

## **BROCHURE OF**

### **Commerce Street Investment Advisor, LLC d/b/a Commerce Street Investment Management**

A Texas Limited Liability Company registered with the Securities and Exchange Commission as an Investment Adviser (CRD # 144278)

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**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF COMMERCE STREET INVESTMENT ADVISOR, LLC D/B/A COMMERCE STREET INVESTMENT MANAGEMENT. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (214) 545-6800.**

**NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION, NOR THE STATE OF DELAWARE, NOR ANY STATE SECURITIES AUTHORITY, HAS PASSED UPON THE ADEQUACY OR ACCURACY OF THIS BROCHURE. REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING. ADDITIONAL INFORMATION ABOUT COMMERCE STREET INVESTMENT ADVISOR, LLC D/B/A COMMERCE STREET INVESTMENT MANAGEMENT ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.**

The date of this Brochure is

November 21, 2013

The delivery of this Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Brochure will supersede all other such documents containing information about our Firm.

**Item 2.**

**Material Changes**

The changes in this brochure reflect Commerce Street Investment Advisor, LLC's addition of an advisory business called Commerce Street Investment Management Services, which offers consulting and advisory services to clients that are federally insured depository institutions.

**Summary of Material Changes:**

Updated: Item 4., Advisory Business: Removed James B. Gardner

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## Part 2A – FIRM BROCHURE

### Item 4. Advisory Business:

- (A) **Operational and Organizational Information:** Commerce Street Investment Advisor, LLC d/b/a Commerce Street Investment Management (“CSIM” or the “Firm”), a Texas limited liability company, is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). CSIM was formed in January of 2008. Commerce Street Holdings, LLC (“CSH”) is the sole member of CSIM. Dory A. Wiley and William D. “Tex” Gross are the members of CSH.

CSIM provides investment management services and sponsorship to privately-offered onshore and offshore investment vehicles (each a “Fund” and collectively the “Funds”). Typically, the Funds are closed-end limited partnerships in which investors subscribe for interests. Each Fund typically has an affiliated general partner (each a “General Partner” and collectively the “General Partners”).

CSIM also offers consulting and advisory services to clients who are federally insured depository institutions through Commerce Street Investment Management Services (CSIMS), a separate advisory service provided under the CSIM umbrella.

For purposes of this Brochure, “Client” may include any or all of the Funds as well as investors in the Funds (“Investors” or “Limited Partners”). In addition, “CSIM” may include the General Partners.

Note: As stated on the cover page of this Brochure, registration as an investment adviser does not imply a level of skill or training.

- (B) **Types of Advisory Services Offered:** CSIM provides investment management services to the Funds, which operate as private equity funds or hedge funds, through applicable investment management agreements or similar documents. Please review the investment guidelines for a particular Fund as described in the respective Fund’s private placement memorandum.

CSIMS offers consulting and advisory services to clients who are federally insured depository institutions. These consulting and advisory services include the review and evaluation of a client’s current investment portfolio and its Asset/Liability Management processes and systems. CSIMS assists clients in assessing,

identifying and managing the institution's overall interest rate risk, advising about investment selection, credit exposure from investments, and finding and intermediating negotiations for the best execution of trades for the investment portfolio on a non-discretionary basis.

- (C) **Client Investment Guidelines and Parameters:** Advisory services include among other things, providing advice regarding asset allocation and the selection of investments. Decisions relating to investment advice are based on an analysis of the merits and risks of the investment involved and on the investment guidelines and restrictions of the Client. The methods of analysis, investment strategies and risk of loss for each Fund are described in the private placement memorandum related to each Fund. CSIM does not tailor advisory services to the needs of individual investors.

CSIMS advises and executes transactions on behalf of its clients to purchase or sell securities which are legal investments for federally insured depository institutions as defined in *Part 1 of Title 12, Code of Federal Regulations* as it applies to acceptable investments for banks. CSIMS also follows the investment parameters set forth in each client's board approved Investment and ALCO Policies and Procedures as further refined by updated minutes from the Board's Investment Committee and ALCO Committee. All securities transactions are non-discretionary and the final investment decision rests with the client's designated Investment Officer. All transactions are for "delivery versus pay" at the client's designated clearing and safekeeping agent. CSIMS neither purchases, nor sells, nor accepts or makes delivery or takes custody of client securities or monies.

- (D) **Wrap Fee Programs:** Firm does not participate in wrap fee programs.

- (E) **Client Assets Under Management:** (*rounded to the nearest \$100,000*)

(i) Discretionary: \$ 0 as of 12/31/2012.

(ii) Non-discretionary: \$251,810,000 as of 12/31/2012.

**Item 5. Fees and Compensation:**

- (A) **Generally:** All fees are individually negotiated. Circumstances considered when negotiating fees may include, without limitation, customary market rates, specialized guidelines, and other performance or incentive allocation or fee arrangements with the Client.

CSIMS receives both Consulting Fees and Advisory Fees. Fees for consulting services are charged to the client on an hourly basis at \$250.00 per hour.

Fees for advisory services are structured as a percentage of the client's investible assets. Fees are negotiated based on the scope of services, the size and complexity of the investment program, the amount of customized work and education, the level of portfolio administration, and the frequency of meetings and travel, among other factors. CSIM receives neither performance based fees nor compensation for execution of trades on behalf of the client portfolio.

**CSIMS Transactions Involving a Conflict of Interest.** CSIMS may have a conflict of interest if it recommends a product or investment for which it is otherwise compensated by a third-party provider. CSIM always discloses this potential conflict of interest to the Client when it occurs. To mitigate potential conflicts of interest, any compensation that CSIMS receives from third parties as a result of an investment by the Client will be offset against any fees for advisory but not consulting services due from the client during the calendar year during which such compensation is received. No rebate or carry forward credit into a new calendar year or carry back restatement of fees paid from a past calendar year of compensation in excess of the amount of fees due from the client is offered.

- (B) **Payment of Fees:** CSIM provides certain services to its Clients, which generally include the origination and evaluation of investment opportunities, the structuring of investment transactions, investment recommendations, investment monitoring, advice on investment realizations, and performs certain administrative services. In return for providing such services, CSIM is entitled to receive a Management Fee based on committed capital in accordance with the terms of the applicable offering documents for each Fund. Management Fees typically range from 1.5% to 2% and are calculated and paid quarterly in advance as of the beginning of each calendar quarter. Management Fee rates

differ amongst partners based on investor class and commitment amount. Management Fees are pro-rated for any period shorter than a full quarter.

- (C) **Additional Fees and Expenses:** In addition to amounts noted above and in Item 6, the Funds pay operating expenses such as professional fees and administrative costs, including any expense for services provided by CSIM or any of its affiliates with respect to accounting and other services performed in connection with Funds' annual audit, legal compliance, financial reporting, tax return preparation and distribution of reports. Additionally, the Funds paid organizational expenses, up to a certain threshold, for costs and expenses pertaining to the offering and sale of partner interests to prospective investors and the organization of the Funds and the General Partners.

A full description of additional fees and expenses is disclosed to Clients in the applicable offering documents.

- (D) **Fees Paid in Advance:** Management Fees shall be calculated and payable to CSIM quarterly in advance and are pro-rated for partial periods.
- (E) **Additional Compensation of Supervised Persons:** No supervised person accepts compensation for the sale of securities or other investment products.

**Item 6. Performance-Based Fees and Side-by-Side Management:**

**Generally:** CISM may receive performance-based allocations or fees ("Performance Fees"). Generally, this is structured as Carried Interest, as defined in the applicable offering documents, with a preference rate to Limited Partners. This Carried Interest will be equal to 20% of cumulative distributions after the Limited Partners have received a return equal to 8% on their unreturned Capital Contributions. Performance Fees are subject to clawback provisions. A full description of the entire fee arrangement is disclosed to Clients in the applicable offering documents.

*For any Fund that permits a Limited Partner to withdraw:* Upon withdrawal by a Limited Partner (including a partial withdrawal), whether voluntary or involuntary, the Performance Fee will be allocated with respect to the amounts withdrawn. The Performance Fee will also be allocated upon dissolution of a Fund. The Performance Fee will be allocated in addition to, and separately from, the proportionate allocations of income and profits, or losses, to CSIM and/or its affiliates based upon

their capital accounts relative to the capital accounts of all Partners. CSIM, in its sole discretion, may waive or reduce the Performance Fee with respect to any Limited Partner (including affiliates and employees of CSIM) for any period of time. If CSIM waives the Performance Fee, it may effectuate such waiver by directly rebating amounts to certain Limited Partners, by appropriate accounting adjustments, or by such other methods, as it deems reasonable and fair.

The Performance Fee may create an incentive to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such Performance Fees were not allocated to CSIM.

CSIMS does not charge or accept performance based fees or compensation nor does it allow any supervised person to charge or accept performance based fees or compensation.

**Item 7. Types of Clients:**

CSIM provides advisory services to investment vehicles as described in Item 4(A) above. The minimum capital commitment for an Investor is outlined in the applicable offering documents.

CSIMS clients are Federally Insured Depository Institutions (Banks or Credit Unions), which are generally considered to be sophisticated, accredited investors.

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

- (A) **Methods of Analysis and Investment Strategies:** CSIM, on behalf of the Funds, will attempt to identify attractive investment opportunities in private equity and hedge funds and strategically position the Funds' portfolios to capitalize on changing market and economic trends in an effort to generate positive returns across various economic cycles. Detailed information regarding the methods of analysis and investment strategies is provided in each Fund's private placement memorandum.

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

- (B) **Risks Associated with Firm's Investment Strategies:** A full description of the risks inherent to the strategies employed by CSIM on behalf of the Funds is described in further detail in each



Fund's respective offering documents. Below is a subset of those risks:

**Limited Liquidity of Interests Generally.** An investment in a Fund involves substantial restrictions on liquidity and an Investor's interests in a Fund ("Interests") are not freely transferable. There is no market for the Interests in a Fund, and no market is expected to develop. Additionally, transfers are subject to the consent of the General Partner, which consent may be granted or withheld in the General Partner's sole discretion. Consequently, Limited Partners will be unable to liquidate their Interests except by withdrawing from a Fund in accordance with the terms of the applicable agreement. Limited Partners may be unable to liquidate their investment promptly in the event of an emergency or for any other reason. Although a Limited Partner may attempt to increase its liquidity by borrowing from a bank or other institution, Interests may not readily be accepted as collateral for a loan. In addition, the transfer of an Interest as collateral or otherwise to achieve liquidity may result in adverse tax consequences to the transferor.

**Impact of Side Letters.** A Fund may from time to time enter into Side Letters with one or more Limited Partners which provide such Limited Partners with additional and/or different rights (including, without limitation, with respect to the Management Fee, the Performance Allocation, the Lock-Up Period, withdrawals, access to information and minimum investment amounts) than such Limited Partners have pursuant to this Memorandum. For example, certain Limited Partners may have the right to withdraw their Interests on very short notice in certain circumstances including, but not limited to, a decline in the performance of a Fund in excess of specified thresholds.

Accordingly, should a Fund experience a decline in performance over a period of time, a Limited Partner who is party to a Side Letter that permits less notice and/or different withdrawal times may be able to withdraw its Interests prior to other Limited Partners. The General Partner will not be required to notify any or all of the other Limited Partners of any such Side Letters or any of the rights and/or terms or provisions thereof, nor will the General Partner be required to offer such additional and/or different rights and/or terms to any or all of the other Limited Partners. The General Partner may enter into such Side Letters with any party as the General Partner may determine in its absolute discretion at any time. The other Limited Partners will have no recourse against a Fund, the General Partner and/or any of their respective affiliates in the event that certain Limited Partners receive additional and/or

different rights and/or terms as a result of such Side Letters. As a result, the General Partner may face potential conflicts of interest if it manages the assets of a Fund in accordance with such risk parameters in order to preserve the investments of such Limited Partners.

**Concentration of Investments Generally.** CSIM implements its investment program in a manner which, in light of investment considerations, market risks and other factors, it believes will provide the best opportunity for attractive risk-adjusted returns in the value of a Fund's assets. CSIM may not intend to subject a Fund's portfolio to any formal policies regarding diversification. Although the Funds may invest in relatively few portfolio investments, CSIM will attempt to minimize concentration in specific issuers.

**General Partner's Right to Dissolve a Fund or Expel Limited Partner.** The General Partner may have the right to dissolve a Fund at any time upon thirty (30) days' notice to the Limited Partners. Accordingly, there is a risk, among other reasons, that if a Fund's assets become depleted and, as a result, the Management Fee and Performance Allocation become minimal, the General Partner may elect to dissolve a Fund and distribute its remaining assets. The General Partner may also have the right to expel a Limited Partner at any time, with or without cause, upon at least five (5) days' notice. Such mandatory withdrawal or expulsion could result in adverse tax and/or economic consequences to affected Limited Partners. No person will have any obligation to reimburse any portion of a Limited Partner's losses – upon dissolution, expulsion, withdrawal or otherwise.

**Operating Deficits.** The expenses of operating a Fund (including the Management Fee) may exceed its income, thereby requiring that the difference be paid out of a Fund's capital, reducing a Fund's investments and potential for profitability.

**Distributions.** Some of the Funds allow a Limited Partner to make an election to receive distributions, while other Funds do not. The Funds that do not allow a Limited Partner to make an election to receive distributions will make distributions to Limited Partners when the particular Fund has cash available for distribution.

For a Fund that allows a Limited Partner to elect to receive a distribution, the General Partner intends to reinvest substantially all Fund income and gain, if any, unless a Limited Partner elects to receive a distribution by making a distribution election. Cash that

might otherwise be available for distribution will also be reduced by payment of Fund obligations, payment of Fund expenses (including fees payable and expense reimbursements to the General Partner and CSIM) and establishment of appropriate reserves. As a result, if a Fund is profitable, Limited Partners in all likelihood will be credited with Fund net income, and will incur the consequent income tax liability (to the extent that they are subject to income tax), even though Limited Partners receive little or no Fund distributions.

**Performance Allocation.** The Performance Allocation creates an incentive for CSIM, an affiliate of the General Partner, to effect transactions in investments that are riskier or more speculative than would be the case in the absence of such an allocation. Additionally, since the Performance Allocation is calculated on a basis that includes unrealized appreciation of a Fund's assets, such allocation may be greater than if it were based solely on realized gains.

**No Minimum Size of Fund.** A Fund may begin or continue operations without attaining or maintaining any particular level of capitalization. At low asset levels, a Fund may be unable to make its investments as fully as would otherwise be desirable or to take advantage of potential economies of scale, including the ability to obtain the most timely and valuable research and trading information from securities brokers. It is possible that even if a Fund operates for a period with substantial capital, investors' withdrawals could diminish a Fund's assets to a level that does not permit the most efficient and effective implementation of a Fund's investment program. As a result of losses or withdrawals, a Fund may not have sufficient capital to diversify its investments to the extent desired or currently contemplated by CSIM.

**Liability of a Limited Partner for the Return of Capital Contributions.** If a Fund should become insolvent, the Partners may be required to return any property distributed to them at the time a Fund was insolvent, and forfeit their capital accounts.

### ***General Market Risks***

**Availability of Suitable Investment Opportunities.** The success of a Fund depends upon the ability of CSIM to identify, select and consummate investments that CSIM believes offer the potential for superior returns, and on the availability of appropriate portfolio investments. Although CSIM believes that significant opportunities currently exist, there can be no assurance that CSIM

will be able to identify, select and consummate a sufficient number of investment opportunities to permit a Fund to invest all of its net assets or to diversify the net assets to the extent described herein. There also may be increasing competition for such opportunities, which, given the relative illiquidity of the secondary market for portfolio investments, may drive up prices, causing potential investments to be less attractive. Additionally, there can be no assurance that these investing opportunities will continue to be available for any length of time, nor can there be any assurance as to the size or depth of any such discounts at purchase, nor the possibility or likelihood of selling or redeeming such investment securities at a price above the purchase price, or basis, at a later date.

**Structured Finance Securities.** A Fund may invest in structured finance securities, such as CDOs and/or similar instruments. Investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including, without limitation, the following: (a) its priority in the capital structure of the issuer thereof, (b) the availability of any credit enhancement, (c) the level and timing of payments and recoveries on and the characteristics of the underlying receivables, (d) loans or other assets that are being securitized, (e) remoteness of those assets from the originator or transferor, (f) the adequacy of and ability to realize upon any related collateral, and (g) the capability of the servicer of the securitized assets.

Structured finance securities are typically separated into groupings called tranches representing different degrees of credit quality. The higher quality tranches have greater degree of protection and pay lower interest rates. The lower tranches, with greater risk, pay higher interest rates. A Fund may pay a premium for lower risk tranches, and the underlying issuers may default on any such payment then due, thereby causing a Fund to lose its investment.

**Asset-Based Securities.** A Fund may invest in other types of asset-based securities, which are subject to interest rate risk and prepayment risk. Certain asset-based securities may be subject to additional risks to the extent that they do not have the benefit of a security interest in the related collateral. Each type of asset-based security also entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal

consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Similarly, mortgage-backed securities are subject to pre-payment risk in environments where interest rates are decreasing. Asset-based securities are also subject to credit risk.

**Leverage.** When deemed appropriate by CSIM and subject to applicable regulations, a Fund will incur leverage in its investment program, whether directly through the use of borrowed funds, or indirectly through investment in certain types of financial instruments with inherent leverage, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market price of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent a Fund purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of a Fund. If the interest expense on this leverage were to exceed the net return on the investments made with borrowed funds, a Fund's use of leverage would result in a lower rate of return than if a Fund were not leveraged.

If the amount of leverage which a Fund may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of a Fund's portfolio will have disproportionately large effects in relation to a Fund's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional leverage will generally cause the Net Asset Value of a Fund to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the leveraged capital fails to cover its cost to a Fund, the Net Asset Value of a Fund will generally decline faster than would otherwise be the case.

Certain of a Fund's trading and investment activities in securities and other financial instruments may be subject to FRB margin requirements, which are computed each day. When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a "margin call" on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer's position

may be closed out. In the event of a precipitous drop in the value of the assets managed by a Fund, a Fund might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. With respect to a Fund's trading activities, a Fund, and not the Limited Partners personally, will be subject to margin calls.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss.

**Hedging Transactions.** CSIM anticipates that a Fund's investment program will utilize investments in certain hedging transactions on a limited basis. However, as market conditions change, hedging may become a more important part of a Fund's investment program. Investments in financial instruments, such as forward contracts, options, commodities and interest rate swaps, caps and floors, and other derivatives are commonly utilized by investment funds to hedge against fluctuations in the relative values of its portfolio positions as a result of changes in currency exchange rates, interest rates and/or the equity markets or sectors thereof. Any hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for a Fund to hedge against a fluctuation at a price sufficient to protect a Fund's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying instruments or assets. Accordingly, options on highly volatile instruments or assets may be more expensive than options on other instruments or assets and of limited utility in hedging against fluctuations in their prices.

CSIM is not obligated to establish hedges for portfolio positions and may not do so. To the extent that hedging transactions are effected, their success may be dependent on CSIM's ability to correctly predict the correlation between the portfolio's positions and the selected hedging instruments.

### *Specific Risks Relating to Portfolio Investments*

**Illiquidity of Portfolio Investments; Level 3 Assets.** Many of the portfolio investments will be highly illiquid due to the absence of an efficient market for such investments, legal, contractual or other restrictions on their resale and/or other factors. In addition, the continuing existence of a secondary market for any of the portfolio investments cannot be assured. The known secondary market for these investments is inefficient, fragmented, opaque, and is negotiated, and, as such, the prices paid for purchased investments and the sums received for sold investments, if any, are unlikely to be the best possible prices. Furthermore, a Fund may in some cases be required to obtain consent to sell or otherwise dispose of a Portfolio Investment and, in any event, will be subject to restrictions and limits on such sales and dispositions. As a result, an investor must be prepared to hold the portfolio investments for an indefinite period of time or until the maturity thereof.

CSIM expects that most of the assets held in a Fund's portfolio will be Level 3 assets for which fair values can only be calculated using estimates or risk-adjusted value ranges. In general, Level 3 assets are those that trade so infrequently that there is virtually no reliable market price for them, and valuations for these assets are based on management assumptions.

**Risks of Failed Auctions, Credit Events, and Extensions Past the Auction Date and to Maturity; Uncertainty of Returns.** In some or many of the CDOs, an event of default may occur when, among other possible trigger events, the remaining performing collateral in the pool is equal to or less than the amount of senior-class debt issued by the CDO. The consequences and subsequent events may vary by CDO, but, in general, there are provisions for the CDO to possibly be collapsed, and the remaining collateral sold or distributed to the senior tranche holders, at the option of a majority of holders. The effect on yield, and the returns to the rated tranche holders, cannot be predicted at this time in the event-of-default scenario.

**Concentration of Portfolio Investments.** A Fund may initially invest in relatively few portfolio investments. A consequence of this limited number of investments is that the aggregate returns realized by a Fund, and a Fund's Net Asset Value, may be significantly adversely affected if any one Portfolio Investment performs poorly.

**Issuers.** The issuers of the portfolio investments may be recently-formed special purpose vehicles with no prior operating history or prior business experience upon which a Fund may evaluate such vehicles' future performance.

**Limited Cash Flow Available to a Fund.** There can be no guarantee that a securitization will have sufficient cash flow to make planned payments of principal and interest on any or all of its securities; and, in such situations, a Fund will receive no return on its investment and no return of its investment principal.

**Valuation.** Many, if not all, of the securities in which a Fund expects to invest will have an extremely limited and possibly no secondary market. The efficiency of such a secondary market may be minimal or nonexistent, and therefore the accuracy of stated market values cannot be assured. Though CSIM will attempt to attain additional information from as many sources as possible as part of its valuation process, additional sources may not be readily available. Fair value will then be calculated on a periodic basis, using a valuation process determined by CSIM. Fair market values will be determined by CSIM based on relevant market data, as well as the best information available about the financial instrument. In an active market, where available, estimated fair value is based on observable market prices or parameters, or is derived from such prices or parameters which are received from issuers or sponsors of the securities. In the absence of market data for a security, fair value is estimated using valuation models which incorporate current market participant expectations of future cash flows, and include appropriate risk premiums and discounts.

Fair value estimates for securities for which no or limited observable market data is available is based on judgments regarding current economic conditions, base rates associated with each appropriate class of each investment, and premium/discounts for illiquidity, credit, auction date, and subordination risks. These estimates involve significant uncertainties and judgments and cannot be determined with precision.

#### ***Risks Relating to the Other Assets in Which a Fund May Invest***

**Equities.** As a component of its hedging efforts, a Fund may trade and invest in equity securities. Equities invested in by a Fund may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. There are no absolute restrictions in regard to the size or operating experience of the companies in



which a Fund may invest (and relatively small companies may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth and companies with new products or services could sustain significant losses if projected markets do not materialize).

**Short Sales.** A Fund's investment program contemplates, in certain instances, that a portion of a Fund portfolio will be invested in selling securities short. Short selling involves the sale of a security that a Fund does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery of securities to their purchaser(s), a Fund must borrow the same securities from a third-party lender. A Fund subsequently returns the borrowed securities to the lender by delivering to the lender the securities it previously owned or by purchasing securities in the open market. A Fund must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains his right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays a Fund a fee for the use of a Fund's cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. A Fund may be subject to substantial losses if a securities lender demands return of the lent securities and an alternative lending source cannot be found.

**Options and Other Derivative Instruments.** A Fund may invest in options and derivative instruments, including buying and writing puts and calls. The prices of many derivative instruments, including many options and swaps, are highly volatile. The value of options and swap agreements also depends upon the price of the securities, currencies or other assets underlying them. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and

policies. Additionally, a Fund is subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities, currencies or other assets. Accordingly, options on highly volatile securities, currencies or other assets may be more expensive than options on other investments.

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument or asset on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument or asset at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument or asset at the exercise price.

If a put or call option purchased by a Fund were permitted to expire without being sold or exercised, a Fund would lose the entire premium it paid for the option. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying instrument or asset caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold to a Fund at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying instrument or asset caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold by a Fund at a lower price than its current market value.

Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks. In particular, the writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument or asset above the exercise price of the option. This risk is enhanced if the instrument or asset being sold short is highly volatile, and there is a significant outstanding short interest. These conditions exist in the stocks of many companies. The instrument or asset necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing instruments or assets to satisfy the exercise of the call option can itself cause the price of the instruments or assets

to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by a Fund of all or a substantial portion of its assets.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

**Callable Securities.** Many bonds, including agency, corporate and municipal bonds, and mortgage-backed securities, sometimes contain a provision that allows the issuer to “call” (i.e., redeem) all or part of the issue before the bond’s maturity date. The issuer usually retains this right to refinance the bond in the future if market interest rates decline below the coupon rate on the outstanding debt security. From the investor’s perspective, there are three disadvantages to the call provision. First, the cash flow pattern of a callable bond is not known with certainty. Second, because the issuer will call the bonds when interest rates have dropped, a Fund is exposed to reinvestment rate risk – a Fund will have to reinvest the proceeds received when the bond is called at lower interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

**Maturity Risk.** In certain situations, a Fund may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, a Fund will make an adjustment to account for the interest rate risk differential in the two bonds. This adjustment, however, makes an assumption about how the interest rates at different maturities will move. To the extent that the yield movements deviate from this assumption, there is a yield-curve or maturity risk. Another situation where yield-curve risk should be considered is in the analysis of bond swap transactions where the potential incremental returns are dependent entirely on the parallel shift assumption for the yield curve.

**Downgrades in Fixed Income Debt Securities.** Unless required by applicable law, a Fund is not required to sell or dispose of any debt security that either loses its rating or has its rating reduced after a Fund purchases such security.

**Risks Related to Investments in CDS Positions.** A Fund may invest in CDS positions. Investments in CDS positions will expose portfolio investments to various risks, as described further in the applicable offering documents.

**Special Situations.** A Fund may make investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a Fund may invest, there is a potential risk of loss by a Fund of its entire investment in such companies. In connection with such transactions (or otherwise), a Fund may acquire investments on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price and/or interest rate receivable with respect to a when-issued financial instrument are fixed when a Fund enters into the commitment. Such securities are subject to changes in market value prior to their delivery.

**Non-U.S. Securities.** A Fund may invest in securities of non-U.S. issuers (through ADRs and otherwise) and other securities or instruments that represent an indirect interest in securities of non-U.S. issuers, collective vehicles that invest in non-U.S. securities and other securities, derivatives or instruments (collectively, “securities”) whose performance is linked to the performance of non-U.S. securities or baskets of non-U.S. securities. Investments in non-U.S. securities are affected by risk factors generally not thought to be present in the United States. These risks may be increased to the extent that a Fund invests in issuers in emerging markets. Such factors include, but are not limited to, the following: varying custody, brokerage and settlement practices; difficulty in valuation and pricing; less public information about issuers of non-U.S. securities; less governmental regulation and

supervision over the issuance and trading of securities; the unavailability of financial information regarding the non-U.S. issuer or the difficulty of interpreting financial information prepared under non-U.S. accounting standards; less liquidity and more volatility in non-U.S. securities markets; the possibility of expropriation or nationalization; the imposition of withholding and other taxes; adverse political, social or diplomatic developments; limitations on the movement of funds or other assets of a Fund between different countries; difficulties in invoking the legal process outside the United States and enforcing contractual obligations; and the difficulty of assessing economic trends in non-U.S. countries. Moreover, governmental issuers of non-U.S. securities may be unwilling to repay principal and interest due, and may require that the conditions for payment be renegotiated. Investment in non-U.S. countries also involves higher brokerage and custodian expenses than does investment in U.S. securities traded on a U.S. securities exchange or market.

**Risks Associated with ADRs.** A Fund may purchase ADRs, which are certificates evidencing ownership of shares of a non-U.S. issuer, acting as alternatives to directly purchasing the underlying non-U.S. securities in their national markets and currencies. Such investments are subject to many of the risks associated with investing directly in non-U.S. securities. These risks include the political and economic risks of the underlying issuer's country, as well as, in the case of depositary receipts traded on non-U.S. markets, foreign exchange risk. ADRs may be sponsored or unsponsored. Unsponsored ADRs are established without the participation of the issuer. In addition, unsponsored ADRs may involve higher expenses, may not carry pass-through voting or other shareholder rights, and may be less liquid. The performance of ADRs may be different from the performance of the ordinary shares of the non-U.S. issuers to which they relate.

**Risks Associated with ETFs.** A Fund may purchase exchange-traded funds ("ETFs"). There are events that can trigger sharp, and sometimes adverse, price movements in ETFs that are not related to movements of the market in general. Not limited to, but among these, are surprise dividends, changes to regular dividend amounts, announcements of rights offerings and possible surprise revisions to net asset values. In addition, the Investment Company Act places certain restrictions on the percentage of ownership that a private investment fund, such as a Fund, may have in an ETF.

**Risks of Trading Futures.** A Fund may purchase futures. Trading futures is a highly risky strategy. Whenever a Fund purchases a particular future, there is a possibility that a Fund may sustain a total loss of its purchase price. The prices of futures are, in general, much more volatile than the prices of securities, such as stocks and bonds. As a result, the risk of loss in trading futures is substantially greater than in trading those securities. The prices of futures react strongly to the prices of the underlying commodities. The prices of these underlying products, in turn, rise and fall based on changes in interest rates, international balances of trade, changes in governments, wars, weather events and a host of other factors that are entirely beyond CSIM's control and very difficult (and perhaps impossible) to predict.

**Non-Controlling Investments.** A Fund anticipates that it will principally hold non-controlling interests in companies and, therefore, will have a limited ability to influence management of such companies to protect a Fund's position in such portfolio companies. However, the General Partner and/or CSIM will seek appropriate creditor and shareholder rights to help protect a Fund's interest.

CSIMS bases its advice on the risk preferences of the client as stated in their governing policies and the overall impact of existing and potential risk presented in the client's ALCO Report. The CSIMS advisor will counsel with the client as to his/her interpretation and understanding of that risk and the alternatives available to meet the client's needs and strategy. The CSIMS advisor's personal and professional experience is used to support, question, augment and advise, based on information derived from the client's understanding and modeling of a specific transaction.

**Item 9. Disciplinary Information:**

Legal and disciplinary events in which CSIM or any supervised persons have been involved that are material to a Client's or prospective client's evaluation of the Firm's advisory business or management are listed below (see response after each event).

- (A) A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which the Firm or a management person:
  - (i) Was convicted of, or pled guilty or nolo contendere ("no contest") to: (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of

property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses. **N/A**

**(ii)** Is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses. **N/A**

**(iii)** Was found to have been involved in a violation of an investment-related statute or regulation. **N/A**

**(iv)** Was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order. **N/A**

**(B)** An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which the Firm or a management person:

**(i)** Was found to have caused an investment-related business to lose its authorization to do business. **N/A**

**(ii)** Was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority:

**a.** Denying, suspending, or revoking the authorization of Firm or a management person to act in an investment-related business. **N/A**

**b.** Barring or suspending the Firm's or a management person's association with an investment-related business. **N/A**

**c.** Otherwise significantly limiting the Firm's or a management person's investment-related activities. **N/A**

**d.** Imposing a civil money penalty of more than \$2,500 on the Firm or a management person. **N/A**

- (C) A self-regulatory organization (SRO) proceeding in which the Firm or a management person:
  - (i) Was found to have caused an investment-related business to lose its authorization to do business. **N/A**
  - (ii) Was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500. **N/A**

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

- (A) The Firm is affiliated with Commerce Street Capital, LLC, a registered broker-dealer.
- (B) The Firm has no existing or pending affiliations with a Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), or Commodity Trading Advisor (CTA).
- (C) The Firm and/or its management persons have a relationship or arrangement that is material to its advisory business or to its Clients with any related person as discussed below:
  - (i) Broker-dealer, municipal securities dealer, or government securities dealer or broker. **N/A** except as disclosed in (A) of this Item.
  - (ii) Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund). **N/A**
  - (iii) Other investment adviser or financial planner. **N/A**.
  - (iv) Futures commission merchant, commodity pool operator, or commodity trading advisor. **N/A**
  - (v) Banking or thrift institution. **N/A**
  - (vi) Accountant or accounting firm. **N/A**
  - (vii) Lawyer or law firm. **N/A**



- (viii) Insurance company or agency. N/A
- (ix) Pension consultant. N/A
- (x) Real estate broker or dealer. N/A
- (xi) Sponsor or syndicator of limited partnerships. N/A
- (D) The Firm recommends or selects other investment advisers for Clients: N/A

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

- (A) CSIM's compliance manual includes a code of ethics ("Code") that applies to each Employee (defined as, generally, any partner, officer or director of CSIM and any employee or other supervised person of CSIM, including its subsidiaries and affiliates). The Code requires compliance with all applicable laws and regulations, including federal securities laws; acting in the best interests of the Firm's Clients at all times; avoiding actual and potential conflicts of interests; complying with certain restrictions on personal trading and prompt reporting of violations of the Code. The Code requires Employees to safeguard confidential information entrusted to CSIM by its Clients, Investors or related parties, information regarding CSIM's businesses and activities, and/or information about other Employees. The Code also prohibits insider trading and tipping and addresses anti-money laundering and certain potential conflicts of interest. In the event of a conflict of interest that is not otherwise addressed by the applicable governing documents, CSIM will be guided by its fiduciary responsibilities, compliance policies and procedures and good faith judgment as to the best interests of the Funds.

CSIM's Code also requires Employees to, among other things: 1) pre-clear certain personal securities transactions; 2) report personal securities transactions on at least a quarterly basis; and 3) provide CSIM with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Employee has a direct or indirect beneficial interest.

CSIM has adopted a privacy policy that explains the manner in which the Firm collects, utilizes and maintains nonpublic personal information about Clients, as required under federal legislation. CSIM may make changes to its privacy policy in the future. CSIM will not make any change affecting an individual without first

sending that individual a revised privacy policy describing the change.

**(B-D)** Certain Employees of CSIM and/or related entities or persons have investments in the Funds. In addition, Employees of CSIM and/or the respective General Partners have participated in the Funds' investment programs by agreeing to commit a certain percentage of the Funds' total capital commitments or a certain amount as defined in the Funds' governing documents. Therefore, certain CSIM Employees and/or related entities or persons economically participate in transactions of the Funds.

A copy of the CSIM Code will be provided to a Client or prospective client upon request.

**Item 12. Brokerage Practices:**

CSIM focuses on making investments in private securities, thus it does not ordinarily deal with any financial intermediary such as a broker-dealer, and commissions are not ordinarily payable in connection with such investments. To the extent CSIM transacts in public securities or currency hedging instruments, it intends to select brokers based upon best interests for the Funds. CSIM has discretionary authority over the Funds' accounts, subject to the Funds' investment objectives and restrictions, including the buying and selling of securities and the amount of securities to be bought or sold. Although CSIM generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services. CSIM does not participate in any soft dollar arrangements outside of receiving research available to other institutional investors. To the best of CSIM's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. CSIM aggregates transactions across accounts in accordance with each Fund's respective governing documents. Further detail around the selection of broker-dealers and aggregation of orders is described below.

**(A) Selection of Broker-Dealers:** CSIM is authorized to determine the broker-dealer to be used for each securities transaction for the Funds. In selecting broker-dealers to execute transactions, the Firm need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers and negotiating commission rates, the Firm will take into account the financial stability and reputation of brokerage firms, and the research, brokerage or other services provided by

such brokers. The Firm may place transactions with a broker-dealer that (i) provides the Firm (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Funds or other products advised by the Firm (or an affiliate), if otherwise consistent with seeking best execution; *provided* the Firm is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors. It is not the Firm's practice to negotiate "execution only" commission rates, thus the Funds may be deemed to be paying for research, brokerage or other services provided by the broker that are included in the commission rate.

(i) **"Soft Dollar" Policy:** The Firm does not utilize soft dollars.

- a. When Firm uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Firm receives a benefit because Firm does not have to produce or pay for the research, products or services. **N/A**
- b. Firm may have an incentive to select or recommend a broker-dealer based on Firm's interest in receiving the research or other products or services, rather than on Clients' interest in receiving most favorable execution. **N/A**
- c. Firm may cause Clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up). **N/A**
- d. Firm may use soft dollar benefits to service all Clients or only those Clients that paid for the benefits. Firm may or may not seek to allocate soft dollar benefits to Clients proportionately to the soft dollar credits the accounts generate. **N/A**
- e. The types of products and services Firm or any related persons acquired with Client brokerage commissions (or markups or markdowns) within Firm's last fiscal year were: **N/A**
- f. The procedures Firm used during its last fiscal year to direct transactions to a particular broker-dealer in

return for soft dollar benefits Firm received were:  
N/A

(ii) **Brokerage for Client Referrals:**

- a. The Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce Clients to the Firm, provided that any such fee or commission will be paid solely by the Firm or its affiliates and no portion thereof will be paid by Clients. As a result, the Firm may have an incentive to select or recommend a broker based on the Firm's interest in receiving Client referrals rather than on Clients' interest in receiving most favorable execution. Because such referrals, if any, are likely to benefit the Firm but will provide an insignificant (if any) benefit to Clients, the Firm will have a conflict of interest with Clients when allocating Client brokerage business to a broker who has referred investors to a Client. To prevent Client brokerage commissions from being used to pay referral fees, the Firm will not allocate Client brokerage business to a referring broker unless the Firm determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to Clients.
- b. The procedures used during the last fiscal year to direct Client transactions to a particular broker-dealer in return for Client referrals were: *Please refer to Item 12.(A)(ii)a.*

(iii) **Directed Brokerage:**

- a. The Firm does not recommend, request or require a Client to direct the Firm to execute transactions through a specified broker-dealer.
- b. The Firm does not permit a Client to direct Firm to execute transactions through a specified broker-dealer.

- (B) **Aggregation of Orders:** Transactions implemented by the Firm for accounts may be effected independently or on an aggregated basis. The Firm anticipates that it may decide to purchase or sell the same securities for several Clients at approximately the same time. The Firm will aggregate orders when it believes aggregation may prove advantageous to Clients. When the Firm aggregates Client orders, the allocation of securities among Client accounts will be done on a fair and equitable basis. Typically, the process of aggregating Client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among Clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and execution cost and will be allocated among the Firm's Clients in proportion to the purchase and sale orders placed for each Client account on any given day. When the Firm aggregates Client orders for the purchase or sale of securities, including securities in which its associated person(s) may invest, the Firm will do so in a fair and equitable manner. It should be noted that Firm does not receive any additional compensation or remuneration as a result of aggregation.

**Allocation of Trades:** The Firm may at times determine that certain securities will be suitable for acquisition by Clients and by other accounts managed by the Firm, possibly including the Firm's own accounts or accounts of an affiliate. If that occurs, and the Firm is not able to acquire the desired aggregate amount of such securities on terms and conditions which the Firm deems advisable, the Firm will endeavor in good faith to allocate the limited amount of such securities acquired among the various accounts for which the Firm considers them suitable. The Firm may make such allocations among the accounts in any manner that it considers fair under the circumstances, including but not limited to allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

CSISM works through the client's approved brokers, but may recommend client approval of brokers CSIMS is more familiar with if it perceives that a CSISM known broker may provide better product availability or pricing for the client. CSIMS receives no compensation for trades executed through a CSIMS referred broker.

**Item 13. Review of Accounts:**

- (A) Generally, the Funds' investments are reviewed on a continuous basis by CSIM. These reviews are designed to monitor and analyze Client transactions, positions, and investment levels. Particular attention is given to changes in company fundamentals, industry outlook, market outlook, and price levels.
- (B) Other than periodic reviews: Please refer to Item 13(A) above.
- (C) CSIM provides reports as required by the applicable governing documents for each Fund. As a result, in general, each quarter CSIM issues an unaudited quarterly report to each Investor in addition to a quarterly report for each Fund. Each Investor in a Fund also will receive the following: (i) annual financial statements, audited by an independent certified public accounting firm; (ii) copies of such Investor's Schedule K-1; and (iii) other reports as determined by the Firm or an affiliate of the Firm in its sole discretion. Additionally, within 120 days of year-end, Investors receive GAAP-compliant audited financial statements. CSIM may by agreement provide additional information or reports to certain Investors.

CSISM accounts are reviewed incrementally with every transaction; however an overall review may be requested at any time. CSISM will travel to the client's place of business for an annual review or other informational or educational meetings at the client's expense.

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

- (A) CSIM does not receive any economic benefit associated with advising Clients from any non-Client.
- (B) During a fundraising cycle, placement agents who introduce new Investors that commit capital may be compensated. The amount paid to placement agents is based on point-in-time negotiation and all placement fees will be fully disclosed to Investors referred by placement agents as required by law or other agreements with Investors.

**Item 15. Custody:**

Pursuant to applicable regulation, CSIM may be deemed to have custody of the Funds' cash and securities. All Client assets are held by independent qualified custodians. The Funds are subject to an annual audit and the audited financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America and distributed to Investors within 120 days of each respective Fund's fiscal year end.

CSIMS does not retain custody of or clear any client securities or other assets. All securities and other assets are held by the client or their engaged custodian or other outside facility unaffiliated with CSIMS or any Commerce Street Capital, LLC affiliated company.

**Item 16. Investment Discretion:**

CSIM generally has discretionary authority over the Funds, without obtaining specific consent from the Funds or their Investors. Any limitations on authority are included in the applicable Private Placement Memoranda and other offering documents.

CSIMS acts in an agency, non-discretionary capacity exercising no discretion other than time and price. CSIMS may propose transactions but the client retains full decision making authority as to investment selection and execution. CSIMS may not execute any transaction without express instruction from the client to effect a purchase or sale of a specific security. Upon receipt of such authorization, unless it is given specific instructions to the contrary by the client, CSIMS may decide where, when and at what price to execute the trade.

**Item 17. Voting Client Securities:**

To the extent CSIM is required to vote proxies, it does so in the best interests of the Funds. If a conflict of interest should arise with respect to proxy voting, CSIM will independently review and evaluate the proxy proposal and the circumstances surrounding the conflict to determine how to address the issue in the best interest of the Funds. Clients may obtain a copy of the proxy voting policies and procedures upon request.

**Item 18. Financial Information:**

- (A) CSIM does not solicit prepayment of more than \$1200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.
- (B) CSIM is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments of its Clients.
- (C) CSIM has not been the subject of a bankruptcy petition within the preceding ten years.

**Item 19. Requirements for State-Registered Advisers: N/A**