

Prophet Capital Asset Management LP

5000 Plaza on the Lake Boulevard

Suite 180

Austin, TX 78746

512.327.9500

Disclosure Brochure

August 27, 2014

This brochure provides information about the qualifications and business practices of Prophet Capital Asset Management, LP. If you have any questions about the contents of this brochure, please contact us at 512.327.9500. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Prophet Capital Asset Management, LP is an investment adviser registered with the SEC. Such investment adviser registration does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information by which you determine to hire or retain an investment adviser.

Additional information about Prophet Capital Asset Management, LP is also available on the SEC’s website at www.adviserinfo.sec.gov

Material Changes

Prophet Capital Asset Management LP (“PCAM, we, us, our, ours”) has made the following Material Changes to its brochure since its last update on May 9, 2014: None.

Our complete updated brochure may be obtained by contacting Kurt Rechner, Chief Compliance Officer, by phone at 512.327.9500 or by e-mail at kurt@prophetcapital.net. We will provide a current

brochure at any time without charge.

Additional information about PCAM is also available via the SEC’s website, at www.adviserinfo.sec.gov. Information regarding our investment adviser representatives can also be found in the brochure supplement on the page shown in the table of contents to the right of this column.

Table of Contents

Advisory Business.....	2
Fees and Compensation.....	2
Performance Based Fees.....	3
Types of Clients.....	4
Methods of Analysis, Investment Strategies and Risk of Loss.....	4
Disciplinary Information.....	6
Other Financial Industry Activities and Affiliations.....	6
Code of Ethic, Participation or Interest in Client Transactions and Personal Trading.....	6
Brokerage Practices.....	7
Review of Accounts.....	9
Client Referrals and Other Compensation.....	9
Custody.....	10
Investment Discretion.....	10
Voting Client Securities.....	10
Financial Information.....	11

SEC File Number: 801-70461

SEC File Number: 801-70461

CRD Number 150683

Advisory Business

In 1995, Robert Epstein established Prophet Capital Management, Ltd. (“PCM”) to manage investment portfolios. In 1999, he established a hedge fund, Partners in Prophet, Ltd. (“PIP”), with PCM as its portfolio manager.

In 2008, Mr. Epstein (as principal owner) established Prophet Capital Asset Management, LP (“PCAM”) and Prophet Capital GP, LLC (“PCGP”) as its general partner. Michael Hirschberg was subsequently designated as a limited partner in PCAM later in 2008 and David Rosenblum was designated a limited partner in 2009.

PCAM, which is located in Austin, Texas, is a Delaware limited partnership that is registered as an investment adviser with the SEC. PCAM was established primarily to manage proprietary hedge funds. We also offer asset management to unaffiliated institutional investors and on a sub-advisory basis to unaffiliated hedge funds.

Our investment strategies primarily focus on mortgage-backed securities, commercial mortgage-backed securities, structured assets and mortgage-backed securities derivatives. However, the PCAM managed funds provide PCAM discretion to invest in a broad range of assets, including CLOs, commercial real estate loans and other assets. We also provide advice regarding commodities, real estate, oil and gas interests, and

private equity where we deem such investments are suitable for the hedge funds (“clients”) whose portfolios we manage.

Assets Under Management

As of December 31, 2013, we managed approximately \$2.5 billion in client assets. Approximately \$2.1 billion is managed on a discretionary basis (meaning that we make all of the investment decisions for those clients). Assets in funds we subadvise, which totaled approximately \$392 million, are managed on a non-discretionary basis (meaning that we recommend but must receive directions from the portfolio manager to effect transactions for their portfolios).

Fees and Compensation

We offer our services on a fee-only basis. Our stated annual management fee is 2% of the value of the investment assets we manage for each client plus a 20% performance fee. Please see the section entitled “Performance Fees” below for more information on that component of our fees.

Investors who began participating in our funds prior to December 31, 2008 pay a lesser fee. The fees that the funds and the underlying investors pay to us are negotiable at our sole discretion and vary depending upon the amount of assets we are asked to manage, existing client relationships, and the extent of the services we are asked to provide. The clients whose portfolios we currently

manage may be charged fees different than those reflected in this brochure and we may agree to reduce the fees that our clients pay to us, including with respect to one or more investors in such client. We charge one-twelfth of our annual fee each month in arrears. The amount of the fee is based on the value of each underlying investor's share of the assets at the close of business on the last business day of the month as adjusted for redemptions and new investments.

Fees for the initial month are adjusted pro rata, based upon the number of calendar days in the month that our investment advisory agreement is in effect. Management fees are paid to us directly from the clients for which we provide investment advisory services, and performance fees are allocated to Prophet Capital Incentive, L.P., an affiliate of PCAM (except that performance fees earned from Prophet Opportunity Partners, LP ("POP") are assigned to Prophet Opportunity Partners GP LP ("POP GP"), which is controlled by PCGP).

We determine the values of the assets of our clients through the review of market data and estimated valuations provided by other financial institutions that have experience in trading mortgage-backed securities. Because of the nature of the investment assets we manage for our clients, those valuations are not a guarantee of any kind as to the actual value of those assets.

Each client whose portfolio we manage has an administrator that is responsible

for regularly reporting on the client's holdings and performance. We provide each such administrator with the value of each client's investment assets on at least a monthly basis. Each administrator independently calculates our advisory fee upon the information that we provide.

Each administrator provides us with statements on at least a monthly basis that reflect the value of each hedge fund's investment portfolio. We use this information to prepare statements for the investors in each of our clients that reflect the value of the investor's individual ownership interest in the hedge fund.

Our advisory fees do not include the fees of unaffiliated fund managers, broker-dealers, or custodians. Those fees are charged directly to the client's account and include (but are not limited to):

- custodial fees,
- brokerage commissions,
- transaction fees, and
- other fees and taxes on brokerage accounts and securities transactions.

We do not share or participate in any way in the fees charged by these other entities. Please be sure to read the section entitled "Brokerage Practices," which follows later in this brochure.

We may terminate at any time our advisory agreement with a client whose portfolio we manage or for which we serve as a sub-advisor. Any unpaid fees become immediately due and payable.

Performance-Based Fees

Performance-based fees are designed to give a portion of the returns of an investment to the investment adviser as a reward for positive performance. The fee is generally a percentage of the profits made on the investments in an investment account.

We assess performance fees as of December 31 of each year. These fees generally equal 20% of any “new appreciation” in each client’s portfolio over that year. “New appreciation” is the increase in the value of a client’s portfolio account as of December 31 of the current year as compared to the value in the account as of December 31 of the preceding year (considering redemptions and new investments made during the year). Performance fees earned by PCAM are paid to our affiliate, Prophet Capital Incentive, LP (“PCI”), except that performance fees earned from Prophet Opportunity Partners, LP (“POP”) are assigned to Prophet Opportunity Partners GP LP (“POP GP”), which is controlled by PCGP.

Performance fees are negotiable. The offering documents for the hedge fund clients whose assets we manage contain additional details regarding our performance fees.

Types of Clients

Currently, we provide investment advisory services to pooled investment vehicles (“hedge funds”) and institutional clients. Although PCAM does not have requirements for opening or maintaining an account, our proprietary hedge funds generally require that their investors make a minimum investment of \$5,000,000.

Methods of Analysis, Investment Strategies and Risk of Loss

We select specific investments for the investment portfolios we manage through the use of fundamental and technical analysis.

Fundamental analysis is a method of evaluating an investment by attempting to measure its intrinsic value through examining related economic, financial and other qualitative and quantitative factors. This includes, for example, evaluating a bond's value considering economic factors such as interest rates and the overall state of the economy and by considering information about the bond’s issuer, such as potential changes in credit ratings.

Technical analysis is a method of evaluating securities by analyzing statistics associated with market activity, such as past prices and trading volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future performance.

Our investment strategies may include long-term and short-term purchases and sales, and the use of options, margin, trading (selling securities shortly after purchasing them) and short sales (selling securities we do not own). The offering documents or, in the case of corporate or institutional clients, the investment policy statement for each client whose portfolio we manage may set forth restrictions on the types of investments we can purchase or the investment strategies we can employ, as well as risk factors relevant to the investment strategy of the applicable client.

Although we manage each client's account in a manner consistent with the specific risk tolerances and investment objectives as described in the fund's offering documents or a client's investment policy, there can be no guarantee that our efforts will be successful. General economic conditions, current interest rates, and any number of other factors can affect investment performance.

Clients and the investors in the hedge funds whose portfolios we manage should be prepared to bear the risk of loss. All investments present the risk of loss, including (among other things) loss of principal, a reduction in earnings (including interest, dividends and other distributions), and the loss of future earnings.

Our investment strategies primarily focus on residential mortgage-backed

securities, commercial mortgage-backed securities, structured assets and mortgage-backed securities derivatives collateralized by commercial mortgage loans. These types of securities are influenced by the rate of delinquencies and defaults experienced on real estate loans and the severity of the losses incurred as a result of such defaults. The factors influencing delinquencies on real estate loans, defaults and loss severity include:

- economic and real estate market conditions by industry sectors (e.g., multifamily, retail, office, etc.);
- the terms and structure of the mortgage loans; and
- any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Investments in mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates. The yield and payment characteristics of mortgage-backed securities differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal generally may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of a mortgage-backed security. Other types of structured finance securities may present risks similar to those of the other types of collateral debt

obligations, such as interest rate risks and market risks.

We may make extensive use of various types derivative instruments for our clients. These instruments typically involve highly leveraged exposure to the underlying assets from which their performance is derived. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and the theoretical value of such derivatives. Derivatives are subject to a wide variety of contractual terms including a range of “early termination events” permitting the counterparty to liquidate the position prematurely. Derivatives may be extremely illiquid.

Disciplinary Information

PCAM has not been the subject of any legal or disciplinary events that would be material to a client’s or prospective client’s evaluation of our business or the integrity of our management.

Additional information is available at www.adviserinfo.sec.gov.

Other Financial Industry Activities and Affiliations

As described above, in addition to his position as a founder and partner of PCAM, Robert Epstein is the founder and sole owner of Prophet Capital GP,

LLC (“PCGP”). PCGP functions as the general partner of PCAM and PCI. Mr. Epstein is also the founder and sole owner of Prophet Asset Management, LLC (“PAM”) which serves as the general partner for PIP, Prophet Credit Partners LP (“PCP”) and POP GP, LP (the general partner of POP, also a PCAM proprietary fund). PAM is wholly owned by Robert Epstein, and is governed by its Board of Managers, which is currently comprised of three managers: Mr. Epstein and two individuals that are not affiliated with PCAM.

PCAM and PCI are principally owned by Mr. Epstein, Michael Hirschberg, and David Rosenblum (each of whom is designated as a limited partner in those entities). PCGP owns less than one percent of PCAM and PCI.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics (“Code”) to address the securities-related conduct of our partners, officers and employees. The Code includes our policies and procedures developed to protect the interests of our clients in relation to the following:

- the duty at all times to place the interests of our clients ahead of ours;
- that all personal securities transactions of our partners, officers and employees be conducted in a manner consistent

- with the Code and avoid any actual or potential conflict of interest, or any abuse of their positions of trust and responsibility;
- that our partners, officers and employees may not take inappropriate advantage of their positions;
- that information concerning the identity of client security holdings and financial circumstances are confidential; and
- that independence in the investment decision-making process is paramount.

We will provide a copy of the Code to clients or investors or prospective clients or investors upon request.

We do not buy or sell securities for our own account that we also recommend to our clients. Our partners, officers and employees are, however, permitted to buy or sell the same securities for their personal or family accounts that are bought or sold for the accounts of our clients. This may raise potential conflicts of interest when a partner, officer or employee purchases or sells a security that is also owned by a client, or is being considered for purchase or sale by a client account.

We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our partners, officers and employees to act in the best

- interests of our clients;
- prohibit favoring one client over another; and,
- provide for the review of personal transactions to discover and correct any same-day trades that result in a partner, officer or employee receiving a better price than a client.

Our partners, officers and employees must follow our procedures when purchasing or selling the same securities purchased or sold for client accounts.

Subject to complying with applicable laws and regulations, PCAM and its affiliates are permitted to enter into “principal transactions” (as defined for purposes of Section 206(3) of the Advisers Act) and other transactions presenting potential conflicts that do not constitute “principal transactions.” The offering documents for PCAM’s proprietary funds (PIP, POP and PCP) provide disclosure of such potential conflicts. PCAM has adopted policies designed to ensure independent oversight and consent of principal transactions and policies addressing other types of conflicts, generally. Included in the disclosure of potential conflicts in PCP’s offering document is the description of transactions between PCP and Deephaven Mortgage LLC (“Deephaven”), a private company that makes residential mortgage loans to U.S. borrowers. Deephaven is partly owned by the partners of PCAM. Messrs. Epstein, Hirschberg, Rosenblum collectively own 40% of the equity of Deephaven. PCP is expected to acquire

mortgage loans from Deephaven, from time to time for investment purposes. The PCAM partners' collective ownership of 40% of the equity of Deephaven renders any transaction between Deephaven and a client of PCAM a "principal transaction" for purposes of Section 206(3) of the Advisers Act. As such, PCAM has adopted a policy to address the conflicts of interest presented by a client of PCAM (i.e., PCP) purchasing assets from a counter party that is substantially owned by PCAM's partners. This policy consists of the establishment of a committee of individuals to review and approve in advance any transaction between PCP and Deephaven (the "Conflicts Committee"). Under the principal transactions policy the Conflicts Committee is required to be comprised of individuals who are not employed with or affiliated with PCAM. Generally, the "independent" managers on the Board of Managers of PAM will serve on the Conflicts Committee, and such other individuals that are independent of PCAM that PCAM believes will serve to protect the interests of PCP on Deephaven transactions. PCAM may also appoint non-voting observers to the Conflicts Committee. PCP will not enter into any transaction with Deephaven except as are approved in advance by the Conflicts Committee. Information about any transactions executed with Deephaven will be reported to the investors in PCP on a retrospective basis.

Brokerage Practices

We use the prime brokerage services of JP Morgan Institutional Investments, Inc. ("JP Morgan") with respect to the clients' portfolios we manage. "Prime brokerage" refers to a group of services that a securities brokerage firm makes available to certain institutional clients like hedge funds. These services include (among others) transaction settlement, custody of assets, securities lending, and cash management.

Prospective clients may request that we employ the services of a securities brokerage firm other than JP Morgan to provide prime brokerage services. The selection of a prime brokerage arrangement will be negotiated at the time we enter into an investment advisory agreement.

We are independently owned and operated and not affiliated with JP Morgan. Our use of JP Morgan and other broker-dealers, however, can be a beneficial business arrangement for us and for the broker-dealers.

PCAM has the discretionary authority to both choose the broker-dealer selected for each trade as well as negotiate commissions on behalf of the clients it advises. In selecting broker-dealers to execute transactions for our clients, we consider, among other things, the broker-dealer's:

- existing relationship with us,
- reputation,
- reporting capabilities,
- execution capabilities,

- pricing, and
- types and quality of research.

The determining factor in our selection of a broker-dealer is not the lowest possible transaction charges it will assess, but whether it can provide what is, in our view, the best qualitative executions for transactions in the accounts of our clients.

Broker-dealers may make available to us products and services that benefit us but may not benefit our clients directly. Some of these products and services may assist us in managing and administering our client accounts, such as software and other technology that:

- provide access to account data such as duplicate trade confirmations and duplicate account statements;
- facilitate trade execution, including access to a trading desk serving investment adviser participants exclusively;
- provide pricing information and other market data;
- facilitate payment of our fees from client accounts; and,
- assist with back-office functions, record keeping and client reporting.

We do not currently receive soft dollar benefits from JP Morgan or any broker-dealers and will not voluntarily or knowingly make use of soft dollar services for ourselves or our clients. Moreover, we do not receive client referrals from JP Morgan or any broker-dealers.

Custodial fees and other fees for transactions settled through JP Morgan may be higher than the fees charged by other prime brokers providing the same services. We nonetheless believe that our selection of JP Morgan is consistent with our efforts to act in the best interests of all of our clients at all times. Furthermore, PCAM does not warrant or represent that commissions for transactions implemented by the broker-dealers we select are lower than commissions available elsewhere. We may aggregate the purchase or sale of securities for various client accounts (purchase or sale of a security for the accounts of multiple clients in a single transaction). If we aggregate orders when we have the opportunity to do so, each participating client will receive a price that represents the average of the prices at which all of the transactions in a given block were executed. Aggregating trades allows transaction costs to be shared equally and on a pro rata basis among all of the participating clients. If the order is not completely filled, the securities purchased or sold are distributed among all participating clients on a pro rata basis or in some other equitable manner.

Aggregate trades are placed only when we reasonably believe that the combination of the transactions provides better prices for clients than had individual transactions been placed for their accounts. We may aggregate trades concurrently in both discretionary and non-discretionary accounts.

Transactions for the account of our partners, officers and employees may be included in aggregate trades. Those transactions will be charged the same average price and pay the same commissions and other transaction costs as clients. Transactions for the accounts of our partners, officers and employees will not be favored over transactions for client accounts.

We are not obligated to include the transactions for any client's account in an aggregate trade. These trades will not be effected for any client if doing so is prohibited in the offering documents for that client. No client will be favored over any other client.

Review of Accounts

We review the investment portfolios of our client accounts on a continuous basis. Account reviews are conducted by Messrs. Epstein, Hirschberg, Rosenblum; Kurt Rechner, Chief Compliance Officer; Catherine Toran, Chief Financial Officer; and, Brooke Courtade, Compliance Officer.

Client Referrals and Other Compensation

We may enter into written compensation agreements with unaffiliated third-parties solicitors who refer clients to us or prospective investors to our clients. We may pay these solicitors a percentage of the advisory fees paid to us by the clients

or investors that they refer to us. These payments will solely be a portion of the fee that we customarily charge and will not result in an increase in the amount of the fee paid by the client.

Any solicitation or referral arrangements will comply with applicable laws and regulations that govern the nature of the service provided. Should a client or hedge fund investor be referred to us by a third-party to whom we will pay a referral fee, we will provide such client or hedge fund investor with a written disclosure that describes the specific fees to be paid. We will require that any client of ours include in its offering documents a disclosure describing this arrangement before we share fees with the third-party that referred investors to the client.

Custody

As noted above, JP Morgan, as the prime broker, is the qualified custodian of the investment assets of our clients. Audited financial statements are prepared in accordance with generally accepted accounting principles and are delivered to all limited partners within 120 days of the end of our clients' fiscal year annually.

JP Morgan provides the independent administrator of each client with regular reports on the assets held in the hedge fund and the advisory fee we have charged. Each administrator is responsible for confirming the value of client account assets and verifying the

accuracy of our advisory fee. Upon request, administrators provide hedge fund investors with regular reports regarding their respective investments.

Institutional or corporate clients will receive statements no less than quarterly from the custodian of their accounts.

Investment Discretion

As previously noted, we offer advisory services on both a discretionary and a non-discretionary basis.

When we service a client's account on a discretionary basis, we do not need advance approval from the client to determine the type and amount of securities to be bought and sold for its account. We may only exercise discretion if our client has provided that authority to us in writing. This authorization is typically included in the investment advisory agreement the client enters into with us.

As previously described, PCAM also has the discretionary authority to both choose the broker-dealer selected for each trade as well as negotiate commissions on behalf of the clients it advises. We will exercise discretion in a manner consistent with the stated investment objectives of each client as set forth in offering documents of the hedge fund.

When we service a client's account on a non-discretionary basis, we are permitted to purchase and sell certain types of investments pre-determined by the client, subject to the subsequent review and approval or rejection by the client.

Voting Client Securities

Because of the nature of the securities we purchase and sell for the accounts of our clients, we generally do not receive proxies on behalf of our clients. Should we receive a proxy, we will not take any action or give any advice to our clients with respect to voting of that proxy.

We do not take any action or give any advice with respect to any securities held in any client accounts that are named in or subject to class action lawsuits. We will, however, forward to our clients any information received by us regarding proxies and class action legal matters involving any securities held in their account.

Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary obligations to our clients. We have not been the subject of a bankruptcy proceeding.