3 under the Advisers Act. It should also be noted that Vertical Capital may pay referral fees to third party marketers related to the referral of investors to private investment funds managed by Vertical Capital. These referring third parties are collectively called Solicitors (“Solicitors”). The Solicitor fees are paid by the General Partner and not by the investors.



Related persons of Vertical Capital LLC own VCAP Securities, LLC (formerly known as BW Capital Markets, LLC), which is registered as a broker-dealer and member firm of FINRA (since its acquisition, the “Affiliated Broker-Dealer”). Vertical Capital has retained the Affiliated Broker Dealer to act as a solicitation agent to solicit the sale of interests in the Partnership and any solicitation fees will be borne by Vertical Capital and not by any Limited Partner or prospective Limited Partner. The General Partner and/or Vertical Capital may enter into similar arrangements and may pay fees to persons (whether or not affiliated with the General Partner or Vertical Capital) who are instrumental in the sale of Partnership interests. Any such fees will in no event be payable by or chargeable to the Partnership or any Limited Partner or prospective Limited Partner.

### CDO FEES

Vertical Capital is generally entitled to receive a number of levels of compensation for the administrative and investment advisory services that it provides to the CDOs. The basic fee schedule that Vertical Capital may receive for the advisory services provided to the CDOs is set forth below, although it should be noted that a complete description of the remuneration that each CDO will pay to Vertical Capital is set forth more fully in the specific CDO’s offering documents and Indenture.

#### **Senior Collateral Management Fee**

Vertical Capital is generally entitled to receive a senior collateral management fee, which generally ranges from .02% to .20% per annum of the aggregate collateral balance of the CDO (the “Senior Collateral Management Fee”). The Senior Collateral Management Fee is generally paid to Vertical Capital after the Issuers are compensated for certain fees and expenses, but prior to payment of interest on the Secured Notes.

With respect to Vertical Millbrook 2007-1, Ltd, Vertical Capital receives a management fee on a sliding scale based on the tranche risk rating of the various notes from .10% to .65%. Vertical Capital does not receive a Subordinated Collateral Management Fee or Incentive Collateral Management Fee (as such terms are defined below) from this Issuer.

#### **Subordinated Collateral Management Fee**

Vertical Capital is generally entitled to receive a subordinated collateral management fee, which generally ranges from .02% to .20% per annum of the aggregate collateral balance of the CDO (the “Subordinated Collateral Management Fee”). The Subordinated Collateral Management Fee is generally paid according to the CDO payout schedule, as set forth in the Indenture.

#### **Incentive Collateral Management Fee**

Vertical Capital may receive a performance-based fee as part of its compensation from a CDO. For deals that provide for a performance-based fee, Vertical Capital receives a percentage of the profits (generally 10% to 20%) that are paid to the holders of the Subordinated Securities (the “Incentive Collateral Management Fee”). The Incentive Collateral Management Fee is paid to Vertical Capital after the holders of the Secured Notes are paid their principal and interest, and after the holders of the Subordinated Securities receive an internal rate of return that exceeds a pre-determined benchmark rate of return.

Vertical Capital may receive an Incentive Collateral Management Fee from the following CDOs:

- Vertical CDO 2003-1, Ltd.,
- Vertical ABS CDO 2005-1, Ltd.,
- Vertical ABS CDO 2006-1, Ltd.,
- Vertical ABS CDO 2006-2, Ltd.,
- Summer Street 2005-HG1, Ltd., and
- Vertical Millbrook 2007-1, Ltd.

### **Closing Fee**

Vertical Capital may also receive a closing fee as success-based compensation related to the closing of a CDO. A closing fee paid to Vertical Capital generally ranges from \$100,000 to \$1,000,000.

### **Warehouse Carry Fee**

During the period from the acquisition of the CDO Collateral Securities to the issuance date of the cdo (the warehousing period) for certain CDO transactions (as disclosed in the applicable offering memorandum), Vertical Capital may also receive a warehouse carry fee generally equal to the Senior Collateral Management Fee, based on the aggregate value of CDO Collateral Securities during the warehousing period.

### **MANAGED ACCOUNT FEES**

#### **Management Fee**

Vertical Capital is entitled to up to a 2% annual management fee (the “Management Fee”) based on the investment capital and payable in cash quarterly in advance. This Management Fee is subject to change based upon individual agreements with Managed Accounts. In the event that Vertical Capital is not acting as investment manager for an entire calendar quarter, the Management Fee for such calendar quarter shall be prorated to reflect the portion of such calendar quarter in which the Vertical Capital is acting as such under the managed account agreement.

### **PRIVATE INVESTMENT FUND FEES**

Vertical Capital currently serves as the investment manager to one Private Investment Fund, Resolution Credit Opportunities Fund, LP (the “Partnership”), and as such will be responsible for making all decisions regarding the acquisition and disposition of the Partnership’s investments and for providing certain administrative services to the Partnership. The General Partner is the Partnership’s general partner.

Vertical Capital does not charge the Partnership a management fee, but the General Partner may receive a “Carried Interest” performance-based fee up to 30% of each distribution of distributable cash, as further described below:

Net cash proceeds derived by the Partnership from its ownership or disposition of an Investment, less the amounts necessary to create, in the sole discretion of the General Partner, appropriate reserves for the expenses, liabilities and other obligations of the Partnership (collectively, “Distributable Cash”), will generally be distributed promptly following receipt thereof by the Partnership. Distributions of Distributable Cash derived from an Investment will initially be allocated among the Limited Partners that invested in the particular Investment and will then immediately be reallocated between each Limited Partner and the General Partner and distributed in the following amounts and order of priority:

1. Return of Capital - first, one hundred percent (100%) to such Limited Partner until such Limited Partner has received cumulative distributions of Distributable Cash equal to the aggregate amount of its capital contributions to the Partnership; and
2. Up to 70%/30% Split - thereafter, seventy percent (70%) to such Limited Partner and up to thirty percent (30%) to the General Partner (the distributions to the General Partner described in this paragraph 2 being referred to as “Carried Interest”).

Notwithstanding the above, the General Partner may, in its sole discretion, reduce the Carried Interest charged by the Partnership to certain affiliated, large or strategic Limited Partners.

### ***Potential Conflicts of Interest***

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

### **Performance-Based Fee**

In addition to the fees discussed above, if the client has received cash distributions in the aggregate from the account’s investments equal to its invested capital plus a specified pre-determined amount (the “Performance Trigger Date”), thereafter there shall be paid to Vertical Capital or the General Partner out of the account a performance fee (the “Performance Fee”) in

an amount up to 30% of each remaining investment. The Performance Fee may be paid by paying up to 30% of each investment in kind as promptly as practicable on or following the Performance Trigger Date. In Vertical Capital's sole discretion, it may instead elect to receive payment of the Performance Fee in the form of up to 30% of all future cash flows remaining with respect to each investment. All performance fees imposed by Vertical Capital are charged in compliance with Rule 205-3 under the Advisers Act.

#### **Side-By-Side Management**

Vertical Capital does not engage in side-by-side management.

### **Item 7. Types of Clients**

As described above, Vertical Capital provides investment advisory services to pooled investment vehicles operating as collateralized debt obligations for which Vertical Capital serves as collateral manager. Vertical Capital also provides investment advisory services to separately managed accounts and to pooled investment vehicles operating as private investment funds. We also provide our services to corporations and other business entities.

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

Vertical Capital's security analysis methods include: Fundamental, Technical and others as noted below.

#### CDOs:

Vertical Capital generally employs a top-down analytical approach combined with a bottom-up quantitative and qualitative security level analysis in making both inter and intra sector portfolio allocation decisions.

The *top-down* approach governs relative weightings among strategies/sectors of the securitized markets as well as the overall leverage of a given CDO and is based on factors including:

- (i) The absolute level of credit spreads relative to historic levels,
- (ii) The credit spread differential between sectors,
- (iii) The steepness of the credit curve within the various sectors,
- (iv) Vertical Capital's view on the direction of credit spreads and the steepness of the credit curves,
- (v) Available financing, and
- (vi) The premium cost of hedging instruments Vertical Capital deems appropriate.

The *bottom-up* approach will incorporate individual security level analysis using both proprietary technology developed by Vertical Capital, as well as third-party systems. The objectives in the security level analysis are three-fold:

- (i) Mitigation of security specific event risk, including ratings migration par loss erosion,
- (ii) Minimization of correlation within the aggregate portfolio, and
- (iii) Total return value enhancement.

Vertical Capital has developed its own proprietary technology platform called STARS (Structuring, Trading, Analytics, Reporting and Surveillance) that is designed to facilitate credit selection and enable efficient reporting and monitoring on both a security specific and fund-wide basis.

#### MANAGED ACCOUNT AND PRIVATE INVESTMENT FUND

With respect to the Partnership, Vertical Capital employs a rigorous top-down and bottom-up investment process geared towards sourcing and evaluating potential Investments, and a disciplined approval process which extends beyond the initial purchase decision to the ongoing surveillance of Partnership assets.

The *top-down* process is oriented to identify both focus asset sectors and sub-sectors to emphasize in the Partnership's portfolio, and is based both on its macro view of the economy and credit, as well as its trading view of where relative value is available in both the primary and secondary markets.

The *bottom-up* process involves both sourcing specific securities within the target sectors utilizing its broad-based industry contacts, and in turn, a detailed analysis of the particulars of a potential Investment. The latter consists of a review of the originator and/or servicer of the loans/securities, a detailed review of the collateral underlying the securities, and an extensive stress-test analysis of the cash-flows to assess the ability of the securities to absorb varying degrees of losses on the underlying loan portfolio.

Vertical Capital has developed a suite of proprietary tools within its STARS (Structuring, Trading, Analytics, Reporting, and Surveillance) technology platform to assist in its analysis of potential Investments.

A similar investment process is applied with respect to the Managed Accounts as is applied to the Partnership.

#### Risk of Loss:

Securities markets fluctuate substantially over time. All investments in securities include a risk of loss of money invested (principal) and any unrealized profits (i.e., profits in the account that have not been liquidated, sometimes called "paper profits"). In addition, as recent global and

domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets Vertical Capital manages that may be out of our control. We cannot guarantee any level of performance or that there will not be a loss.

Vertical Capital does not represent, warrant or imply that the services or methods of analysis used by Vertical Capital can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to major market corrections or crashes. No guarantees can be offered that client's goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Vertical Capital will provide a better return than other investment strategies.

Varied fluctuations in the price of investments are a normal characteristic of securities markets due to a variety of influences. Managed account programs should be considered a long-term investment and thus long-term performance and performance consistency are the major goals.

No guarantees can be offered that client's goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Vertical Capital will provide a better return than other investment strategies.

## **Item 9. Disciplinary Information**

Vertical Capital is obligated to disclose any disciplinary event that would be material to clients, or potential clients, when evaluating Vertical Capital to initiate a Client/Adviser relationship, or to continue a Client/Adviser relationship with us. We do not have any legal or other disciplinary item to report.

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

The Affiliated Broker-Dealer acts as a solicitation agent on behalf of the Partnership to solicit and refer investors to the Partnership.

Brett T. Graham, Beth A. Ferraro and Sarah Rallo are registered representatives of the Affiliated Broker-Dealer. Mr. Graham is also a registered principal of the Affiliated Broker-Dealer. They are also principals/officers of Vertical CDO.

Vertical Capital Solutions, LLC, an advisory firm, is an affiliate of Vertical Capital, LLC. A technology license agreement is in place that provides Vertical Capital Solutions with access to certain core technologies of Vertical Capital that assist Vertical Capital Solutions with their business.

Vertical Capital is the parent company to Vertical CDO, an investment adviser registered with the SEC. Vertical CDO provides advisory services similar to the services provided by Vertical Capital.

Vertical Capital controls the management and operations of Vertical CDO and Vertical Capital's employees provide services on behalf of Vertical CDO. Vertical Capital and Vertical CDO share a principal place of business. Information about the business activities of Vertical CDO is available upon request.

In addition, an affiliate of Vertical Capital, the General Partner, serves as the general partner to the Partnership.

Vertical Capital has entered into a non-exclusive licensing agreement with Vertical Capital Solutions, LLC ("VCAP Solutions"), which is an unaffiliated company in which Vertical Capital has no direct or indirect ownership interest or control. Pursuant to the licensing agreement, VCAP Solutions licenses Vertical Capital's proprietary technology and analytics platform (the "License"). This License, which is non-exclusive, permits use of Vertical Capital's proprietary analytics technology (and basic infrastructure support including, but not limited to, the use of office space) in exchange for a revenue sharing agreement.

### ***Potential Conflicts of Interest***

Vertical Capital, the Affiliated Broker-Dealer, the General Partner, and Vertical CDO are all related entities. As such, a potential conflict of interest exists in that they may potentially act to protect their interests, while not fulfilling their duties to the clients. Vertical Capital has in place a Code of Ethics and policies and procedures to act as a control to address this conflict.

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

### **Code of Ethics**

Vertical Capital has a fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. Vertical Capital takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations, as well as Vertical Capital's policies and procedures.

In accordance with Rule 204A-1 under the Advisers Act, Vertical Capital has adopted its Code of Ethics and policy regarding insider trading. The purpose of the Code of Ethics is to establish guidelines and procedures that are reasonably designed to identify and prevent employees who may have knowledge of Vertical Capital's investments (and investment intentions) from breaching their fiduciary duties to Vertical Capital's clients, and to address other situations that may pose a real or potential conflict of interest or the appearance of a real or potential conflict of interest.

Our Code does not prohibit personal trading by employees (or our firm). As a result, we may purchase or sell the same or similar securities (or securities that are suitable for an employee or related account but not suitable for any client) at the same time that we place transactions for the accounts of our Clients.

Further, Vertical Capital strives to handle clients' non-public information in such a way to protect information from falling into hands that have no business reason to know such information, and provides clients with Vertical Capital's Privacy Policy.

The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about client transactions. Further, Vertical Capital's Code of Ethics establishes Vertical Capital's expectation for business conduct.

Vertical Capital's Code of Ethics is distributed to each employee and Advisor at the time of hire/contract, and, as the Code is modified. In addition, Vertical Capital requires an annual certification by all employees/Advisors regarding their understanding and compliance with the Code of Ethics. Vertical Capital also supplements the Code with annual training and on-going monitoring of employee activity.

A copy of our Code of Ethics will be provided to any client or prospective client upon request. Please call Vertical Capital's Chief Financial Officer or Chief Compliance Officer, at (212) 786-5275 to request a copy of Vertical Capital's Code of Ethics.

## Privacy Policy

Vertical Capital will not disclose nonpublic personal information (such as name, address, social security number, tax identification number, net worth, total assets, income and other financial information necessary to determine required accreditation standards) about its clients or former clients to third parties other than affiliates and/or other third party firms that assist Vertical Capital in providing advisory services and/or effecting client transactions (such as brokers, fund administrators, accounting support firms and compliance/operational support service providers). Vertical Capital may also provide such information to service providers and financial institutions with which Vertical Capital has joint marketing relationships. Additionally, Vertical Capital will use its best efforts to dispose of such information in a secure manner.

In order to facilitate compliance with this requirement, Vertical Capital has adopted the following internal privacy policy:

1. Access to clients' nonpublic personal information is restricted to employees and service providers that need to access such information in order to engage in business activity on behalf of Vertical Capital;



2. Hard-copies of clients' nonpublic personal information are kept in locked file cabinets or in a locked file room; and
3. Access to clients' electronic-based nonpublic personal information is restricted (through passwords or similar securitization) to the enumerated group of employees under paragraph 1 above.

In order to protect its clients against the risks of fraud and fraud-related crimes, including identity theft, Vertical Capital has also adopted the following internal procedures relating to the secured disposal of non-public personal information (although this list may not be exhaustive):

1. To the extent not covered under Rule 204-2 of the Advisers Act, hard-copies of the clients' non-public personal information (or any extra hard-copies of the clients' nonpublic personal information, whether or not covered by Rule 204-2) shall be shredded or otherwise destroyed in a manner so that such information cannot be practicably read or reconstructed;
2. To the extent not covered under Rule 204-2 of the Advisers Act, the clients' nonpublic personal information which is stored on disk, CD, tape or other electronic media (or Any extra disks, CDs, tapes or other electronic media which contains the clients' non-public personal information, whether or not covered by Rule 204-2) shall be cleared, purged, declassified, overwritten and/or encrypted in such a manner so that any information contained therein cannot be restored or decrypted;
3. After the electronic media is cleared, purged, declassified, overwritten or encrypted, Vertical Capital's Chief Compliance Officer, or its designee, shall check that the original information is not backed-up or saved on a hard drive, recycle bin or other memories; and Vertical Capital shall require that each third-party service provider engaged by Vertical Capital which necessarily obtains access to the clients' non-public personal information during the course of their services on behalf of Vertical Capital shall have similar policies and procedures relating to the secure disposal of non-public personal information.

### **Participation or Interest in Client Transactions/Personal Trading**

Related persons of Vertical Capital (any advisory affiliate and any person that is under common control with Vertical Capital) may buy or sell securities identical to those securities recommended to clients. Therefore, related persons may have an interest or position in certain securities that are also recommended and bought or sold to clients. Related persons will not put their interests before a client's interest. Related persons may not trade ahead of their clients or trade in such a way to obtain a better price for themselves than for their clients. Vertical Capital is required to maintain a list of all securities holdings for its related persons. Further, associated persons are prohibited from trading on non-public information or sharing such information. Vertical Capital and its related persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

In accordance with Section 204A of the Investment Advisers Act of 1940, Vertical Capital also maintains and enforces written policies and procedures reasonably designed to prevent the misuse of material non-public information by Vertical Capital or any person associated with Vertical Capital.

As required by Rule 204A-1 of the Advisers Act, Vertical Capital requires its Access Persons to report their reportable securities transactions on a quarterly basis and disclose their securities holdings on an annual basis. In addition, Vertical Capital recognizes that certain potential conflicts of interest may arise in connection with the personal trading activities of Vertical Capital's Access Persons. As such, Vertical Capital maintains a restricted list of securities that Access Persons are generally prohibited from purchasing or selling. In addition, Access Persons are generally prohibited from trading with or against Vertical Capital's clients. Vertical Capital's personnel are required to certify their compliance with the Code of Ethics and Policies and Procedures to Prevent Insider Trading.

In general, Vertical Capital and its personnel do not intend to purchase or sell any securities for their own accounts to or from the Vertical CDOs. However, in limited circumstances, an affiliated entity of Vertical Capital, which is wholly-owned by the members of Vertical Capital's investment committee, may purchase from Vertical CDOs certain CDO Collateral Securities that are subject to forced liquidation. Any such transaction will only be effected at a price that is higher than the best price obtained in a competitive bid-wanted auction process. Vertical Capital will disclose the details of such transaction, including the list of prices obtained in the auction, to the trustees of the CDOs involved in the transaction.

Vertical Capital may seek to purchase investments for more than one CDO or a CDO and another advisory client for which it or an affiliate serves as investment adviser to and Vertical Capital will have the discretion to apportion such investments among such entities; accordingly Vertical Capital cannot assure equal treatment across its investment clients.

Vertical Capital may aggregate sales and purchase orders of securities placed with respect to the collateral with similar orders being made simultaneously for other accounts managed by Vertical Capital, if in Vertical Capital's reasonable judgment such aggregation shall result in an overall economic benefit to the issuer, taking into consideration the selling or purchase price, brokerage commission and other expenses. When any aggregate sales or purchase orders occur, Vertical Capital (and any of its affiliates involved in such transactions) shall allocate the executions among the accounts in an equitable manner. Vertical Capital may seek to have a CDO purchase a CDO Collateral Security from the account of another CDO managed by it or one of its affiliates. If such a cross trade is effected, it is Vertical Capital's policy to determine for each client whether such purchase or sale would be appropriate based upon the client's investment/risk parameters, assets under management, liquidity and portfolio exposure.

In the event that such a transaction has occurred, Vertical Capital will disclose such transaction to the trustees of the CDOs involved in the transaction. Vertical Capital will compose, before entering an aggregated order, a written statement (the "Allocation Statement") as to how the

order will be allocated among the various accounts. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement.

With respect to the Managed Accounts clients, Vertical Capital will make investments in Permitted Investments for its own account contemporaneously with investments that it makes for the client. Orders for Permitted Investments for the client and Vertical Capital will be aggregated. Each account that participates in an aggregated order shall participate at the average price for all transactions of Vertical Capital in the Permitted Investment on a given business day, with all transaction costs shared on a pro rata basis.

If the aggregated order is filled in its entirety, it shall be allocated among the accounts in accordance with the Allocation Statement; and if the order is partially filled it shall be allocated pro rata based on the Allocation Statement.

Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement so that all client accounts receive fair and equitable treatment.

Finally, with respect to the Partnership, except as otherwise provided in the Offering Memorandum, any Investments made by the Partnership shall be allocated solely among the Open Tranches (as defined in the Offering Memorandum) at the time that such Investment is made in the following manner:

- (i) first, among the Open Tranches in proportion to the amount that the aggregate capital contributions with respect to each Open Tranche bears to the aggregate capital contributions for all Open Tranches, and
- (ii) second, in the event that an Open Tranche does not have a sufficient amount of “Uninvested Capital” (as defined in the Offering Memorandum) to fund the entire amount allocated to it pursuant to clause (i), then the amount of such deficiency shall be allocated among the remaining Open Tranches. This is done in proportion to the amount of total money invested of each such remaining Open Tranche after the application of clause (i).

For purposes of allocating new Investments among Open Tranches, the “Uninvested Capital” of an Open Tranche at any time means the difference between (A) the amount of the then available cash held by such Tranche; and (B) amounts which the General Partner, in its sole discretion, determines may be needed to pay future expenses of the Open Tranche. A Tranche will be an “Open Tranche” with respect to a particular Investment whenever the Tranche has any Uninvested Capital.

## **Item 12. Brokerage Practices**

### **A.1. Research and Other Soft Dollar Benefits**

Vertical Capital does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”).

### **A.2. Brokerage For Client Referrals**

Vertical Capital does not provide brokerage for client referrals.

### **A.3. Directed Brokerage**

When structuring a CDO for which Vertical Capital will serve as portfolio manager, Vertical Capital has the authority to choose the broker/dealer that will serve as the underwriter and/or placement agent in the private placement of the Securities.

The Investment Committee of Vertical Capital has the discretion, subject to certain conditions and limitations as summarized below, to determine the CDO Collateral Securities to be purchased and sold for each CDO portfolio, as well as the amounts thereof.

Prior to purchasing a CDO Collateral Security for a closed deal, Vertical Capital will examine the trade, against various compliance tests. If the trade passes the compliance tests, then a hypothetical trade ticket will be submitted to the Trustee on the deal for its approval. The Trustee will then run the trade against its own compliance model, and if the Trustee is satisfied that the hypothetical trade passes the compliance tests on its end, then it will be recommended for inclusion into the deal’s portfolio.

For a deal that is still within the warehousing phase, prior to executing a trade, the effect of the proposed trade on the hypothetical constructed portfolio will be measured by Vertical Capital. If the trade passes certain compliance tests conducted by Vertical Capital and is approved by the warehouse provider, then the trade may be executed.

Vertical Capital recognizes its duty to obtain best execution for the CDOs. Vertical Capital generally does not seek to invest in securities for which there is an open exchange market.

Vertical Capital, therefore, usually is limited in the selection of brokers, dealers or other counterparties to buy/sell securities.

In situations in which a security sought for purchase brings a selection of counterparties from which to choose to execute the trade, Vertical Capital will generally purchase the collateral from the broker that offers the best price for the specific security being purchased, however, Vertical Capital may also take into account the following factors:

- The ability to effect prompt and reliable execution at favorable prices (including the applicable dealer spread or commission, if any);
- The operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- The financial strength, integrity and stability of the broker;
- The broker's risk in positioning a block of securities; and
- Access to deals or instruments in which Vertical Capital wants to invest.

With respect to the Managed Accounts clients (unless specifically directed by the client) and the Partnership, brokers effecting transactions for the account will be selected by Vertical Capital. Vertical Capital will direct brokerage transactions to brokers from time to time at the client's request, consistent with Vertical Capital's duty to obtain best execution. In effecting transactions for the account, Vertical Capital is specifically authorized to select a broker or brokers who, in recognition of commissions received on transactions for such account and other accounts managed by Vertical Capital, are willing to provide Vertical Capital and the account research services and investment advice. The brokers willing to provide the foregoing benefits to Vertical Capital may not be the broker or brokers which would charge the lowest rate of commission in effecting transactions for the account.

### **Item 13. Review of Accounts**

#### *CDOs*

The CDO portfolios are subjected to ongoing performance review. The portfolio management team monitors on a regular basis (among other items) rating actions, loan, bond, equity and credit protection prices, security-specific performance metrics and market trends, industry/company specific events and the portfolios' compliance with various tests including portfolio concentration limits, collateral quality tests and coverage tests.

Pursuant to the Indenture governing the Securities issued by a CDO, the trustee to the respective CDO is required to deliver to investors in the CDO monthly and other periodic reports regarding the collateral. Vertical Capital assists the trustee in preparing these reports as required by the Indenture and the Collateral Management Agreement between Vertical Capital and the CDO.

#### *MANAGED ACCOUNT AND PRIVATE INVESTMENT FUND*

The portfolio manager who submits the potential Investment to the Investment Committee retains ongoing responsibility for surveillance and monitoring of the Investment.

Vertical Capital maintains a five (5) level monitoring system (1-5) which corresponds to the degree of perceived principal risk within the investment:

- (1) No perceived risk,
- (2) Heightened risk,
- (3) Watch list,
- (4) Significant risk, and
- (5) Write-down anticipated.

Investments are reviewed at Vertical Capital's monthly surveillance meetings attended by the portfolio managers as well as supporting analysts and associates. At that time, the performance of Investments is discussed, with an emphasis on any deteriorating assets. Changes are made to surveillance monitoring levels and discussions are held as to assets which may be sold. Final sale decisions are made by the Investment Committee and do not require unanimity. The Investment Committee is currently chaired by the Chief Investment Officer of Vertical Capital.

Vertical Capital will provide to the Managed Accounts clients, on a monthly (not less frequently than quarterly) basis, a written report listing each Permitted Investment and the cash distributions received with respect to each Permitted Investment for the relevant period. At the present time, the Custodian does not issue separate statements to clients.

#### PRIVATE INVESTMENT FUND

As soon as reasonably practicable, but generally no later than 120 days after the end of each fiscal year, the Partnership will provide all Limited Partners with annual audited financial statements, valuations of all Investments and tax information necessary for the completion of applicable tax returns. Each Limited Partner will also be provided with all material information relating to the Investments on a quarterly or monthly basis.

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

Vertical Capital may enter into arrangements with individuals ("Solicitor") whereby the Solicitor will refer clients to Vertical Capital which clients may be a candidate for the investment advisory services offered by Vertical Capital. In return, Vertical Capital will agree to compensate the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with Vertical Capital for advisory services. Compensation to a Solicitor will be an agreed upon percentage of Vertical Capital's advisory fee and or a percentage of the initial capital contributed. Vertical Capital's referral program is in compliance with the federal regulations as set out in Rule 206(4)-3 under the Advisers Act. The solicitation/referral fee is paid pursuant to a written agreement retained by both the investment adviser and the solicitor. The Solicitor will be required to provide the client with a copy of Vertical Capital's Form ADV Part 2 and a Solicitor Disclosure brochure prior to, or at the time of, entering into any investment advisory contract with Vertical Capital. A Solicitor is not

permitted to offer clients any investment advice on behalf of Vertical Capital. Clients' advisory fees will not be increased as a result of compensation being shared with Solicitor.

It should also be noted that Vertical Capital may pay referral fees to third party marketers related to the referral of investors to private investment funds managed by Vertical Capital. These fees are paid out of the fees paid by such referred investors to Vertical Capital.

Vertical Capital has retained the Affiliated Broker Dealer to act as a solicitation agent to solicit the sale of interests in the Partnership and any solicitation fees will be borne by Vertical Capital and not by any Limited Partner or prospective Limited Partner.

### **Item 15. Custody**

Under certain circumstances, Vertical Capital may take custody of client assets or securities. Clients will be provided with account statements reflecting the transactions occurring in the client's account at least on a quarterly basis, from Vertical Capital. Clients should carefully review those statements for accuracy.

The custodian for the Partnership's securities is Wells Fargo Corporate Trust Services, 608 Second Ave South, MAC # N9303-08b, Minneapolis, Minnesota 55479, or qualified custodians as chosen by Client through other third party investment advisors. The Company also has Custody relationships with U.S. Bank Corporate Trust Services and Bank of New York Trust Services.

### **Item 16. Investment Discretion**

Vertical Capital has discretionary authority to manage transactions on behalf of the CDO's, the Partnership, and the Managed Accounts. This discretion is given to Vertical Capital pursuant to the offering and subscription documents.

### **Item 17. Voting Client Securities**

Vertical Capital has adopted proxy voting policies and procedures that address how Vertical Capital votes proxies. The policy is based on the principle that Vertical Capital and its employees owe a fiduciary duty to its advisory clients. Whenever Vertical Capital receives a notice requesting Vertical Capital to exercise its voting authority with respect to a security in a client account, the Chief Compliance Officer provides all proxy related materials to the Investment Committee. Prior to voting any proxies, the Chief Compliance Officer and members of the Investment Committee determine if there are any material conflicts of interest related to the proxy in question. If no material conflict is identified, the Chief Compliance Officer and the Investment Committee will make a decision on how to vote the proxy in question in accordance with the guidelines set forth in Vertical Capital's Compliance Manual.

Vertical Capital keeps a record of its proxy voting policies and procedures, proxy statements received, votes cast, all communications received and internal documents created that were material to voting decisions and each client request for proxy voting records and Vertical Capital's response for five years. Vertical Capital's advisory clients may obtain (i) a copy of Vertical Capital's proxy voting policies and procedures and/or (ii) information on how Vertical Capital has voted proxies by contacting Vertical Capital's Chief Compliance Officer, at 437 Madison Avenue, New York, New York 10022, telephone (212) 786-5275.

## **Item 18. Financial Information**

As noted above, Vertical Capital has full discretionary authority over the trading in clients' accounts for certain of the programs. In addition, Vertical Capital does, in limited circumstances, have custody of client funds or securities. Should Vertical Capital encounter a financial condition that would impair its ability to meet its commitments under contracts with clients, such financial condition will not have a negative impact on client accounts for three reasons. First, as noted above client assets are custodied at qualified custodians. Second, as required by Advisers Act Rule 206(4)-2(a) (4), Vertical Capital will obtain an independent audit of its custody processes, and the auditor will file a Form ADV-E on behalf of Vertical Capital.

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

Not Applicable